

RICKS CABARET INTERNATIONAL INC  
Form 10KSB  
December 29, 2008

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

Form 10-KSB

Annual Report under Section 13 Or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended September 30, 2008  
 Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-26958

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

Texas  
(State or Other Jurisdiction of Incorporation or  
Organization)

76-0458229  
(IRS Employer Identification No.)

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

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

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

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

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

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

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

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

The Issuer's revenues for the year ended September 30, 2008 were \$59,929,478.

The aggregate market value of Common Stock held by non-affiliates of the registrant at December 5, 2008, based upon the last reported sales prices on the NASDAQ Global Market of \$4.87 was \$37,983,015.

As of December 5, 2008, there were approximately 9,344,325 shares of Common Stock outstanding (excluding treasury shares).

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PART I

ITEM 1. BUSINESS

INTRODUCTION

Our name is Rick's Cabaret International, Inc. Through our subsidiaries, we currently own and/or operate a total of nineteen adult nightclubs that offer live adult entertainment, restaurant and bar operations. Nine 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; four operate under the name "XTC Cabaret"; one club that operates as "Encounters"; and one club that operates as "Tootsie's". Our nightclubs are in Houston, Austin, San Antonio, Dallas and Fort Worth, Texas; Charlotte, North Carolina; Minneapolis, Minnesota; New York, New York; Miami Gardens, Florida; Philadelphia, Pennsylvania and Las Vegas, Nevada. In April 2008, we acquired a media division, including the leading trade magazine serving the multi-billion dollar adult nightclubs industry. As part of the transaction we also acquired two industry trade shows, two other industry trade publications and more than 25 industry websites.

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

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

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

BUSINESS ACTIVITIES--NIGHTCLUBS

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

Female Entertainers. Our policy is to maintain high standards for both personal appearance and personality for the entertainers and waitresses. Of equal importance is a performer's ability to present herself attractively and to talk with

customers. We prefer that performers who work at our clubs be experienced entertainers. We make a determination as to whether a particular applicant is suitable based on such factors of appearance, attitude, dress, communication skills and demeanor. At all clubs, except for our Minnesota location, the entertainers are independent contractors. We do not schedule their work hours.

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

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

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

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

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

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

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

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

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

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

## NIGHTCLUB LOCATIONS

We currently operate clubs under the name “Rick's Cabaret” in Houston, San Antonio, Dallas, Fort Worth and Austin, Texas; Minneapolis, Minnesota; Philadelphia, Pennsylvania; New York, New York; and Las Vegas, Nevada. We also operate a similar nightclub under the name “Tootsie’s” in Miami Gardens, Florida. We also operate a total of four nightclubs (two in Houston, one in Dallas and one in Charlotte, North Carolina), as “Club Onyx”, upscale venues that welcome all customers but cater especially to urban professionals, businessmen and professional athletes. Additionally, we own four nightclubs that operate as “XTC Cabaret” in San Antonio, Austin, and two in Houston, Texas. We also operate a club in San Antonio as “Encounters.” We sold our New Orleans, Louisiana nightclub in March 1999, but it continues to use the name “Rick’s Cabaret” under a licensing agreement.

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RECENT NIGHTCLUB TRANSACTIONS

1. On April 23, 2007, we completed a transaction for the purchase of 100% of the outstanding common stock of W.K.C., Inc., a Texas corporation (the "Business"), which owned and operated an adult entertainment cabaret known as New Orleans Nights ("New Orleans Nights") located in Fort Worth, Texas. Pursuant to the Stock Purchase Agreement, we acquired the Business for a total cash purchase price of \$4,900,000. In addition, RCI Holdings, Inc., our wholly owned subsidiary ("RCI"), entered into an Assignment of that certain Real Estate Sales Contract between the owner of the property and W.K.C., Inc. for the purchase of the real property located at 7101 Calmont, Fort Worth, Texas 76116 (the "Real Property") where the club is located for a total purchase price of \$2,500,000, which consisted of \$100,000 in cash and \$2,400,000 payable in a six year promissory note to the sellers which will accrue interest at the rate of 7.25% for the first two years, 8.25% for years three and four and 9.25% thereafter (the "Promissory Note"). The Promissory Note is secured by a Deed of Trust and Security Agreement. Further, RCI entered into an Assignment and Assumption of Lease Agreement with the sellers to assume the lease agreement for the Real Property.
2. On May 10, 2007, we entered into a Licensing Agreement with Rick's Buenos Aires Sociedad Anonima ("Licensee"), a corporation organized under the laws of Argentina. Under the terms of the Licensing Agreement, we agreed to grant Licensee a license for use and exploitation of our logos, trademarks and service marks for the operation of an adult entertainment facility in the city of Buenos Aires, Argentina, and Latin America. Pursuant to the agreement, Licensee agreed to pay us a royalty fee equal to 10% of gross revenues of Licensee's business, net of any value added tax. No club has opened as of this time.
3. On November 30, 2007, we entered into a Stock Purchase Agreement for the acquisition of 100% of the issued and outstanding common stock of Stellar Management Corporation, a Florida corporation (the "Stellar Stock") and 100% of the issued and outstanding common stock of Miami Gardens Square One, Inc., a Florida corporation (the "MGSO Stock") which owns and operates an adult entertainment cabaret known as "Tootsie's Cabaret" ("Tootsie's") located at 150 NW 183rd Street, Miami Gardens, Florida 33169 (the "Transaction"). Pursuant to the Stock Purchase Agreement, we acquired the Stellar Stock and the MGSO Stock from Norman Hickmore ("Hickmore") and Richard Stanton ("Stanton") for a total purchase price of \$25,000,000 payable \$15,000,000 in cash and payable \$10,000,000 pursuant to two Secured Promissory Notes in the amount of \$5,000,000 each to Stanton and Hickmore (the "Notes"). The Notes will bear interest at the rate of 14% per annum with the principal payable in one lump sum payment on November 30, 2010. Interest on the Notes will be payable monthly, in arrears, with the first payment being due thirty (30) days after the closing of the Transaction. We cannot pre-pay the Notes during the first twelve (12) months; thereafter, we may prepay the Notes, in whole or in part, provided that (i) any prepayment by us from December 1, 2008 through November 30, 2009, shall be paid at a rate of 110% of the original principal amount and (ii) any prepayment by the Company after November 30, 2009, may be prepaid without penalty at a rate of 100% of the original principal amount. The Notes are secured by the Stellar Stock and MGSO Stock under a Pledge and Security Agreement. Additionally, as part of the Transaction, we entered into Assignment to Lease Agreements with the landlord for the property where Tootsie's is located. The underlying Lease Agreements for the property provide for an original lease term through June 30, 2014, with two option periods which give us the right to lease the property through June 30, 2034. The terms and conditions of the transaction were the result of extensive arm's length negotiations between the parties.
4. On March 31, 2008, the Company's wholly owned subsidiary, RCI Entertainment (Philadelphia), Inc. (the "Purchaser") completed the acquisition of 100% of the issued and outstanding shares of common stock (the "TEZ Shares") of The End Zone, Inc., a Pennsylvania corporation (the "Corporation") which owns and operated a nightclub previously known as "Crazy Horse Too Cabaret" (the "Club") located at 2908 South Columbus Blvd., Philadelphia, Pennsylvania 19148 (the "Real Property") from Vincent Piazza (the "Seller"). As part of the transaction, the Company's wholly owned subsidiary, RCI Holdings, Inc. ("RCI Holdings") acquired from the Piazza Family Limited Partnership



(the “Partnership Seller”) 51% of the issued and outstanding partnership interest (the “Partnership Interests”) in TEZ Real Estate, LP, a Pennsylvania limited partnership (the “Partnership”) and 51% of the issued and outstanding membership interest (the “Membership Interests”) in TEZ Management, LLC, a Pennsylvania limited liability company, which is the general partner of the Partnership (the “General Partner”). The Partnership owns the Real Property where the Club is located. At closing, the Company paid a purchase price of \$3,500,000 in cash for the Partnership Interests and Membership Interests, and issued 195,000 shares of the Company’s restricted common stock (the “Rick’s Shares”) valued at \$23 per share for the TEZ Shares.

As part of the transaction, the Company entered into a Lock-Up/Leak-Out Agreement with the Seller pursuant to which, on or after one year after the closing date, the Seller shall have the right, but not the obligation, to have Rick’s purchase from Seller 5,000 Rick’s Shares per month (the “Monthly Shares”), calculated at a price per share equal to \$23.00 (“Value of the Rick’s Shares”). At the Company’s election during any given month, the Company may either buy the Monthly Shares or, if the Company elects 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 Rick’s Shares shall be paid by the Company within three (3) business days of the date of sale of the Monthly Shares during that particular month. The Company’s obligation to purchase the Monthly Shares from the Seller shall terminate and cease at such time as the Seller has received a total of \$4,485,000 from the sale of the Rick’s Shares and any deficiency. As of September 30, 2008, the 195,000 shares of restricted common stock were classified on the consolidated balance sheet as temporary equity in accordance with EITF Topic D-98, Classification and Measurement of Redeemable Securities.

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Additionally, at closing, the Seller and the Partnership Seller entered a five-year agreement not to compete with the Company within a twenty (20) mile radius of the Club. Finally, the Corporation entered into a new lease agreement with the Partnership giving it the right to lease the Real Property for twenty (20) years ("Original Term") with an option for an additional nine (9) years eleven (11) eleven months ("Option Term") with rent payable at the rate of (i) \$50,000 per month, subject to adjustment for increases in the Consumer Price Index (CPI) every five years during the Original Term and the Option Term, or (ii) 8% of gross sales, whichever is higher. The maximum increase in the CPI for any five (5) year period shall be 15%.

5. On March 31, 2008, the Company's subsidiary, RCI Entertainment (Austin), Inc. ("RCI"), completed the acquisition of 49% of the membership interest of Playmates Gentlemen's Club, LLC ("Playmates") from Behzad Bahrami ("Seller"), resulting in 100% ownership by the Company of RCI. Playmates owns an adult entertainment cabaret previously known as "Playmates" (the "Club") located at 8110 Springdale Road, Austin, Texas 78724 (the "Premises"). Under the terms of the Purchase Agreement, RCI paid a total purchase price of \$1,401,711 which was paid \$701,711 in cash and debt forgiveness at the time of closing and the issuance of 35,000 shares of the Company's restricted common stock valued at \$20.00 per share (the "Shares"). For accounting purposes, the Company's investment in 2008 is only \$751,000, due to the previous losses of the minority interest which have been expensed. The investment has been assigned to goodwill.

Pursuant to the terms of the Purchase Agreement, on or after one year after the closing date, the Seller shall have the right, but not the obligation to have the Company purchase from Seller 5,000 Shares per month (the "Monthly Shares"), calculated at a price per share equal to \$20.00 ("Value of the Shares"). Seller shall notify the Company during any given month of its election to "Put" the Monthly Shares to the Company during that particular month. At the Company's election during any given month, the Company may either buy the Monthly Shares or, if the Company elects 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 the Company within three (3) business days of the date of sale of the Monthly Shares during that particular month. The Company's obligation to purchase the Monthly Shares from the Seller shall terminate and cease at such time as the Seller has received a total of \$700,000 from the sale of the Shares. As of September 30, 2008, the 35,000 shares of restricted common stock were classified on the consolidated balance sheet as temporary equity in accordance with EITF Topic D-98, Classification and Measurement of Redeemable Securities.

In the event the Seller elects not to "Put" the Shares to the Company, the Seller shall not sell more than 10,000 Shares during any 90-day period in the open market, provided that Seller complies with Rule 144 of the Securities Act of 1933, as amended, in connection with his sale of the Shares. The full results of operations of this entity are included in the Company's results of operations since March 31, 2008.

6. On April 11, 2008, the Company's wholly owned subsidiary, RCI Entertainment (Dallas), Inc., completed the acquisition of 100% of the issued and outstanding partnership interest (the "Partnership Interest") of Hotel Development - Texas, Ltd, a Texas limited partnership (the "Partnership") and 100% of the issued and outstanding membership interest (the "Membership Interest") of HD-Texas Management, LLC, a Texas limited liability company, the general partner of the Partnership (the "General Partner") from Jerry Golding, Kenneth Meyer, and Charles McClure (the "Sellers"). The Partnership owns and operates an adult entertainment cabaret previously known as "The Executive Club" (the "Club"), located at 8550 North Stemmons Freeway, Dallas, Texas 75247 (the "Real Property"). As part of the transaction, the Company's wholly owned subsidiary, RCI Holdings, Inc. ("RCI"), also acquired the Real Property from DPC Holdings, LLC, a Texas limited liability company ("DPC").

At closing, the Company paid a total purchase price of \$3,590,609 for the Partnership Interest and Membership Interest, which was paid through the issuance of 50,694 shares of the Company's restricted common stock to each of Messrs. Golding, Meyer and McClure, for an aggregate total of 152,082 shares (collectively, the "Rick's Club Shares")

to be valued at \$23.30 per share (\$3,544,119) and \$46,490 in cash. As consideration for the purchase of the Real Property, RCI paid total consideration of \$5,599,721, which was paid (i) \$4,250,000, payable \$610,000 in cash and \$3,640,000 through the issuance of a five year promissory note (the "Promissory Note") and (ii) the issuance of 57,918 shares of the Company's restricted common stock (the "Rick's Real Property Shares") to be valued at \$23.30 per share (\$1,349,721). The Promissory Note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), and is guaranteed by Rick's and Eric Langan, the Company's Chief Executive Officer, individually. At Closing, the Parties entered into an Amendment to Purchase Agreement solely to provide for the Sellers to set aside 10,500 Rick's Club Shares under an Escrow Agreement for the offset of certain liabilities of the Partnership. The Company also incurred costs in the amount of \$37,848, which was paid in cash.

At Closing, the Sellers entered into Lock-Up/Leak-Out Agreements pursuant to which on or after one year after the closing date, the Sellers shall have the right, but not the obligation to have Rick's purchase from Sellers not more than an aggregate of 3,621 Shares per month (the "Monthly Club Shares"), calculated at a price per share equal to \$25.00 per share ("Value of the Rick's Club Shares") until each of the individual Sellers has received a total of \$1,267,350 from the sale of the Rick's Club Shares. At the Company's election during any given month, the Company may either buy the Monthly Club Shares or, if the Company elects not to buy the Monthly Club Shares from the Sellers, then the Sellers shall sell the Monthly Club Shares in the open market. Any deficiency between the amount, which the Sellers receive from the sale of the Monthly Club Shares and the Value of the Rick's Club Shares shall be paid by the Company within three (3) business days of the date of sale of the Monthly Club Shares during that particular month. The Company's obligation to purchase the Monthly Club Shares from the Sellers shall terminate and cease at such time as the Sellers have received an aggregate total of \$3,802,050 from the sale of the Rick's Club Shares and any deficiency.

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Additionally, at Closing, DPC entered into a Lock-Up/Leak-Out Agreement pursuant to which on or after one year after the closing date, DPC shall have the right, but not the obligation to have Rick's purchase from DPC 1,379 Shares per month (the "Monthly Real Estate Shares"), calculated at a price per share equal to \$25.00 per share ("Value of the Rick's Real Estate Shares") until DPC has received a total of \$1,447,950 from the sale of the Rick's Real Estate Shares. At the Company's election during any given month, the Company may either buy the Monthly Real Estate Shares or, if the Company elects not to buy the Monthly Real Estate Shares from DPC, then DPC shall sell the Monthly Real Estate Shares in the open market. Any deficiency between the amount which DPC receives from the sale of the Monthly Real Estate Shares and the Value of the Rick's Real Estate Shares shall be paid by the Company within three (3) business days of the date of sale of the Monthly Real Estate Shares during that particular month. The Company's obligation to purchase the Monthly Real Estate Shares from DPC shall terminate and cease at such time as DPC has received an aggregate total of \$1,447,950 from the sale of the Rick's Real Estate Shares and any deficiency.

Finally, at Closing each of the Sellers entered a five year Non-Competition Agreement with the Company pursuant to which they agreed not to compete with the Company in Dallas County or any adjacent county.

7. On June 18, 2008, the Company's wholly owned subsidiary RCI Entertainment (Northwest Highway), Inc. (the "Purchaser") completed the acquisition of certain assets (the "Purchased Assets") of North by East Entertainment, Ltd., a Texas limited partnership (the "Seller") by and through its general partner, Northeast Platinum, LLC, a Texas limited liability company (the "General Partner") pursuant to an Asset Purchase Agreement dated May 10, 2008. The Seller owned and operated an adult entertainment cabaret known as "Platinum Club II" (the "Club"), located at 10557 Wire Way (at Northwest Highway), Dallas, Texas 75220 (the "Real Property").

At closing, the Company paid a total purchase price of \$1,500,000 cash for the Purchased Assets. At Closing, the principal of the Seller entered into a five-year agreement not to compete with the Club by operating an establishment with an urban theme that both serves liquor and provides live female nude or semi-nude adult entertainment in Dallas County, Tarrant County, Texas or any of the adjacent counties thereto.

As part of the transaction, the Company's wholly owned subsidiary RCI Holdings, Inc. ("RCI") also acquired the Real Property from Wire Way, LLC, a Texas limited liability company ("Wire Way"). Pursuant to a Real Estate Purchase and Sale Agreement (the "Real Estate Agreement") dated May 10, 2008, RCI paid total consideration of \$6,000,000, which was paid \$1,650,000 in cash and \$4,350,000 through the issuance of a five (5) year promissory note (the "Promissory Note"). The Promissory Note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), which is guaranteed by the Company and by Eric Langan, the Company's Chief Executive Officer, individually. The Company also incurred \$69,998 in costs, which was paid in cash.

8. On September 5, 2008, our wholly owned subsidiary RCI Entertainment (Las Vegas), Inc. (the "Purchaser") completed the acquisition of certain assets (the "Purchased Assets") of DI Food & Beverage of Las Vegas, LLC, a Nevada limited liability company (the "Seller") pursuant to a Third Amended Asset Purchase Agreement (the "Third Amendment") between Purchaser, Rick's Cabaret International, Inc. ("Rick's"), Seller, and Harold Danzig ("Danzig"), Frank Lovaas ("Lovaas") and Dennis DeGori ("DeGori") who are all members of Seller. The Seller owned and operated an adult entertainment cabaret previously known as "Scores" (the "Club"), located at 3355 Procyon Street, Las Vegas, Nevada 89102 (the "Real Property").

At Closing, Purchaser paid Seller an aggregate amount as follows (the "Purchase Price"):

- (i) \$12,000,000 payable by wire transfer;
- (ii) \$3,000,000 pursuant to a promissory note ("the Rick's Promissory Note"), executed by and obligating Rick's, bearing interest at eight percent (8%) per annum with a five (5) year amortization, with monthly payments of principal and

interest, with the initial monthly payment due in April 2009 with a balloon payment of all then outstanding principal and interest due upon the expiration of two (2) years from the execution of the Rick's Promissory Note; and

(iii) 200,000 shares of restricted common stock, par value \$0.01 of Rick's (the "Rick's Shares") issued to the Seller.

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As part of the transaction, we entered into a Lock-Up/Leak-Out Agreement with the Seller pursuant to which, on or after seven (7) months after the closing date, the Seller shall have the right, but not the obligation, to have Rick's purchase from Seller a total of 150,000 of the Rick's Shares ("Rick's Put Share") in an amount and at a rate of not more than 6,250 of the Rick's Put Shares per month (the "Monthly Shares") calculated at a price per share equal to \$20.00 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 Rick's 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 total of \$3,000,000 from the sale of the Rick's Shares and any deficiency. Under the terms of the Lock-Up/Leak-Out Agreement, Seller may not sell more than 25,000 Rick's Shares per 30-day period, regardless of whether the Seller "Puts" the Rick's Put Shares to Rick's or sells them in the open market or otherwise.

Upon closing of the transaction, we entered a two-year Non-Compete Agreement with DeGori (the "DeGori Non-Compete Agreement") pursuant to which DeGori agreed not to compete with the Club by operating an establishment serving liquor and providing live female nude or semi-nude adult entertainment in Clark County, Nevada or in a radius of 25 miles of Clark County, Nevada; provided, however, that the Non-Competition Agreement specifically excluded the Penthouse Club and the Bada Bing Club located in Clark County, Nevada. We agreed to pay DeGori cash consideration of \$66,667 for entering into the Non-Competition Agreement. Additionally, at Closing, we also entered into a 12-month Consulting Agreement with DeGori (the "Consulting Agreement") for a total aggregate of \$133,333 in consulting fees payable in eighteen (18) equal monthly payments of \$7,407.38 per month with the first payment due October 15, 2008.

Upon closing of the transaction, we entered a one-year Non-Compete Agreement with Lovaas (the "Lovaas Non-Compete Agreement") pursuant to which Lovaas agreed not to compete with the Club by operating an establishment serving liquor and providing live female nude or semi-nude adult entertainment in Clark County, Nevada, or any of its surrounding counties; provided, however, that this Non-Competition Agreement shall specifically exclude the Penthouse Club and the Bada Bing Club located in Clark County, Nevada.

## RECENT MEDIA ACQUISITIONS

On April 15, 2008, the Company's wholly owned subsidiary, RCI Entertainment (Media Holdings), Inc., a Texas corporation ("RCI Media"), acquired 100% of the issued and outstanding common stock (the "ED Stock") of ED Publications, Inc., a Texas corporation ("ED"), 100% of the issued and outstanding common stock (the "TEEZE Stock") of TEEZE International, Inc., a Delaware corporation ("TEEZE") and 100% of the issued and outstanding membership interest (the "Membership Interest") of Adult Store Buyers Magazine, LLC, a Georgia limited liability company.

ED Publications, Inc.

Under the terms of a Purchase Agreement between Don Waitt ("Waitt"), RCI Media and Rick's Cabaret International, Inc. ("Rick's") dated April 15, 2008 (the "ED Purchase Agreement"), the Company agreed to pay Waitt the following consideration for the purchase of the ED Stock:

- (i) \$300,000 cash at closing;
- (ii) \$200,000 cash payable in 6 months; and

(iii) The issuance of 8,696 shares of restricted common stock valued at \$23.00 per share (the "Closing Shares").

Additionally, during the three (3) year period following the Closing Date (the "Earn Out Period"), Waitt shall be entitled to earn additional consideration (the "Additional Consideration") of up to \$2,000,000 (the "Maximum Amount") consisting of \$500,000 cash (the "Cash") and 65,217 shares of restricted common stock valued at \$23.00 per share (the "Earn Out Shares"), based upon the earnings before income tax, depreciation and amortization ("EBITDA") of RCI Media. RCI Media will pay the Maximum Amount of the Additional Consideration to the Seller if RCI Media's EBITDA during the three (3) year period following the Closing Date totals an aggregate of \$2,400,000. At the end of each twelve (12) month period after the Closing Date, RCI Media shall determine its EBITDA and shall pay to Waitt any such portion of the Additional Consideration as has been earned. The Closing Shares and Earn Out Shares are collectively referred to as the "Rick's Shares".

At Closing, Waitt entered into a Lock-Up/Leak-Out Agreement with the Company pursuant to which on or after one year after the closing date with respect to the Closing Shares, or on or after seven (7) months from the date of issuance with respect to the Earn Out Shares, if any, Waitt shall have the right, but not the obligation to have with respect to the Earn Out Shares, if any, Waitt shall have the right, but not the obligation to have Rick's purchase from Waitt 5,000 Rick's Shares per month (the "Monthly Shares"), calculated at a price per share equal to \$23.00 per share ("Value of the Rick's Shares") until Waitt has received an aggregate of \$1,700,000 (i) from the sale of the Rick's Shares sold in the open market or in a private transaction or otherwise, and (ii) the payment of any deficiency (as defined in the ED Purchase Agreement) by Rick's. At the Company's election during any given month, the Company may either buy the Monthly Shares or, if the Company elects not to buy the Monthly Shares from Waitt, then Waitt shall sell the Monthly Shares in the open market. Any deficiency between the amount which Waitt receives from the sale of the Monthly Shares and the Value of the Rick's Shares shall be paid by the Company within three (3) business days of the date of sale of the Monthly Shares during that particular month. The Company's obligation to purchase the Monthly Shares from Waitt shall terminate and cease at such time as Waitt has received an aggregate total of \$1,700,000 from the sale of the Rick's Shares and any deficiency (as defined in the ED Purchase Agreement).

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At Closing, Waitt also entered a three (3) year Employment Agreement with RCI Media (the "Employment Agreement") pursuant to which he will serve as President. The Employment Agreement extends through April 15, 2011, and provides for an annual base salary of \$250,000. Pursuant to the Employment Agreement, Mr. Waitt is also eligible to participate in all benefit plans maintained by the Company for salaried employees. Under the terms of the Employment Agreement, Mr. Waitt is bound to a confidentiality provision and cannot compete with the Company upon the expiration of the Employment Agreement.

### TEEZE/ADULT STORE BUYER

Under the terms of a Purchase Agreement between John Cornetta ("Cornetta"), Waitt, RCI Media and Rick's dated April 15, 2008 (the "TEEZE/ASB Purchase Agreement"), the Company agreed to pay the following consideration to Cornetta and Waitt for the purchase of the TEEZE Stock and the Membership Interest:

(i) an aggregate of \$200,000 cash at closing; and

(ii) the issuance of 6,522 shares of restricted common stock to each of Messrs. Waitt and Cornetta, for an aggregate of 13,044 shares of restricted common stock to be valued at \$23.00 per share (the "Rick's TEEZE Shares").

Pursuant to the TEEZE/ASB Purchase Agreement, on or after one year after the closing date, each of Messrs. Waitt and Cornetta shall have the right, but not the obligation to have Rick's purchase the Rick's TEEZE Shares calculated at a price per share equal to \$23.00 per share ("Value of the Rick's TEEZE Shares") until Messrs. Waitt and Cornetta have each received \$150,000 (i) from the sale of the Rick's TEEZE Shares sold by them, regardless of whether sold to Rick's, sold in the open market or in a private transaction or otherwise, and (ii) the payment of any deficiency (as defined in the TEEZE/ASB Purchase Agreement) by Rick's. At the Company's election during any given month, the Company may either buy the Rick's TEEZE Shares or, if the Company elects not to buy the Rick's TEEZE Shares, then Cornetta and/or Waitt shall sell the Rick's TEEZE Shares in the open market. Any deficiency between the amount which Cornetta or Waitt receives from the sale of the Rick's TEEZE Shares and the Value of the Rick's TEEZE Shares shall be paid by the Company within three (3) business days of the date of sale of the Rick's TEEZE Shares during that particular month. The Company's obligation to purchase the Rick's TEEZE Shares shall terminate and cease at such time as Waitt and Cornetta have each received \$150,000 from the sale of the Rick's TEEZE Shares and any deficiency.

At Closing, Cornetta entered a five year Non-Competition Agreement with the Company pursuant to which he agreed not to compete with the Company either directly or indirectly with TEEZE, ASB, RCI Media, Rick's or any of their affiliates by publishing any sexually oriented industry trade print publications, with the exception of a publication known as "Xcitement" which is currently owned and operated by Cornetta.

### BUSINESS ACTIVITIES--INTERNET ADULT ENTERTAINMENT WEB SITES

In 1999, we began adult Internet website operations. Our xxxPassword.com website features adult content licensed through Voice Media, Inc. We added CouplesTouch.com in 2002 as a dating site catering to those in the swinging lifestyle. In 2005 we purchased CouplesClick.net, a competing site of our CouplesTouch.com site, in order to broaden our membership throughout the United States. As part of this transaction, we organized RCI Dating Services, Inc., which operates as an addition to our internet operations, to acquire CouplesClick.net from ClickMatch, LLC. We transferred our ownership in CouplesTouch.com to RCI Dating and, as a result of the transaction, we obtained an 85% interest in RCI Dating, with the remaining 15% owned by ClickMatch.

Our Internet traffic is generated through the purchase of traffic from third-party adult sites or Internet domain owners and the purchase of banner advertisements or "key word" searches from Internet search engines. In addition, the bulk



of our traffic now comes from search engines on which we don't pay for preferential listings. There are numerous adult entertainment sites on the Internet that compete with our sites.

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### BUSINESS ACTIVITIES--INTERNET ADULT AUCTION WEB SITES

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

### COMPETITION

The adult topless club entertainment business is highly competitive with respect to price, service and location. All of our nightclubs compete with a number of locally owned adult clubs, some of whose names may have name recognition that equals that of ours. While there may be restrictions on the location of a so-called "sexually oriented business", there are no barriers to entry into the adult cabaret entertainment market. The names "Rick's" and "Rick's Cabaret", "Tootsie's", "XTC Cabaret" and "Club Onyx" are proprietary. We believe that the combination of our existing brand name recognition and the distinctive entertainment environment that we have created will allow us to compete effectively in the industry and within the cities where we operate. The sexually oriented business industry is highly competitive with respect to price, service and location, as well as the professionalism of the entertainers. Although we believe that we are well positioned to compete successfully, there can be no assurance that we will be able to maintain our high level of name recognition and prestige within the marketplace.

### GOVERNMENTAL REGULATIONS

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

In addition to various regulatory requirements affecting the sale of alcoholic beverages, in many cities where we operate, the location of a topless cabaret is subject to restriction by city ordinance. For example, topless nightclubs in Houston, Texas are subject to "The Sexually Oriented Business Ordinance", which contains prohibitions on the location of an adult cabaret (see "Legal Proceedings" herein). The prohibitions deal generally with distance from schools, churches, and other sexually oriented businesses and contain restrictions based on the percentage of residences within the immediate vicinity of the sexually oriented business. The granting of a Sexually Oriented Business Permit is not subject to discretion; the Business Permit must be granted if the proposed operation satisfies the requirements of the Ordinance. In all states where we operate, management believes we are in compliance with

applicable city, county, state or other local laws governing the sale of alcohol and sexually oriented businesses.

#### TRADEMARKS

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

#### EMPLOYEES AND INDEPENDENT CONTRACTORS

As of September 30, 2008, we had approximately 1,100 employees, of which 175 are in management positions, including corporate and administrative and Internet operations and approximately 925 of which are engaged in entertainment, food and beverage service, including bartenders, waitresses, and entertainers. None of our employees are represented by a union. We consider our employee relations to be good. Additionally, as of September 30, 2008, we had independent contractor relationships with approximately 2,500 entertainers, who are self-employed and perform at our locations on a non-exclusive basis as independent contractors. Our entertainers in Minneapolis, Minnesota act as commissioned employees. We believe that the adult entertainment industry standard of treating entertainers as independent contractors provides us with safe harbor protection to preclude payroll tax assessment for prior years. We have prepared plans that we believe will protect our profitability in the event that the sexually oriented business industry is required in all states to convert entertainers who are now independent contractors into employees.

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SHARE REPURCHASES

As of September 30, 2008, we owned 908,530 treasury shares of our common stock that we acquired in open market purchases and from investors who originally acquired the shares from us in private transactions. At this time, we do not have any plan to use these shares to acquire any assets.

On September 29, 2008, our Board of Directors authorized us to repurchase up to \$5,000,000 worth of our common stock. During the fiscal year ending September 30, 2008, no shares were purchased under this program. Subsequent to the fiscal year end, we purchased 48,200 shares of common stock in the open market at prices ranging from \$3.54 to \$5.95.

ITEM 2. PROPERTIES

Our principal executive office is located at 10959 Cutten Road, Houston, Texas 77066, and consists of a 9,000 square feet office/warehouse building. We purchased this property in December 2004 for \$512,739, payable with \$86,279 cash at closing and \$426,460 in a promissory note carrying 7% interest and a 15 year term. The monthly payment is \$3,834. As of September 30, 2008, the balance of the mortgage was \$357,413. The last mortgage payment is due in 2019. We believe that our offices are adequate for our present needs and that suitable space will be available to accommodate our future needs.

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

ADDITIONAL PROPERTIES WE OWN:

1. Club Onyx, located on Bering Drive in Houston, has an aggregate 12,300 square feet of space. In December 2004, we paid off the old mortgage and obtained a new one with an initial balance of \$1,270,000 and an interest rate of 10% per annum over a 10 year term. The money received from this new note was used to finance the acquisition of the New York club. As of September 30, 2008, the balance of the mortgage was \$1,181,549. During fiscal year 2008, we paid \$12,256 in monthly principal and interest payments. The monthly payment is calculated based on a 20 year amortization schedule. The last mortgage payment is due in 2015.
2. The Rick's Cabaret, located on North Belt Drive in Houston, has 12,000 square feet of space. In November 2004, we obtained a mortgage using this property as collateral. The principal balance of the new mortgage was \$1,042,000, with an annual interest rate of 10% over a 10 year term. The money received from this new note was used to finance the acquisition of the New York club. As of September 30, 2008, the balance of the mortgage was \$967,452. The monthly payment of principal and interest is \$10,056. The monthly payment is calculated based on a 20 year amortization schedule. The last mortgage payment is due in 2014.
3. The Rick's Cabaret located in Minneapolis has 15,400 square feet of space. The balance, as of September 30, 2008, that we owe on the mortgage is \$1,000,000 and the interest rate is 9%. We pay \$7,500 in monthly principal and interest payments. The last mortgage payment is due in 2013.

4.

The property for our XTC Cabaret nightclub in Austin has 8,600 square feet of space, which sits on 1.2 acres of land. In August 2005, we restructured the mortgage by extending the term to 10 years. The balance of the this mortgage as of September 30, 2008 is \$199,613 with an interest rate of 11% and monthly principal and interest payments of \$3,445. We also have an additional mortgage on the property which we obtained in November 2004. The principal balance of the additional mortgage was \$900,000, with an annual interest rate of 11% over a 10 year term. In June and July 2005, we obtained additional funds in the amount of \$200,000, which we combined with the \$900,000 mortgage, and in August 2005 we restructured this additional mortgage. The monthly principal and interest payment is \$15,034. As of September 30, 2008, the balance of the additional mortgage was \$871,054. The last payments for both mortgages are due in 2015.

5. We own the property for our XTC Cabaret nightclub in San Antonio, which has 7,800 square feet of space. In November 2004, we obtained a mortgage using this property as collateral. The principal balance of the new mortgage was \$590,000, with an annual interest rate of 10% over a 10 year term. The money received from this new note was used to finance the acquisition and renovation of the New York club. As of September 30, 2008, the balance of this mortgage was \$547,789. The monthly principal and interest payment is \$5,694. The last mortgage payment is due in 2014.
6. We own an 8,000 square foot Houston property where a club known as “Iniquity” (previously “Club Encounters”) is located. In November 2004, this property, together with property in Austin, was used as additional collateral to secure the \$900,000 mortgage referenced in paragraph 4 above. This property is currently listed for sale.

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7. Our subsidiary, Citation Land LLC, owns a 338-acre ranch in Brazoria County, Texas. A balloon payment of \$287,920 was paid in March 2006. 11.9 acres of this property were sold in October 2007 for \$36,000 at no gain or loss. This property is currently listed for sale.
8. On April 5, 2006, our wholly owned subsidiary, RCI Holdings, Inc. completed the acquisition of real property located at 9009 Airport Blvd., Houston, Texas where we currently operate Club Onyx South. Pursuant to the terms of the agreement, we paid a total sales price of \$1,300,000, which consisted of \$500,000 in cash and 160,000 shares of our restricted common stock.
9. On August 24, 2006, our subsidiary, RCI Holdings, Inc. acquired 100% of the interest in the improved real property upon which our Rick's-San Antonio is located. The total purchase price for the business and real property was \$2,900,000. Under terms of the agreement, the Company paid the owners of the club and property \$600,000 in cash at the time of closing and signed promissory notes for the remaining balance. As of September 30, 2008, the balance of the promissory notes was \$918,552.
10. On April 23, 2007, RCI Holdings, Inc., our wholly owned subsidiary, acquired the real property located at 7101 Calmont, Fort Worth, Texas 76116 for a total purchase price of \$2,500,000, which consisted of \$100,000 in cash and \$2,400,000 payable in a six year promissory note to the sellers which will accrue interest at the rate of 7.25% for the first two years, 8.25% for years three and four and 9.25% thereafter. The promissory note is secured by a Deed of Trust and Security Agreement. Further, RCI Holdings, Inc. entered into an Assignment and Assumption of Lease Agreement with the sellers to assume the lease agreement for the real property. We currently operate this property as Rick's Cabaret. As of September 30, 2008, the balance of the promissory note was \$2,117,663.
11. As part of the acquisition of The End Zone in Philadelphia, Pennsylvania, we acquired 51% of the issued and outstanding partnership interest of the partnership that owns the real property at 2908 S. Columbus Blvd., Philadelphia, Pennsylvania. At closing, we paid a purchase price of \$3,500,000 in cash for the partnership interests.
12. As part of the transaction to acquire Hotel Development, Ltd. which operated the Executive Club in Dallas, RCI Holdings, Inc. acquired the related real property located at 8550 N. Stemmons Freeway, Dallas, Texas from DPC Holdings, LLC, a Texas limited liability company. As consideration for the purchase of the real property, RCI Holdings, Inc. paid total consideration of \$5,599,721, which was paid (i) \$4,250,000, payable \$610,000 in cash and \$3,640,000 through the issuance of a five year promissory note and (ii) the issuance of 57,918 shares of our restricted common stock to be valued at \$23.30 per share (\$1,349,721). The promissory note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), and is guaranteed by us and Eric Langan, our Chief Executive Officer, individually. As of September 30, 2008, the balance of the promissory note was \$3,606,683.
13. As part of the acquisition of the Platinum Club II in Dallas, we acquired the real property located at 10557 Wire Way Place (at Northwest Highway), Dallas, Texas from Wire Way, LLC, a Texas limited liability company. Pursuant to a Real Estate Purchase and Sale Agreement dated May 10, 2008, we paid total consideration of \$6,000,000, which was paid \$1,650,000 in cash and \$4,350,000 through the issuance of a five (5) year promissory note. The promissory note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), which is guaranteed by us and by Eric Langan, our Chief Executive Officer, individually. As of September 30, 2008, the balance of the promissory note was \$4,327,169.

PROPERTIES WE LEASE:

- 1.

- We lease the property in Houston, Texas, where our XTC North is located. The lease term is for five years, beginning March 2004, with an additional five-year lease option thereafter. The monthly rent was \$8,000 until August 31, 2006, at which time the monthly base rent increased to \$9,000.
2. We lease the property in New York City, New York, where our Rick's Cabaret NYC is located. We assumed the existing lease, which will terminate in April 2023. The monthly rent is currently \$43,995. Under the term of the existing lease, the base rent will increase by approximately 3% each year.
  3. We lease the property in Charlotte, North Carolina, where our Club Onyx Charlotte is located. We executed an amended lease in February 2007, which will terminate in February 2017. The monthly rent is \$17,500 until February 2010, at which time the monthly base rent will increase to \$18,500 until February 2013, at which time the rent will escalate to \$20,000 until February 2017.
  4. We lease the property in South Houston, Texas, where our XTC South is located. The lease term is for 79 months, beginning May 1, 2006, and terminates in December 2012. The monthly rent is \$3,000 for the first 43 months and \$3,500 thereafter.
  5. We lease the property in San Antonio, Texas, where our Club Encounters club is located. The lease term is for five years, beginning July 1, 2006, with monthly rent of \$5,000.

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6. We lease the property in Austin, Texas, where our Rick's Cabaret Austin is located. The lease term is for 10 years, beginning November 10, 2006, with monthly payments of \$29,000. We also have the option to renew for an additional ten years.
7. We lease the property in Miami Gardens, Florida, where Tootsie's is located with monthly rent of \$70,938. Under the Assignment of Lease, the original lease term continues through June 30, 2014, with two option periods which give us the right to lease the property through June 30, 2034.
8. We lease the property in Las Vegas, Nevada, where our new Rick's Cabaret Las Vegas club is located with monthly rent of \$100,000. The original lease term continues through January 1, 2011 with an option period beginning on that date through January 1, 2016 at \$180,000 per month. We also have an option to acquire the property through January 1, 2016 for \$23,000,000.

ITEM 3.

LEGAL PROCEEDINGS

In 1997, the City of Houston passed a comprehensive new ordinance regulating the location of and the conduct within sexually oriented businesses (the "Ordinance"), which became the subject of litigation which affects our Sexually Oriented Business licenses in Houston, Texas. After extensive litigation, the Trial Court in Houston rendered its judgment in favor of the City of Houston in January 2007. The Trial Court found that the City of Houston met its burden that there were sufficient alternate sites available to relocate all of the existing sexually oriented businesses in Houston in 1997. The Trial Court found the Ordinance constitutional and enforceable. Post-trial motions were heard and the relief sought, a stay against enforcement, was denied by the Trial Court. An appeal to the Fifth Circuit Court of Appeals was timely filed. The Fifth Circuit granted a stay pending appeal. Oral argument was held before the Fifth Circuit Court of Appeals in August 2007. The Fifth Circuit Court of Appeals ruled in favor of the City of Houston in September 2007. Pleadings were filed seeking a stay against enforcement of the provisions of the Ordinance with the United States Supreme Court in conjunction with the request that the United States Supreme Court hear an appeal of the Fifth Circuit Court of Appeals ruling. The United States Supreme Court refused to hear the matter.

Additionally, we filed on behalf of three of our club locations in Houston state court lawsuits seeking judicial review of the results of the amortization process contained within the Ordinance. The amortization process was abated in 1998 due to the possible multiplicity of court actions. The final order by the Trial Court resulted in the termination of the abatement and allowed the amortization process to continue as provided in the Ordinance. Trial on the amortization cases was held in April 2008. At the conclusion of the trial, the Court ruled that the amortization awards were proper and requested that findings of fact and conclusions of law be submitted to the Court as well as a judgment in the case. A form of judgment has been entered by the Court. The amortization award periods have already expired for our affected clubs. An appeal of the amortization review by the Harris County District Court was filed. A stay sought by the clubs during the appeal was denied. In the event all efforts to stop enforcement activity fail and the City of Houston elects to enforce the judgment, we, as well as every other similarly situated sexually oriented business located within the incorporated area of Houston, Texas, will have to either cease providing nude or semi-nude entertainment or develop alternate methods of operating. We have already taken steps to clothe our entertainers in a manner to eliminate the need for licenses and not to be subject to the Ordinance. Approximately 9.4% of our club operation's revenues and 2.2% of income before income taxes for the twelve months ended September 30, 2008 were in Houston, Texas. It is unknown at this time whether this will have a material effect on our operations.

OTHER LEGAL MATTERS

Beginning January 1, 2008, our Texas clubs became subject to a new state law requiring each club to collect a \$5 surcharge for every club visitor. A lawsuit was filed by the Texas Entertainment Association, 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 has appealed the court's ruling. In Texas, when cities or the State give notice of appeal, it supersedes and suspends the judgment, including the injunction. Therefore, the judgment of the District Court cannot be enforced until the appeals are completed. Given the suspension of the judgment, the State has opted to collect the tax pending the appeal. We have paid the tax for the first three calendar quarters under protest and expensed the tax in the accompanying financial statements. The Company's Texas clubs have filed a lawsuit against the State to demand repayment of the taxes.

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

We held our Annual Meeting of Shareholders on September 2, 2008. Eric S. Langan, Robert L. Watters, Steven L. Jenkins, Alan Bergstrom, Travis Reese and Luke Lirot were nominated and elected as Directors with the following vote results at the shareholder meeting:

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	For	Withheld
Eric S. Langan	6,028,065	197,634
Robert L. Watters	6,144,998	195,587
Steven L. Jenkins	6,030,112	33,545
Alan Bergstrom	6,027,844	80,701
Travis Reese	6,192,154	197,855
Luke Lirot	6,191,992	33,707

At the Annual Meeting, the Shareholders ratified Whitley Penn LLP as the Company's Independent Registered Public Accounting Firm for the fiscal year ended September 30, 2008, with the following vote results:

6,210,938	Votes FOR Ratification
8,350	Votes AGAINST Ratification
6,408	Votes ABSTAINING

At the Annual Meeting, the Shareholders approved an amendment to the Company's Articles of Incorporation to increase the number of authorized shares of the Company's common stock from 15,000,000 to 20,000,000 with the following vote results:

5,989,653	Votes FOR Ratification
87,239	Votes AGAINST Ratification
148,803	Votes ABSTAINING

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

4,381,773	Votes FOR Ratification
775,921	Votes AGAINST Ratification
208,293	ABSTAINING

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

## PART II

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

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

COMMON STOCK PRICE RANGE

	HIGH	LOW
Fiscal 2008		
First Quarter	\$ 29.79	\$ 11.01
Second Quarter	\$ 27.47	\$ 19.00
Third Quarter	\$ 26.74	\$ 14.80
Fourth Quarter	\$ 18.14	\$ 9.64
Fiscal 2007		
First Quarter	\$ 8.88	\$ 5.27
Second Quarter	\$ 11.04	\$ 6.21
Third Quarter	\$ 9.75	\$ 8.26
Fourth Quarter	\$ 12.49	\$ 7.89

On December 5, 2008, the last sales price for the common stock as reported on the NASDAQ Global Market was \$4.87. On December 5, 2008, there were approximately 209 stockholders of record of our common stock (not including shares held by shareholders in street name).

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## TRANSFER AGENT AND REGISTRAR

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

## DIVIDEND POLICY

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

On September 29, 2008, our board of directors authorized us to repurchase up to \$5,000,000 worth of our common stock. As of September 30, 2008, no shares had been purchased under this program. Subsequent to the fiscal year end, we purchased 48,200 shares of common stock at prices ranging from \$3.54 to \$5.95.

## EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth all equity compensation plans as of September 30, 2008:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	420,000	\$3.86	438,000

## EMPLOYEE STOCK OPTION PLANS

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

In August 1999, we adopted the 1999 Stock Option Plan (the "1999 Plan") with 500,000 shares authorized to be granted and sold under the 1999 Plan. In August 2004, shareholders approved an Amendment to the 1999 Plan (the "Amendment") which increased the total number of shares authorized to 1,000,000. In July 2007, shareholders approved an Amendment to the 1999 Plan (the "Amendment"), which increased the total number of shares authorized to 1,500,000. As of September 30, 2008, 420,000 stock options were outstanding under the 1999 Plan.

#### RECENT SALES OF UNREGISTERED SECURITIES

During the quarter ended September 30, 2008, we completed the following transactions in reliance upon exemptions from registration under the Securities Act of 1933, as amended (the "Act") as provided in Section 4(2) thereof. All certificates issued in connection with these transactions were endorsed with a restrictive legend confirming that the securities could not be resold without registration under the Act or an applicable exemption from the registration requirements of the Act. None of the transactions involved a public offering, underwriting discounts or sales commissions. We believe that each person was a "qualified" investor within the meaning of the Act and had knowledge and experience in financial and business matters, which allowed them to evaluate the merits and risks of our securities. Each person was knowledgeable about our operations and financial condition.

In July 2008, we issued 270,000 shares of our restricted common stock to convert certain outstanding debentures.

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In September 2008, in connection with the Las Vegas club acquisition, we issued 200,000 shares to the sellers and 10,000 shares as a finder's fee.

In September 2008, a holder of a convertible debenture converted \$24,936 of interest owed into 2,078 shares of our restricted common stock.

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

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

### FORWARD LOOKING STATEMENT AND INFORMATION

We are including the following cautionary statement in this Form 10-KSB to make applicable and take advantage of the safe harbor provision of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by us or on behalf of us. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Certain statements in this Form 10-KSB are forward-looking statements. Words such as "expects," "believes," "anticipates," "may," and "estimates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties are set forth below. Our expectations, beliefs and projections are expressed in good faith and we believe that they have a reasonable basis, including without limitation, our examination of historical operating trends, data contained in our records and other data available from third parties. There can be no assurance that our expectations, beliefs or projections will result, be achieved, or be accomplished. In addition to other factors and matters discussed elsewhere in this Form 10-KSB, the following are important factors that in our view could cause material adverse affects on our financial condition and results of operations: the risks and uncertainties related to our future operational and financial results, the risks and uncertainties relating to our Internet operations, competitive factors, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, our dependence on key personnel, the ability to manage operations and the future operational strength of management, and the laws governing the operation of adult entertainment businesses. We have no obligation to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

### RISK FACTORS

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

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

Adult entertainment nightclubs are subject to local, state and federal regulations. Our business is regulated by local zoning, local and state liquor licensing, local ordinances and state and federal time place and manner restrictions. The adult entertainment provided by our nightclubs has elements of speech and expression and, therefore, enjoys some

protection under the First Amendment to the United States Constitution. However, the protection is limited to the expression, and not the conduct of an entertainer. While our nightclubs are generally well established in their respective markets, there can be no assurance that local, state and/or federal licensing and other regulations will permit our nightclubs to remain in operation or profitable in the future.

As discussed in the section entitled "Legal Proceedings" herein, we are subject to litigation regarding our Sexually Oriented Business licenses in Houston, Texas. In 1997, the City of Houston passed a comprehensive new ordinance regulating the location of and the conduct within sexually oriented businesses (the "Ordinance"), which became the subject of litigation which affects our Sexually Oriented Business licenses in Houston, Texas. After extensive litigation, the Trial Court in Houston rendered its judgment in favor of the City of Houston in January, 2007. The Trial Court found that the City of Houston met its burden that there were sufficient alternate sites available to relocate all of the existing sexually oriented businesses in Houston in 1997. The Trial Court found the Ordinance constitutional and enforceable. Post-trial motions were heard and the relief sought, a stay against enforcement, was denied by the Trial Court. An appeal to the Fifth Circuit Court of Appeals was timely filed. The Fifth Circuit granted a stay pending appeal. Oral argument was held before the Fifth Circuit Court of Appeals in August, 2007. The Fifth Circuit Court of Appeals ruled in favor of the City of Houston in September 2007. Pleadings were filed seeking a stay against enforcement of the provisions of the Ordinance with the United States Supreme Court in conjunction with the request that the United States Supreme Court hear an appeal of the Fifth Circuit Court of Appeals ruling. The United States Supreme Court refused to hear the matter.

Additionally, we filed on behalf of three of our club locations in Houston state court lawsuits seeking judicial review of the results of the amortization process contained within the Ordinance. The amortization process was abated in 1998 due to the possible multiplicity of court actions. The final order by the Trial Court resulted in the termination of the abatement and allowed the amortization process to continue as provided in the Ordinance. Trial on the amortization cases was held in April, 2008. At the conclusion of the trial, the Court ruled that the amortization awards were proper and requested that findings of fact and conclusions of law be submitted to the Court as well as a judgment in the case. A form of judgment has been entered by the Court. The amortization award periods have already expired for our affected clubs. An appeal of the amortization review by the Harris County District Court was filed. A stay sought by the clubs during the appeal was denied. In the event all efforts to stop enforcement activity fail and the City of Houston elects to enforce the judgment, we, as well as every other similarly situated sexually oriented business located within the incorporated area of Houston, Texas, will have to either cease providing nude or semi-nude entertainment or develop alternate methods of operating. We have already taken steps to clothe our entertainers in a manner to eliminate the need for licenses and not to be subject to the Ordinance. Approximately 9.4% of our club operation's revenues and 2.2% of income before income taxes for the twelve months ended September 30, 2008 were in Houston, Texas. It is unknown at this time whether this will have a material effect on our operations.

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Beginning January 1, 2008, our Texas clubs became subject to a new state law requiring each club to collect a \$5 surcharge for every club visitor. A lawsuit was filed by the Texas Entertainment Association, 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 has appealed the court's ruling. In Texas, when cities or the State give notice of appeal, it supersedes and suspends the judgment, including the injunction. Therefore, the judgment of the District Court cannot be enforced until the appeals are completed. Given the suspension of the judgment, the State has opted to collect the tax pending the appeal. We have paid the tax for the first three calendar quarters under protest and expensed the tax in the accompanying financial statements. The Company's Texas clubs have filed a lawsuit against the State to demand repayment of the taxes.

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

If cash generated from our operations is insufficient to satisfy our working capital and capital expenditure requirements, we will need to raise additional funds through the public or private sale of our equity or debt securities. The timing and amount of our capital requirements will depend on a number of factors, including cash flow and cash requirements for nightclub acquisitions. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our then-existing shareholders will be reduced. We cannot assure you that additional financing will be available on terms favorable to us, if at all. Any future equity financing, if available, may result in dilution to existing shareholders, and debt financing, if available, may include restrictive covenants. Any failure by us to procure timely additional financing will have material adverse consequences on our business operations.

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

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

### Risk of Adult Nightclubs Operations

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

### Permits Relating to the Sale of Alcohol

We derive a significant portion of our revenues from the sale of alcoholic beverages. States in which we operate may have laws which may limit the availability of a permit to sell alcoholic beverages or which may provide for



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

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

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

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

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

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

### Uninsured Risks

We maintain insurance in amounts we consider adequate for personal injury and property damage to which the business of the Company may be subject. However, there can be no assurance that uninsured liabilities in excess of the coverage provided by insurance, which liabilities may be imposed pursuant to the Texas "Dram Shop" statute or similar "Dram Shop" statutes or common law theories of liability in other states where we operate or expand. For example, the Texas "Dram Shop" statute provides a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to such person if it was apparent to the server that the individual being sold, served or provided with an alcoholic beverage was obviously intoxicated to the extent that he presented a clear danger to himself and others. An employer is not liable for the actions of its employee who over-serves if (i) the employer requires its employees to attend a seller training program approved by the TABC;

(ii) the employee has actually attended such a training program; and (iii) the employer has not directly or indirectly encouraged the employee to violate the law. It is our policy to require that all servers of alcohol working at our clubs in Texas be certified as servers under a training program approved by the TABC, which certification gives statutory immunity to the sellers of alcohol from damage caused to third parties by those who have consumed alcoholic beverages at such establishment pursuant to the Texas Alcoholic Beverage Code. There can be no assurance, however, that uninsured liabilities may not arise in the markets in which we operate which could have a material adverse effect on the Company.

#### Limitations on Protection of Service Marks

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

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### Anti-takeover Effects of Issuance of Preferred Stock

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

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

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

### Future Sales of Our Common Stock May Depress Our Stock Price

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

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

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

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

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

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

As of December 5, 2008, our Directors and executive officers and their respective affiliates collectively and beneficially owned approximately 14.2% of our outstanding common stock, including all warrants exercisable within 60 days. This concentration of voting control gives our Directors and executive officers and their respective affiliates substantial influence over any matters which require a shareholder vote, including, without limitation, the election of

Directors, even if their interests may conflict with those of other shareholders. It could also have the effect of delaying or preventing a change in control of or otherwise discouraging a potential acquirer from attempting to obtain control of us. This could have a material adverse effect on the market price of our common stock or prevent our shareholders from realizing a premium over the then prevailing market prices for their shares of common stock.

#### We are Dependent on Key Personnel

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

#### Cumulative Voting is Not Available To Stockholders

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

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

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

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

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

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

### Other Risk Factors May Adversely Affect Our Financial Performance.

Other risk factors that could cause our actual results to differ materially from those indicated in the forward-looking statements by affecting, among many things, pricing, consumer spending and consumer confidence, include, without limitation, changes in economic conditions and financial and credit markets, credit availability, increased fuel costs and availability for our employees, customers and suppliers, health epidemics or pandemics or the prospects of these events (such as reports on avian flu), consumer perceptions of food safety, changes in consumer tastes and behaviors, governmental monetary policies, changes in demographic trends, terrorist acts, energy shortages and rolling blackouts, and weather (including, major hurricanes and regional snow storms) and other acts of God.

## GENERAL INFORMATION

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 nineteen adult nightclubs that offer live adult entertainment, restaurant and bar operations. Nine 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; four clubs operate under the name "XTC Cabaret"; one club that operates as "Encounters", and one club that operates as "Tootsie's". Our nightclubs are in Houston, Austin, San Antonio, Dallas and Fort Worth, Texas; Charlotte, North Carolina; Minneapolis, Minnesota; New York, New York; Miami Gardens, Florida; Philadelphia, Pennsylvania and

Las Vegas, Nevada. 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 [www.CoupleTouch.com](http://www.CoupleTouch.com) and [www.xxxpassword.com](http://www.xxxpassword.com). We acquire xxxpassword.com site content from wholesalers.

b) We operate an online auction site [www.NaughtyBids.com](http://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. In April 2008, we acquired a media division, including the leading trade magazine serving the multi-billion dollar adult nightclubs industry. As part of the transaction we also acquired two industry trade shows, two other industry trade publications and more than 25 industry websites.

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

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

### CRITICAL ACCOUNTING POLICIES

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

#### 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.

#### Marketable Securities

Marketable securities at September 30, 2008 and 2007 consist of common stock. Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires certain investments be recorded at fair value or amortized cost. The appropriate classification of the investments in marketable equity is determined at the time of purchase and re-evaluated at each balance sheet date. As of September 30, 2008 and 2007, the Company's marketable securities were classified as available-for-sale, which are carried at fair value, with unrealized gains and losses reported as other comprehensive income within the stockholders' equity section of the accompanying consolidated balance sheets. The cost of marketable equity securities sold is determined on a specific identification basis. The fair value of marketable equity securities is based on quoted market prices. There has been no realized gains or losses related to marketable securities for the years ended September 30, 2008 and 2007, respectively. Marketable securities held at September 30, 2008 and 2007 have a cost basis of approximately \$13,000. Due to lack of market transaction, the value of marketable security was written off from the Company's balance sheet as of September 30, 2008.

#### Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation and amortization are made using straight-line rates over the estimated useful lives of the related assets and the shorter of useful lives or terms of the applicable



leases for leasehold improvements. Buildings have estimated useful lives ranging from 31 to 40 years. Furniture, equipment and leasehold improvements have estimated useful lives between five and ten years. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are charged or credited in the accompanying consolidated statement of operations of the respective period.

#### Goodwill and Intangible Assets

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangibles Assets, which addresses the accounting for goodwill and other intangible assets. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed on an annual basis for impairment. The Company adopted SFAS No. 142 effective October 1, 2001. The Company's annual evaluation was performed as of September 30, 2008, based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. The Company determined that there is no goodwill impairment at September 30, 2008. 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.

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### Revenue Recognition

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

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

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

Revenues from the sale of magazines and related 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 EITF 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement. Total sales and liquor taxes aggregated \$3,815,648 and \$2,256,251 for the years ended September 30, 2008 and 2007, 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 operations.

### Income Taxes

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

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum

recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has adopted FIN 48 as of October 1, 2007, as required. The adoption of FIN 48 has had no effect on the Company's consolidated financial position, results of operations or cash flows. There are no unrecognized tax benefits to disclose in the notes to the financial statements.

#### Stock Options

Effective October 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, "Share-Based Payments," using the modified prospective application method. Under this transition method, compensation cost recognized for the year ended September 30, 2008, includes the applicable amounts of: (a) compensation of all stock-based payments granted prior to, but not yet vested as of October 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 and previously presented in pro forma footnote disclosures), and (b) compensation cost for all stock-based payments granted subsequent to October 1, 2006 based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123R. Results for periods prior to October 1, 2006, have not been restated. The compensation cost recognized for the year ended September 30, 2008 and 2007 was \$157,080 and \$196,871, respectively, as a result of implementing SFAS No. 123R. There were 125,000 and 252,500 stock option exercises for the year ended September 30, 2008 and 2007, respectively.

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Impact of Recently Issued Accounting Standards

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141R, "Business Combinations," ("SFAS 141R"). SFAS 141R requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value. The Statement applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS 141R, all business combinations will be accounted for by applying the acquisition method. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008 and will be effective for the Company beginning in fiscal 2010 for business combinations occurring after the effective date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," ("SFAS 160"). SFAS 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. The Statement applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and is effective for the Company beginning in fiscal 2010. The Company does not expect that SFAS 160 will have a material impact on its financial statements.

In December 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," ("SFAS 157"). SFAS 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements, but does not change existing guidance as to whether or not an instrument is carried at fair value. For financial assets and liabilities, SFAS 157 is effective for fiscal years beginning after November 15, 2007, which will require the Company to adopt these provisions in fiscal 2009. For nonfinancial assets and liabilities, SFAS 157 is effective for fiscal years beginning after November 15, 2008, which will require the Company to adopt these provisions in fiscal 2010. In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS 159"). SFAS 159 provides companies with an option to report selected assets and liabilities at fair value. This statement contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election and is effective for the Company beginning in fiscal 2009. The Company is currently in the process of assessing the impact that SFAS 157 and SFAS 159 may have on the Company's consolidated financial statements.

The Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 110 which expresses the views of the staff regarding the use of a "simplified" method, as discussed in SAB No. 107 ("SAB 107"), in developing an estimate of expected term of "plain vanilla" share options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment. In particular, the staff indicated in SAB 107 that it will accept a company's election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. At the time SAB 107 was issued, the staff believed that more detailed external information about employee exercise behavior (e.g., employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. Therefore, the staff stated in SAB 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. The staff understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. The Company has utilized the simplified method for option grants during the year ended September 30, 2007. There were no option grants during the year ended September 30, 2008.

RESULTS OF OPERATIONS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008 AS COMPARED TO THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

For the fiscal year ended September 30, 2008, we had consolidated total revenues of \$59,929,478, compared to consolidated total revenues of \$32,013,940 for the year ended September 30, 2007. This was an increase of \$27,915,538 or 87.2%. The increase in total revenues was primarily due to revenues generated in our new clubs and increases in revenues from our existing clubs, especially from our New York location. Revenues from nightclub operations for same-location same-period increased by 14.6% and for Internet businesses decreased by a negligible amount.

Our operating margin (income from operations divided by total revenues) was 22.9% for the year ended September 30, 2008 compared to 12.8% for the prior year. The increase was due principally to the increase in sales and the contribution from our Miami Gardens, Florida club.

Our income before minority interest for the year ended September 30, 2008 was \$11,069,734 compared to \$2,863,501 for the year ended September 30, 2007. The increase in income from operations was primarily due to the increase in revenues from our new clubs and from our New York and Fort Worth locations. Our income from nightclub operations (excluding corporate overhead) was \$15,575,561 for the year ended September 30, 2008 compared with \$6,695,818 for the year ended September 30, 2007. Our income from operations for our Internet businesses (excluding corporate overhead) was \$89,194 for the year ended September 30, 2008 compared with \$63,919 for the year ended September 30, 2007. Our income from operations for our nightclub operations for the same-location-same-period increased by 21.9%. Our income for our Internet operations for the same-web-site-same-period increased by 39.5%.

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Our cost of goods sold for the year ended September 30, 2008 was 11.6% of total revenues compared to 12.6% of related revenues for the year ended September 30, 2007. The decrease was due primarily to the acquisitions of Tootsie's which has the ability to buy and store large amounts of inventory, thus taking advantage of volume discounts. Our cost of goods sold for the nightclub operations for the year ended September 30, 2008 was 11.7% of our total revenues from club operations compared to 12.7% for the year ended September 30, 2007. Cost of goods sold for same-location-same-period decreased to 12.2% for the year ended September 30, 2008 compared to 12.7% for the year ended September 30, 2007. We continued our efforts to achieve reductions in cost of goods sold of the club operations through improved inventory management. We are continuing a program to improve margins from liquor and food sales and food service efficiency. Our cost of sales from our Internet operations for the year ended September 30, 2008 was 2.6% compared to 6.6% of related revenues for the year ended September 30, 2007.

Our payroll and related costs for the year ended September 30, 2008 were \$14,002,442 compared to \$8,936,730 for the year ended September 30, 2007. The increase was primarily due to the increase in payroll in our opening new clubs and the increase in the minimum wage. Our payroll for our nightclub operations for same-location-same-period increased by 8.7%. The increase was primarily due to increases in payroll in our clubs due to increases in revenues. Our payroll for Internet operations increased by 1.2%. We believe that our labor and management staff levels are at appropriate levels.

Our other general and administrative expenses for the year ended September 30, 2008 were \$25,247,127 compared to \$14,938,002 for the year ended September 30, 2007. The increase was primarily due to the increase in taxes and permits, rent, legal and professional, utilities, insurance, and advertising and marketing expenses from opening new locations, from our existing clubs. Other selling, general and administrative expenses for same-location-same-period for the nightclub operations increased by 15.5%. The increase was primarily due to the increase in taxes and permits, rent, legal and professional, utilities, insurance, and advertising and marketing expenses. Other selling, general and administrative expenses for Internet operations decreased by 5.2%.

Our interest expense for the year ended September 30, 2008 was \$2,712,987 compared to \$1,335,713 for the year ended September 30, 2007. The increase was primarily due to the increase in debt in relation to the purchase of new clubs, including approximately \$8 million in bank financing of real property. We have increased our long term debt to \$33,557,406 as of September 30, 2008 compared to debt of \$14,387,339 as of September 30, 2007.

Our net income was \$7,660,667 for the fiscal year ended September 30, 2008 compared to \$3,054,899. The increase in our net income was primarily a result of the factors discussed in the paragraphs above.

**LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2008, we had working capital of \$327,800 compared to a working capital deficit of \$1,030,472 as of September 30, 2007. Because of the large volume of cash we handle, stringent cash controls have been implemented. The increase in working capital was primarily due to working capital provided by operations, net of uses of working capital for investing purposes. At September 30, 2008, our cash and cash equivalents were \$5,602,645 compared to \$2,998,758 at September 30, 2007.

Our depreciation for the year ended September 30, 2008 was \$2,278,607 compared to \$1,438,158 for the year ended September 30, 2007. Our amortization for the year ended September 30, 2008 was \$263,076 compared to \$158,492 for the period ended September 30, 2007.

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

Years ended September 30,

	2008	2007
Net cash provided by operating activities	\$ 14,819,267	\$ 4,383,121
Net cash used in investing activities	(38,711,804)	(6,791,794)
Net cash provided by financing activities	26,496,424	4,552,499
Net increase in cash and cash equivalents	\$ 2,603,887	\$ 2,143,826

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

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

#### Debt Financing:

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

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

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

Effective February 1, 2008, the Company borrowed \$1,000,000 from a lender. The funds were utilized to pay off certain other Company debt in the amount of \$1,797,529. The new debt bears interest at 9% and interest is payable monthly until February 1, 2013 at which time the principal is due in full. The note is collateralized by certain Company-owned property in Minneapolis, Minnesota.

In February 2008, the Company borrowed \$1,561,500 from a lender. The funds were used to purchase an aircraft. The debt bears interest at 6.15% with monthly principal and interest payments of \$11,323 beginning March 12, 2008. The note matures on February 12, 2028.

As part of the acquisition of the Executive Club in Dallas, we acquired the related Real Property from DPC Holdings, LLC, a Texas limited liability company ("DPC"). As consideration for the purchase of the Real Property, RCI paid total consideration of \$5,599,721, which was paid (i) \$4,250,000, payable \$610,000 in cash and \$3,640,000 through the issuance of a five year promissory note (the "Promissory Note") and (ii) the issuance of 57,918 shares of our restricted common stock (the "Rick's Real Property Shares") to be valued at \$23.30 per share (\$1,349,721). The Promissory Note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), and is guaranteed by Rick's and Eric Langan, individually.

As part of the acquisition of the Platinum Club II in Dallas, we acquired the Real Property from Wire Way, LLC, a Texas limited liability company ("Wire Way"). Pursuant to a Real Estate Purchase and Sale Agreement (the "Real Estate Agreement") dated May 10, 2008, we paid total consideration of \$6,000,000, which was paid \$1,650,000 in cash and \$4,350,000 through the issuance of a five (5) year promissory note (the "Promissory Note"). The Promissory Note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), which is guaranteed by the Company and by Eric Langan, the Company's Chief Executive Officer, individually.



As part of the acquisition of the Las Vegas club, part of the purchase price was \$3,000,000 pursuant to a promissory note ("the Rick's Promissory Note"), executed by and obligating Rick's, bearing interest at eight percent (8%) per annum with a five (5) year amortization, with monthly payments of principal and interest, with the initial monthly payment due in April 2009 with a balloon payment of all then outstanding principal and interest due upon the expiration of two (2) years from the execution of the Promissory Note.

In May 2008, we borrowed \$150,000 from two unrelated individuals under terms of a 10% convertible debenture. Interest only is payable quarterly beginning in August 2008 and the note matures in May 2009. At the election of the holders, the holders have the right to convert (subject to certain limitations) all or any portion of the principal and interest amounts of the debentures into shares of the Company's common stock at a rate of \$25.32 per share. On August 31, 2008, the Company paid part of the principal in the amount of \$50,000 in cash.

Financing from related parties:

On November 9, 2006, we entered into convertible debentures with three shareholders for a principal sum of \$600,000. The term is for two years and the interest rate is 12% per annum. At the election of the holders, the holders have the right to convert (subject to certain limitations) all or any portion of the principal amount of the debentures into shares of our common stock at a rate of \$7.50 per share, which was higher than the closing price of our stock on November 9, 2006. The debentures provide, absent shareholder approval, that the number of shares of our common stock that may be issued by us or acquired by the holders upon conversion of the debentures shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock. The proceeds of the debentures were used for the acquisition of a 51% ownership interest of Playmates Gentlemen's Club LLC. These debentures matured and were retired in November 2008.

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## Contractual obligations and commitments:

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

	Operating Lease	Debt(1)	Total
2009	\$ 3,261,190	\$ 2,644,541	\$ 5,905,731
2010	3,233,958	4,512,345	7,746,303
2011	2,280,482	11,710,241	13,990,723
2012	1,947,159	872,690	2,819,849
2013	1,940,185	2,777,770	4,717,955
Thereafter	8,873,224	11,039,819	19,913,043
	\$ 21,536,198	\$ 33,557,406	\$ 55,093,604

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

## 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.

The maximum obligation that could be owed if our stock were valued at zero is \$13,935,020 and is recorded in our balance sheet at September 30, 2008 as Temporary Equity. We consider this type of financing transaction to be similar to interest-free debt. 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 and Stockholders' Equity and will have no income statement effect. Following is a schedule of the annual obligation we would have if our stock price remains in the future at the closing market price on December 5, 2008 of \$4.87 per share:

For the Year Ended September  
30:

2009	\$ 2,541,538
2010	3,527,683
2011	2,862,975
2012	2,023,650

Total \$ 10,955,846

Each \$1.00 per share movement of our stock price has an aggregate effect of \$611,740 on the total obligation.

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

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The following table presents a summary of such indicators:

Years ended September 30,	2008	% increase	2007	% increase	2006
Sales of alcoholic beverage	\$ 22,278,479	83.95	\$ 12,111,348	37.92	\$ 8,781,635
Sales of food and merchandise	5,200,452	63.25	3,185,494	20.14	2,651,868
Service revenues	28,669,299	92.63	14,883,205	30.07	11,442,371
Internet revenues	715,759	(2.04)	730,629	(8.83)	801,395
Media revenues	801,215	n/a	--	--	--
Other	2,264,274	105.23	1,103,264	36.21	809,946
Total revenues	\$ 59,929,478	87.20	\$ 32,013,940	30.74	\$ 24,487,215
Net cash provided by operating activities	\$ 14,819,267	238.10	\$ 4,383,121	60.80	\$ 2,725,770
Net income	\$ 7,660,667	150.75	\$ 3,054,899	74.29	\$ 1,752,714
Long-term debt	\$ 33,557,406	133.24	\$ 14,387,339	3.35	\$ 13,920,733

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

## Share repurchase

On September 29, 2008, the Company was authorized by its board of directors to repurchase up to an additional \$5,000,000 worth of our common stock. As of September 30, 2008, no shares had been purchased under this plan. Subsequent to the fiscal year end, we purchased 48,200 shares of common stock at prices ranging from \$3.54 to \$5.95.

## IMPACT OF INFLATION

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

## SEASONALITY

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

## GROWTH STRATEGY

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

enter into licensing agreements in strategic locations, as is the case with the license agreement with Rick's Buenos Aires Sociedad Anonima in Argentina.

During fiscal 2008, we acquired a media division for a total cost of \$1,069,754. This acquisition was funded primarily through issuance of our restricted common stock valued at \$369,754, and \$700,000 in cash. This media operation had total revenues of approximately \$801,000 and net loss of approximately \$28,000 for fiscal 2008.

During fiscal 2008, we acquired five existing nightclub operations and 49% of an existing nightclub operation for a total cost of \$69,768,925, including real property of \$14,761,766. These acquisitions were funded primarily through indebtedness of \$20,990,000, including real property debt of \$7,990,000, issuance of our restricted common stock valued at \$12,964,465, \$701,711 in debt forgiveness, and \$35,461,116 in cash. These nightclub operations had total revenues of approximately \$22,554,000 and net income of approximately \$7,413,000 for fiscal 2008.

During fiscal 2007, we acquired two existing nightclub operations for a total cost of \$8,900,000. These acquisitions were funded primarily through indebtedness of \$2,400,000, issuance of our restricted common stock valued at \$6,379,250, and \$600,000 in cash. Part of the funds received from stock issuances will be used in cash flows and future acquisitions. These nightclub operations had total revenues of approximately \$5,278,000 and \$3,075,000 and net loss of approximately \$248,000 and \$245,000 for fiscal 2008 and 2007, respectively.

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During fiscal 2006, we acquired three existing nightclub operations for a total cost of \$3,865,000. These acquisitions were funded primarily through indebtedness of \$3,195,000, and \$670,000 cash. These nightclub operations had total revenues of approximately \$2,429,000, \$2,586,000 and \$370,000 and net loss of approximately \$886,000, \$836,000 and \$330,000 for fiscal 2008, 2007 and 2006, respectively.

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

In our Internet division, 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.

In addition to their strong cash flow, the acquisition of the Media Division will enable us to create new marketing synergies with major industry product suppliers and new national advertising opportunities. It also provides us with additional diversification of our revenue and income streams while remaining within our core competency.

ITEM 7. FINANCIAL STATEMENTS

The information required by Item 7 is included in this report beginning on page 36.

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

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

ITEM 8A(T). CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 [the "Exchange Act"]), as of the end of the period covered by this Annual Report on Form 10-KSB, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. We have assessed the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we concluded that our internal control over financial reporting was effective as of September 30, 2008.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

#### Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our fourth quarter ended September 30, 2008, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

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## ITEM 8B. OTHER INFORMATION

None.

## PART III

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

## DIRECTORS AND EXECUTIVE OFFICERS

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

Name	Age	Position
Eric S. Langan	40	Director, Chairman, Chief Executive Officer, President
Phillip Marshall	59	Chief Financial Officer
Travis Reese	39	Director and V.P.-Director of Technology
Robert L. Watters	57	Director
Alan Bergstrom	63	Director
Steven Jenkins	51	Director
Luke Lirot	52	Director

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

Phillip Marshall has served as our Chief Financial Officer since May 2007. He was previously controller of Dorado Exploration, Inc., an oil and gas exploration and production company, from February 2007 to May 2007. He previously served as Chief Financial Officer of CDT Systems, Inc., a publicly held water technology company, from July 2003 to September 2006. In 1972, Mr. Marshall began his public accounting career with the international accounting firm, KMG Main Hurdman. After its merger with Peat Marwick, Mr. Marshall served as an audit partner at KPMG for several years. After leaving KPMG, Mr. Marshall was partner in charge of the audit practice at Jackson & Rhodes in Dallas from 1992 to 2003, where he specialized in small publicly held companies. Mr. Marshall is also a trustee of United Mortgage Trust, a publicly held real estate investment trust.

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



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

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

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

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

Luke Lirot became a Director on July 31, 2007. Mr. Lirot received his law degree from the University of San Francisco in 1986. After serving as an intern in the San Francisco Public Defender's Office in 1986, Mr. Lirot returned to Florida and established a private law practice where he continues to practice and specializes in adult entertainment issues. He is a past President of the First Amendment Lawyers' Association and has actively participated in numerous state and federal legal matters.

## COMMITTEES OF THE BOARD OF DIRECTORS

### AUDIT COMMITTEE

The Company has an Audit Committee whose members are Steven Jenkins, Alan Bergstrom and Luke Lirot. Mr. Jenkins, Mr. Bergstrom and Mr. Lirot are independent Directors. The primary purpose of the Audit Committee is to oversee the Company's financial reporting process on behalf of the Board of Directors. The Audit Committee meets privately with our Chief Financial Officer and with our independent registered public accounting firm and evaluates the responses by the Chief Financial Officer both to the facts presented and to the judgments made by our outside independent registered public accounting firm. Our Audit Committee has reviewed and discussed our audited financial statements for the year ended September 30, 2008 with our management. Steven L. Jenkins serves as the Audit Committee's Financial Expert.

In May 2000, our Board adopted a Charter for the Audit Committee. A copy of the Audit Committee Charter was attached to our Proxy Statement as Exhibit "A" filed with the U.S. Securities and Exchange Commission on July 21, 2008. The Charter establishes the independence of our Audit Committee and sets forth the scope of the Audit Committee's duties. The Purpose of the Audit Committee is to conduct continuing oversight of our financial affairs. The Audit Committee conducts an ongoing review of our financial reports and other financial information prior to their being filed with the Securities and Exchange Commission, or otherwise provided to the public. The Audit Committee also reviews our systems, methods and procedures of internal controls in the areas of: financial reporting, audits, treasury operations, corporate finance, managerial, financial and SEC accounting, compliance with law, and ethical conduct. A majority of the members of the Audit Committee will be independent. The Audit Committee is objective, and reviews and assesses the work of our independent registered public accounting firm and our internal audit department.

The Audit Committee reviewed and discussed the matters required by SAS 61 and our audited financial statements for the fiscal year ended September 30, 2008 with management and our independent registered public accounting firm. The Audit Committee has received the written disclosures and the letter from our independent registered public accounting firm required by Independence Standards Board No. 1, and the Audit Committee has discussed with the independent registered public accounting firm the independent registered public accounting firm's independence. The Audit Committee recommended to the Board of Directors that the Company's audited financial statements for the fiscal year September 30, 2008 be included in our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2008.

#### NOMINATING COMMITTEE

The Company has a Nominating Committee whose members are Steven Jenkins, Alan Bergstrom and Luke Lirot. In July 2004, the Board unanimously adopted a Charter with regard to the process to be used for identifying and evaluating nominees for director. The Charter establishes the independence of our Nominating Committee and sets forth the scope of the Nominating Committee's duties. A majority of the members of the Nominating Committee will be independent. A copy of the Nominating Committee's Charter can be found on the Company's website at [www.ricks.com](http://www.ricks.com).

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## COMPENSATION COMMITTEE

The Company has a Compensation Committee whose members are Steven Jenkins, Alan Bergstrom and Luke Lirot. Decisions concerning executive officer compensation for the fiscal year ended September 30, 2008 were made by the Compensation Committee. Eric S. Langan and Travis Reese are the only directors of the Company who are also officers of the Company. The primary purpose of the Compensation Committee is to evaluate and review the compensation of executive officers.

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

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own beneficially more than ten percent of our common stock, to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Based solely on the reports we have received and on written representations from certain reporting persons, we believe that the directors, executive officers, and greater than ten percent beneficial owners have complied with all applicable filing requirements during the fiscal year ended September 30, 2008, with the exception of an exit filing on Form 5 which we believe is due for the Estate of Ralph McElroy.

## CODE OF ETHICS

We have adopted a code of ethics for our Principal Executive and Senior Financial Officers, which is attached as Exhibit 14 hereto.

## ITEM 10.

## EXECUTIVE COMPENSATION

The following table reflects all forms of compensation for services to us for the fiscal years ended September 30, 2008 and 2007 of certain executive officers.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All other compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Eric S. Langan, President/CEO	2008	494,713	-0-	-0-	4,727(1)	-0-	-0-	10,478	509,918
	2007	400,010	40,000	-0-	19,125	-0-	-0-	10,115	469,250
Phillip Marshall, CFO	2008	175,000	20,000	-0-	45,870	-0-	-0-	6,056	246,926
	2007	50,481	-0-	-0-	(2) 4,725(2)			1,212	56,418
Travis Reese, VP/ Chief Technology Officer	2008	193,226	-0-	-0-	4,727 (3)	-0-	-0-	5,328	203,281
	2007	178,308	-0-	-0-	23,900(3)			5,274	207,482

- 1 Mr. Langan received 5,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation in August 2007.
- 2 Mr. Marshall received 20,000 options to purchase shares of our common stock at an exercise price of \$9.40 as compensation in August 2007.
- 3 Mr. Reese received 5,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation in August 2007.

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## Outstanding Equity Awards at Fiscal Year End

Name	OPTION AWARDS					STOCK AWARDS				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights that have not Vested (\$)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights that have not Vested (\$)	
(a)	(b)	(c)	(d)	(e)	(e)	(g)	(h)	(i)	(j)	
Eric S. Langan	5,000	0	0	2.54	9/14/09	0	0	0	0	
	200,000	0	0	2.49	9/14/09	0	0	0	0	
	5,000	0	0	2.80	7/20/10	0	0	0	0	
	5,000		0	6.75	5/31/11	0	0	0	0	
	5,000	0	0	9.40	8/24/09	0	0	0	0	
Phillip Marshall	10,000	10,000	0	9.40	8/24/12	10,000	\$98,200	0	0	
Travis Reese	50,000	0	0	2.49	9/14/09	0	0	0	0	
	5,000	0	0	2.80	7/20/10	0	0	0	0	
	5,000		0	6.75	5/31/11	0	0	0	0	
	5,000	0	0	9.40	8/24/09	0	0	0	0	

## DIRECTOR COMPENSATION

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

Name	Fees Earned or	Stock Awards	Option Awards	Non-Equity Incentive Plan	Nonqualified Deferred	All Other Compensation	Total (\$)
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	Paid in Cash (\$)	(\$)	(\$)	Compensation (\$)	Compensation Earnings (\$)	(\$)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Eric S. Langan	-0-	-0-	\$4,727	-0-	-0-	-0-	\$4,727(1)
Travis Reese	-0-	-0-	\$4,727	-0-	-0-	-0-	\$4,727(2)
Robert Watters	-0-	-0-	\$9,450	-0-	-0-	-0-	\$9,450(3)
Alan Bergstrom	-0-	-0-	\$9,450	-0-	-0-	-0-	\$9,450(4)
Steve Jenkins	-0-	-0-	\$9,450	-0-	-0-	-0-	\$9,450(5)
Luke Lirot	-0-	-0-	\$9,450	-0-	-0-	-0-	\$9,450(6)

- 1 On August 24, 2007, Mr. Langan received 5,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2007; these options vested on August 24, 2008. Mr. Langan has a total of 220,000 options outstanding as of September 30, 2008.
- 2 On August 24, 2007, Mr. Reese received 5,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2007; these options vested on August 24, 2008. Mr. Reese has a total of 65,000 options outstanding as of September 30, 2008.
- 3 On August 24, 2007, Mr. Watters received 10,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2007; these options vested on August 24, 2008. Mr. Watters has a total of 40,000 options outstanding as of September 30, 2008.

- 4 On August 24, 2007, Mr. Bergstrom received 10,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2007; these options vested on August 24, 2008. Mr. Bergstrom has a total of 10,000 options outstanding as of September 30, 2008.
- 5 On August 24, 2007, Mr. Jenkins received 10,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2007; these options vested on August 24, 2008. Mr. Jenkins has a total of 10,000 options outstanding as of September 30, 2008.
- 6 On August 24, 2007, Mr. Lirot received 10,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2007; these options vested on August 24, 2008. Mr. Lirot has a total of 10,000 options outstanding as of September 30, 2008.

## EMPLOYMENT AGREEMENTS

We entered into a two-year employment agreement with Eric S. Langan (the "Langan Agreement") on May 8, 2008. The Langan Agreement extends through April 1, 2010 and provides for an annual base salary of \$600,000. The Langan Agreement also provides for participation in all benefit plans maintained by us for salaried employees. The Langan Agreement contains a confidentiality provision and an agreement by Mr. Langan not to compete with us upon the expiration of the Langan Agreement.

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

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

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

## ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information at December 5, 2008, with respect to the beneficial ownership of shares of Common Stock by (i) each person known to us who owns beneficially more than 5% of the outstanding shares of Common Stock, (ii) each of our directors, (iii) each of our executive officers and (iv) all of our executive officers and directors as a group. Unless otherwise indicated, each stockholder has sole voting and investment power with respect to the shares shown. As of December 5, 2008, there were 9,344,325 shares of common stock outstanding.



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Name/Address	Number of shares	Title of class	Percent of Class (6)
Eric S. Langan 10959 Cutten Road Houston, Texas 77066	1,205,449 (1)	Common stock	12.6%
Phillip K. Marshall 10959 Cutten Road Houston, Texas 77066	10,000 (2)	Common stock	<1%
Robert L. Watters 315 Bourbon Street New Orleans, Louisiana 70130	55,000 (3)	Common stock	<1%
Steven L. Jenkins 16815 Royal Crest Drive Suite 160 Houston, Texas 77058	10,000 (2)	Common stock	<1%
Travis Reese 10959 Cutten Road Houston, Texas 77066	78,380 (4)	Common stock	<1%
Alan Bergstrom 904 West Avenue, Suite 100 Austin, Texas 78701	11,150 (2)	Common stock	<1%
Luke Lirot 2240 Belleair Road, Suite 190 Clearwater, FL 33764	10,000 (2)	Common stock	<1%
All of our Directors and Officers as a Group of seven (7) persons	1,369,979 (5)	Common stock	14.2%
E. S. Langan, L.P. 10959 Cutten Road Houston, Texas 77066	578,632 (1)	Common stock	6.2%
Diane McElroy P. O. Box 27244 Austin, Texas 78755	529,959	Common Stock	5.7%

(1) Mr. Langan has sole voting and investment power for 406,817 shares that he owns directly. Mr. Langan has shared voting and investment power for 578,632 shares that he owns indirectly through E. S. Langan, L.P. Mr. Langan is the general partner of E. S. Langan, L.P. This amount also includes options to purchase up to 220,000 shares of common stock that are presently exercisable.

- (2) Includes options to purchase up to 10,000 shares of common stock that are presently exercisable.
- (3) Includes 15,000 shares of common stock and options to purchase up to 40,000 shares of common stock that are presently exercisable.
- (4) Includes 13,380 shares of common stock and options to purchase up to 65,000 shares of common stock that are presently exercisable.
- (5) Includes options to purchase up to 365,000 shares of common stock that are presently exercisable.
- (6) These percentages exclude treasury shares in the calculation of percentage of class.

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

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

#### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

On July 22, 2005, we issued a Secured Convertible Debenture to Ralph McElroy, a greater than 10% shareholder, for the principal sum of \$660,000. The debenture matured on August 1, 2008 and bears interest at a rate of 12% per annum. Under the terms of the Debenture, we were required to make monthly interest payments beginning September 1, 2005. The debenture was converted into 220,000 shares of common stock in July 2008. Additionally, we issued Mr. McElroy warrants to purchase 50,000 shares of our common stock at an exercise price of \$3.00 per share until July 22, 2008. These warrants were exercised in July 2008. The shares of Common Stock underlying the principal amount of the Debenture and the Warrants had piggyback registration rights and became registered with the SEC on September 1, 2005. Mr. McElroy passed away in June 2007 and his estate is currently under settlement.

On April 28, 2006, we entered into convertible debentures with three shareholders, one of which is a greater than 10% shareholder, for a principal sum of \$825,000. The debentures mature April 30, 2009 and bear interest at a rate of 12% per annum. At the election of the holders, the holders had the right to convert (subject to certain limitations) until April 30, 2008, all or any portion of the principal amount of the debentures into shares of our common stock at a rate of \$6.55 per share, which approximates the closing price of our stock on April 28, 2006. The shares were converted in April 2008 into 125,954 shares of common stock. The shares of Common Stock underlying the principal amount of the debentures had piggyback registration rights and were registered with the SEC in June 2006.

On November 9, 2006, we entered into convertible debentures with three shareholders for a principal sum of \$600,000. The term is for two years and the interest rate is 12% per annum. At the election of the holders, the holders have the right to convert (subject to certain limitations) all or any portion of the principal amount of the debentures into shares of our common stock at a rate of \$7.50 per share, which was higher than the closing price of our stock on November 9, 2006. The debentures provide, absent shareholder approval, that the number of shares of our common stock that may be issued by us or acquired by the holders upon conversion of the debentures shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock. These debentures matured and were paid in cash in November 2008.

ITEM 13.

EXHIBITS

Exhibit 14 – Code of Ethics.

Exhibit 21 - Subsidiaries of the Registrant.

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

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

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

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

ITEM 14.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees paid or accrued for professional services rendered by Whitley Penn LLP for the audit of our annual financial statements for fiscal year 2008 and fiscal year 2007 and the aggregate fees paid or accrued for audit-related services and all other services rendered by Whitley Penn LLP for fiscal year 2008 and fiscal year 2007.

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	2008	2007
Audit fees	\$ 268,468	\$ 170,208
Audit-related fees	13,368	13,070
Tax fees	62,540	30,170
All other fees	1,035	-
Total	\$ 345,411	\$ 213,448

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

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

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

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

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SIGNATURES

In accordance with the requirements of Section 13 of 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on December 29, 2008.

Rick's Cabaret International,  
Inc.

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

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

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

Signature	Title	Date
/s/ Eric S. Langan Eric S. Langan	Director, Chief Executive Officer, and President	December 29, 2008
/s/ Travis Reese Travis Reese	Director and V.P.-Director of Technology	December 29, 2008
/s/ Robert L. Watters Robert L. Watters	Director	December 29, 2008
/s/ Alan Bergstrom Alan Bergstrom	Director	December 29, 2008
/s/ Steven Jenkins Steven Jenkins	Director	December 29, 2008
/s/ Luke Lirot Luke Lirot	Director	December 29, 2008

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RICK'S CABARET INTERNATIONAL, INC.  
CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2008 and 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Rick's Cabaret International, Inc. and subsidiaries, as of September 30, 2008 and 2007, and the related consolidated statements of operations, changes in permanent stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rick's Cabaret International, Inc. and subsidiaries, as of September 30, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Whitley Penn LLP  
Dallas, Texas  
December 29, 2008



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## RICK'S CABARET INTERNATIONAL, INC.

## CONSOLIDATED BALANCE SHEETS

	September 30,	
	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,602,645	\$ 2,998,758
Accounts receivable:		
Trade, net	637,035	557,295
Other, net	230,298	218,746
Marketable securities	-	33,368
Inventories	1,717,237	368,557
Prepaid expenses and other current assets	568,599	286,883
Total current assets	8,755,814	4,463,607
Property and equipment, net	50,038,264	21,365,415
Other assets:		
Goodwill and indefinite lived intangibles	76,457,694	20,179,610
Definite lived intangibles, net	1,335,509	698,584
Other	481,525	368,544
Total other assets	78,274,728	21,246,738
Total assets	\$ 137,068,806	\$ 47,075,760
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,203,555	\$ 493,499
Accrued liabilities	4,579,918	1,709,426
Current portion of long-term debt	2,644,541	3,291,154
Total current liabilities	8,428,014	5,494,079
Deferred tax liability	16,894,256	4,391,499
Other long-term liabilities	537,967	420,415
Long-term debt-related parties	600,000	2,085,000
Long-term debt	30,312,865	9,011,185
Total liabilities	56,773,102	21,402,178
Commitments and contingencies		
Minority interest	3,358,096	180,728
Temporary equity - Common stock, subject to put rights (611,740 and 215,000 shares, respectively)	13,935,020	1,450,000
Permanent stockholders' equity:		

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Preferred stock, \$.10 par, 1,000,000 shares authorized, none outstanding	-	-
Common stock, \$.01 par, 20,000,000 shares authorized, 9,689,315 and 6,903,354 shares issued, respectively	96,893	69,034
Additional paid-in capital	53,948,172	22,643,596
Accumulated other comprehensive income (loss)	(13,347)	20,021
Retained earnings	10,264,650	2,603,983
	64,296,368	25,336,634
Less 908,530 shares of common stock held in treasury, at cost	1,293,780	1,293,780
Total stockholders' equity	63,002,588	24,042,854
Total liabilities and stockholders' equity	\$ 137,068,806	\$ 47,075,760

See accompanying notes to consolidated financial statements.

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## RICK'S CABARET INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended September 30,	
	2008	2007
Revenues:		
Sales of alcoholic beverages	\$ 22,278,479	\$ 12,111,348
Sales of food and merchandise	5,200,452	3,185,494
Service revenues	28,669,299	14,883,205
Internet revenues	715,759	730,629
Media revenues	801,215	-
Other	2,264,274	1,103,264
Total revenues	59,929,478	32,013,940
Operating expenses:		
Cost of goods sold	6,959,889	4,035,522
Salaries and wages	13,845,362	8,739,859
Stock-based compensation	157,080	196,871
Other general and administrative:		
Taxes and permits	7,561,260	4,071,677
Charge card fees	1,064,841	638,248
Rent	2,431,053	1,494,005
Legal and professional	1,659,034	1,124,856
Advertising and marketing	2,557,770	1,325,367
Depreciation and amortization	2,541,683	1,596,650
Insurance	867,946	785,519
Utilities	1,284,920	800,366
Other	5,278,620	3,101,314
Total operating expenses	46,209,458	27,910,254
Income from operations	13,720,020	4,103,686
Other income (expense):		
Interest income	136,597	58,394
Interest expense	(2,712,987)	(1,335,713)
Other	(73,896)	37,134
Income before minority interest	11,069,734	2,863,501
Minority interest	30,911	427,844
Income before income taxes	11,100,645	3,291,345
Income taxes	3,439,978	236,446
Net income	\$ 7,660,667	\$ 3,054,899
Basic and diluted earnings per share:		

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Net income, basic	\$	0.97	\$	0.54
Net income, diluted	\$	0.91	\$	0.50
Weighted average number of common shares outstanding:				
Basic		7,931,121		5,700,548
Diluted		8,413,183		6,215,285

See accompanying notes to consolidated financial statements.

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## RICK'S CABARET INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN PERMANENT STOCKHOLDERS' EQUITY

Years Ended September 30, 2008 and 2007

	Common Stock			Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Treasury Stock		Total Stockholder Equity
	Number of Shares	Amount	Additional Paid-In Capital			Number of Shares	Amount	
Balance at September 30, 2006	5,805,275	\$ 58,053	\$ 15,586,233	\$ 8,898	\$ (450,916)	908,530	\$ (1,293,780)	\$ 13,908,4
Shares issued	1,153,079	11,531	7,509,942	-	-	-	-	7,521,4
Change in temporary equity - common stock subject to put rights	(55,000)	(550)	(649,450)	-	-	-	-	(650,0
Stock-based compensation	-	-	196,871	-	-	-	-	196,8
Net income	-	-	-	-	3,054,899	-	-	3,054,8
Change in available-for-sale securities	-	-	-	11,123	-	-	-	11,1
Comprehensive income	-	-	-	-	-	-	-	3,066,0
Balance at September 30, 2007	6,903,354	69,034	22,643,596	20,021	2,603,983	908,530	(1,293,780)	24,042,8
Shares issued	3,182,701	31,827	43,560,815	-	-	-	-	43,592,0
Change in temporary equity - common stock subject to put rights	(396,740)	(3,968)	(12,481,652)	-	-	-	-	(12,485,0
Beneficial conversion	-	-	68,333	-	-	-	-	68,3
Stock-based compensation	-	-	157,080	-	-	-	-	157,0
Net income	-	-	-	-	7,660,667	-	-	7,660,6
Change in available-for-sale securities	-	-	-	(33,368)	-	-	-	(33,3

Comprehensive income	-	-	-	-	-	-	-	-	7,626,8
Balance at September 30, 2008	9,689,315	\$ 96,893	\$ 53,948,172	\$ (13,347)	\$ 10,264,650	908,530	\$ (1,293,780)	\$	63,002,5

See accompanying notes to consolidated financial statements.

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## RICK'S CABARET INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 7,660,667	\$ 3,054,899
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,278,607	1,438,158
Amortization	263,076	158,492
Bad debts	83,206	26,777
Beneficial conversion	37,738	17,952
Common stock issued for interest payment	106,906	87,336
Amortization of note discount	29,627	35,552
Minority interests	(30,911)	(427,844)
Deferred rent	117,552	120,715
Deferred taxes (benefit)	1,448,472	(200,364)
Stock compensation expense	157,080	196,871
Issuance of stock for non-employee services	137,700	-
Changes in operating assets and liabilities:		
Accounts receivable	116,130	(437,848)
Inventories	(832,177)	(40,418)
Prepaid expenses and other current assets	(248,241)	(96,386)
Accounts payable and accrued liabilities	3,493,835	449,229
Net cash provided by operating activities	14,819,267	4,383,121
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(35,672,404)	(5,572,245)
Proceeds from sale of assets	36,000	9,695
Purchases of property and equipment	(3,139,391)	(1,210,136)
Issuance of notes receivable	-	(35,000)
Note receivable payments	63,991	15,892
Net cash used in investing activities	(38,711,804)	(6,791,794)
Cash flows from financing activities:		
Proceeds from sale of common stock	27,352,500	5,345,500
Proceeds from stock options exercised	347,700	665,471
Proceeds from long-term debt	2,150,000	600,000
Payments on long-term debt	(3,353,776)	(2,058,472)
Distribution to minority interests	(150,000)	-
Proceeds from warrant conversion	150,000	-
Net cash provided by financing activities	26,496,424	4,552,499
Net increase in cash and cash equivalents	2,603,887	2,143,826
Cash and cash equivalents at beginning of year	2,998,758	854,932
Cash and cash equivalents at end of year	\$ 5,602,645	\$ 2,998,758

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for interest	\$ 2,239,993	\$ 1,176,204
Cash paid during the year for income taxes	\$ 171,036	\$ -

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Non-cash transactions:

During the year ended September 30, 2007, the seller of the New York club converted \$75,000 of principal from the related promissory note into 10,000 shares of restricted common stock.

During the year ended September 30, 2007, the Company purchased a 51% ownership interest of Playmates Gentlemen's Club LLC for \$1,533,750, payable with \$500,000 cash at closing and 125,000 shares of restricted common stock.

During the year ended September 30, 2007, the Company foreclosed on a residential house due to non-payment of a note receivable from an unrelated third party. The balance of the note receivable was \$55,175.

During the year ended September 30, 2007, the Company acquired the property relating to its new club in Fort Worth, Texas for \$2.5 million, comprised of \$100,000 in cash and a note payable of \$2.4 million.

During the year ended September 30, 2007, the Company foreclosed on certain accounts and a note receivable in the aggregate amount of approximately \$240,000. The net result of the transaction was that the Company wrote off the note and accounts and the related deferred gain and recorded \$53,000 in furniture and equipment in the foreclosure.

During the year ended September 30, 2007, the holder of a convertible debenture converted \$401,752 of principal and interest into 84,579 shares of restricted common stock.

During the year ended September 30, 2008, the Company purchased Stellar Management Corporation and Miami Gardens Square One, Inc., owner/operator of Tootsie's Cabaret in Florida for \$25,486,000 (which includes inventories and other assets), payable to the sellers \$15,486,000 in cash, \$10,000,000 pursuant to two secured promissory notes in the amount of \$5,000,000 each, plus estimated transaction costs of \$175,000.

During the year ended September 30, 2008, the Company purchased an aircraft through the issuance of a note payable of \$1,561,500.

During the year ended September 30, 2008, in connection with the acquisition of the remaining 49% of Playmates Gentlemen's Club LLC, the Company issued 35,000 common shares valued at \$700,000.

During the year ended September 30, 2008, the Company purchased The End Zone, Inc., owner/operator of Crazy Horse Too Cabaret in Philadelphia for \$7,985,000 payable to the sellers \$3,500,000 in cash and \$4,485,000 pursuant to the issuance of 195,000 shares of restricted common stock.

During the year ended September 30, 2008, the Company purchased Hotel Development Ltd., owner/operator of The Executive Club in Dallas, Texas for a total purchase price of \$3,590,609, which was paid through the issuance of 152,082 shares of the Company's restricted common stock and \$46,490 in cash. The Company also purchased the real property associated with the club, for a total consideration of \$5,599,721, which was paid (i) \$4,250,000, payable \$610,000 in cash and \$3,640,000 through the issuance of a five year promissory note and (ii) the issuance of 57,918 shares of the Company's restricted common stock to be valued at \$23.50 per share.

During the year ended September 30, 2008, the Company acquired three entities to form a media division for a total consideration of \$1,069,754, consisting of \$700,000 in cash and 21,740 shares of restricted common stock.

During the year ended September 30, 2008, the holders of convertible debentures converted \$825,000 of principal into 125,953 shares of the Company's restricted common stock.

During the year ended September 30, 2008, the holder of a convertible debenture converted \$784,922 of principal and interest into 156,116 shares of restricted common stock.

During the year ended September 30, 2008, the Company purchased the assets of North by East Entertainment Ltd., owner/operator of the Platinum Club II in Dallas, Texas for a total purchase price of \$1,500,000 cash. As part of the transaction, the Company also acquired the real property associated with the club for a total consideration of \$6,000,000, which was paid \$1,650,000 in cash and \$4,350,000 through the issuance of a five-year promissory note. The Company also incurred acquisition costs of \$69,998, which was paid in cash.

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Non-cash transactions: - continued

During the year ended September 30, 2008, the Company purchased the assets of DI Food & Beverage of Las Vegas, LLC, owner/operator of the Scores Club in Las Vegas, Nevada for a total purchase price of \$18,147,498, payable through the issuance of a promissory note in the amount of \$3,000,000, the issuance of 200,000 shares of the Company's restricted common stock, and \$12,066,667 in cash. The Company also incurred acquisition costs of \$326,830, which was paid in cash.

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008 and 2007

A. Nature of Business

Rick's Cabaret International, Inc. (the "Company") is a Texas corporation incorporated in 1994. The Company currently owns and operates nightclubs that offer live adult entertainment, restaurant, and bar operations. These nightclubs are located in Houston, Austin, San Antonio, Dallas and Fort Worth, Texas, as well as Minneapolis, Minnesota, Philadelphia, Pennsylvania, Charlotte, North Carolina, New York, New York, Miami Gardens, Florida, and Las Vegas, Nevada. The Company also owns and operates several adult entertainment Internet websites and a media division. The Company's corporate offices are located in Houston, Texas.

B. Summary of Significant Accounting Policies

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Basis of Accounting

The accounts are maintained and the consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At September 30, 2008 and 2007, the Company had no such investments. The Company maintains deposits in several financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). At September 30, 2008 and 2007, the uninsured portion of these deposits approximated \$1,675,000 and \$569,000, respectively. The Company has not incurred any losses related to its cash on deposit with financial institutions.

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.

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RICK'S CABARET INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies - continued

Marketable Securities

Marketable securities at September 30, 2007 consist of common stock. Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires certain investments be recorded at fair value or amortized cost. The securities were written down to zero at September 30, 2008. The appropriate classification of the investments in marketable equity is determined at the time of purchase and re-evaluated at each balance sheet date. As of September 30, 2008 and 2007, the Company's marketable securities were classified as available-for-sale, which are carried at fair value, with unrealized gains and losses reported as other comprehensive income within the stockholders' equity section of the accompanying consolidated balance sheets. The cost of marketable equity securities sold is determined on a specific identification basis. The fair value of marketable equity securities is based on quoted market prices. There have been no realized gains or losses related to marketable securities for the years ended September 30, 2008 or 2007. Marketable securities held at September 30, 2008 and 2007 have a cost basis of approximately \$13,000. Due to lack of market transaction, the value of marketable security was written off from the Company's balance sheet as of September 30, 2008.

Inventories

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

Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation and amortization are made using straight-line rates over the estimated useful lives of the related assets and the shorter of useful lives or terms of the applicable leases for leasehold improvements. Buildings have estimated useful lives ranging from 31 to 40 years. Furniture, equipment and leasehold improvements have estimated useful lives between five and ten years. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are charged or credited in the accompanying consolidated statement of operations of the respective period.

Goodwill and Intangible Assets

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangibles Assets, which addresses the accounting for goodwill and other intangible assets. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed on an annual basis for impairment. The Company adopted SFAS No. 142 effective October 1, 2001. The Company's annual evaluation was performed as of September 30, 2008, based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. The Company determined that there is no impairment for the year ended September 30, 2008 or 2007. All of the Company's goodwill and intangible assets relate to the nightclub segment, except for \$567,000 related to the acquisition of the media division. Definite lived intangible assets are amortized on a straight-line basis over their estimated lives. Fully amortized assets are written-off against accumulated amortization.

## Revenue Recognition

The Company recognizes revenue from the sale of alcoholic beverages, food and merchandise and services at the point-of-sale upon receipt of cash, check, or credit card charge. The Company recognizes revenue for VIP memberships in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition, by deferring and recognizing over the estimated membership usage period. Management estimates that the weighted average useful lives for memberships are 12 and 24 months for annual and lifetime memberships, respectively. The Company does not track membership usage by type of membership, however it believes these lives are appropriate and conservative, based on management's knowledge of its client base and membership usage at the clubs.

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

Revenues from the sale of magazines and related 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.

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RICK'S CABARET INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies - continued

Sales and Liquor Taxes

The Company recognizes sales and liquor taxes paid as revenues and an equal expense in accordance with EITF 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement. Total sales and liquor taxes aggregated \$3,815,648 and \$2,256,251 for the years ended September 30, 2008 and 2007, 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 operations.

Income Taxes

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

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has adopted FIN 48 as of October 1, 2007, as required. The adoption of FIN 48 has had no effect on the Company's consolidated financial position, results of operations or cash flows. There are no unrecognized tax benefits to disclose in the notes to the financial statements.

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 and gains (losses) on available-for-sale marketable securities and is presented in the consolidated statements of changes in permanent stockholders' equity.

Earnings Per Common Share



The Company computes earnings per share in accordance with SFAS No. 128, Earnings Per Share. SFAS No. 128 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 (as adjusted for interest expense, that would no longer occur if the debentures were converted).

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## B. Summary of Significant Accounting Policies - continued

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

	2008	2007
Basic earnings per share:		
Net earnings applicable to common stockholders	\$ 7,660,667	\$ 3,054,899
Average number of common shares outstanding	7,931,121	5,700,548
Basic earnings per share	\$ 0.97	\$ 0.54
Diluted earnings per share:		
Net earnings applicable to common stockholders	\$ 7,660,667	\$ 3,054,899
Adj. to net earnings from assumed conversion of debentures (1)	-	79,200
Adj. net earnings for diluted EPS computation	\$ 7,660,667	\$ 3,134,099
Average number of common shares outstanding:		
Common shares outstanding	7,931,121	5,700,548
Potential dilutive shares resulting from exercise of warrants and options (2)	367,062	294,737
Potential dilutive shares resulting from conversion of debentures (3)	115,000	220,000
Total average number of common shares outstanding used for dilution	8,413,183	6,215,285
Diluted earnings per share	\$ 0.91	\$ 0.50

(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 September 30, 2008 and 2007 totaling \$1,100,694 and \$2,788,217, respectively, were convertible into common stock at a price of \$12.00 and \$25.32 in 2008 and \$3.00 and \$7.50 per share in 2007. Debentures convertible into 115,000 shares were dilutive in 2008 and debentures convertible into 220,000 shares were dilutive in 2007 (based on average balances outstanding).

## Fair Value of Financial Instruments

In accordance with the reporting requirements of SFAS No. 107, Disclosures About Fair Value of Financial Instruments, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments under this statement 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.

## Stock Options

At September 30, 2008, the Company has stock options outstanding, which are described more fully in Note H. The Company formerly accounted 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. Effective October 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payments, using the modified prospective application method. Under this transition method, compensation cost recognized for the years ended September 30, 2008 and 2007 includes the applicable amounts of: (a) compensation of all stock-based payments granted prior to, but not yet vested as of October 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 and previously presented in pro forma footnote disclosures), and (b) compensation cost for all stock-based payments granted subsequent to October 1, 2006 based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123R. The compensation cost recognized for the year ended September 30, 2008 and 2007 was \$157,080 and \$196,871, respectively, as a result of implementing SFAS No. 123R. There were 125,000 and 252,500 stock option exercises for the years ended September 30, 2008 and 2007, respectively.

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RICK'S CABARET INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies - continued

Impact of Recently Issued Accounting Standards

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141R, "Business Combinations," ("SFAS 141R"). SFAS 141R requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value. The Statement applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS 141R, all business combinations will be accounted for by applying the acquisition method. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008 and will be effective for the Company beginning in fiscal 2010 for business combinations occurring after the effective date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," ("SFAS 160"). SFAS 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. The Statement applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and is effective for the Company beginning in fiscal 2010. The Company does not expect that SFAS 160 will have a material impact on its financial statements.

In December 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," ("SFAS 157"). SFAS 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements, but does not change existing guidance as to whether or not an instrument is carried at fair value. For financial assets and liabilities, SFAS 157 is effective for fiscal years beginning after November 15, 2007, which will require the Company to adopt these provisions in fiscal 2009. For nonfinancial assets and liabilities, SFAS 157 is effective for fiscal years beginning after November 15, 2008, which will require the Company to adopt these provisions in fiscal 2010. In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS 159"). SFAS 159 provides companies with an option to report selected assets and liabilities at fair value. This statement contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election and is effective for the Company beginning in fiscal 2009. The Company is currently in the process of assessing the impact that SFAS 157 and SFAS 159 may have on the Company's consolidated financial statements.

The Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 110 which expresses the views of the staff regarding the use of a "simplified" method, as discussed in SAB No. 107 ("SAB 107"), in developing an estimate of expected term of "plain vanilla" share options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment. In particular, the staff indicated in SAB 107 that it will accept a company's election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. At the time SAB 107 was issued, the staff believed that more detailed external information about employee exercise behavior (e.g., employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. Therefore, the staff stated in SAB 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. The staff understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain

circumstances, the use of the simplified method beyond December 31, 2007. The Company has utilized the simplified method for option grants during the year ended September 30, 2007. There were no option grants during the year ended September 30, 2008.

C. Reclassifications

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

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## D. Property and Equipment

Property and equipment consisted of the following:

	September 30,	
	2008	2007
Buildings and land	\$ 33,965,031	\$ 15,275,245
Leasehold improvements	10,274,696	5,974,183
Furniture	2,044,149	1,404,259
Equipment	11,687,197	4,365,930
Total property and equipment	57,971,073	27,019,617
Less accumulated depreciation	7,932,809	5,654,202
Property and equipment, net	\$ 50,038,264	\$ 21,365,415

## E. Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

	September 30,	
	2008	2007
Indefinite useful lives:		
Goodwill	\$ 37,159,351	\$ 7,280,179
Licenses	39,298,343	12,899,431
Amortization		
Period		
Definite useful lives:		
Discounted leases	18 & 6 years	146,569
Non-compete agreements	5 years	772,000
Less accumulated amortization	(483,060)	(219,985)
Total goodwill and intangible assets	\$ 77,793,203	\$ 20,878,194

Future amortization expense related to definite lived intangible assets subject to amortization at September 30, 2008 for each of the years in the five-year period ending September 30, 2013 and thereafter is 2009 - \$400,489, 2010 - \$348,990, 2011 - \$294,240, 2012 - \$192,654, 2013 - \$76,647, and thereafter - \$22,489.

Goodwill and indefinite lived intangible assets consist of sexually oriented business licenses or goodwill, which were obtained as part of the acquisitions. These licenses are the result of zoning ordinances, thus are valid indefinitely, subject to filing annual renewal applications, which are done at minimal costs to the Company. As cash flows are expected to continue indefinitely, in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the licenses are determined to have indefinite useful lives. The discounted cash flow method of income approach was

used in calculating the value of these licenses in a business combination.

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

F.	Long-term Debt	September 30,	
		2008	2007
	Notes payable at 9%, mature February 2008	* \$ -	\$ 1,839,771
	Notes payable at 9-11%, mature August 2015	* 2,070,668	1,168,708
	Notes payable at 10%, mature December 2014 and January 2015	* 2,696,790	2,759,711
	Note payable at 7%, matures October 2012, collateralized by assets of RCI Entertainment North Carolina, Inc.	208,528	251,158
	Note payable at 7.5%, matures August 2011	* 918,552	1,187,301
	Convertible note payable to related party at 12%, matures August 2009, converted to common stock in July 2008	-	615,413
	Convertible note payable at 4%, matures May 2010, collateralized by assets of RCI Entertainment New York, Inc.	1,023,965	1,727,666
	Convertible notes payable to related parties at 12%, matured and converted to common stock in April 2008	* -	825,000
	Convertible note payable at 10%, converted to common stock in November 2007, unsecured	-	691,689
	Note payable at 7%, matures December 2019	* 357,413	377,627
	Note payable at 4.9%, matures December 2010, collateralized by equipment	16,560	23,355
	Note payable at 7.25%, matures May 2013	* 2,117,663	2,319,940
	Notes payable to related parties at 12%, mature November 2009	600,000	600,000
	Notes payable at 14%, mature November 30, 2010, collateralized by stocks of Miami Gardens Square One, Inc. and Stellar Management, Inc.	10,000,000	-
	Note payable at 6.15%, matures February 2028, collateralized by an aircraft	1,538,971	-
	Note payable at the greater of 2% above prime or 7.5%, (7.5% at September 30, 2008), matures April 2013	* 3,606,683	-
	Note payable at the greater of 2% above prime or 7.5%, (7.5% at September 30, 2008), matures June 2013	* 4,327,169	-
	Convertible notes payable at 10%, matures May 2009	100,000	-
	Note payable at 8%, matures September 2010	3,020,000	-
	Convertible note payable at 10%, matures October 2010	* 954,444	-
	Total debt	33,557,406	14,387,339
	Less current portion	2,644,541	3,291,154
	Total long-term debt	\$ 30,912,865	\$ 11,096,185

\* Collateralized by real estate





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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## F. Long-term Debt - continued

On July 22, 2005, the Company entered into a secured convertible debenture with a greater than 10% shareholder for a principal sum of \$660,000. The debenture was convertible into 220,000 shares of the Company's common stock at a conversion price of \$3.00 per share at the option of the holder (subject to certain limitations). The term was for three years and interest rate is at 12% per annum. The debenture was converted into 220,000 common shares in July 2008. The Company also issued 50,000 detachable warrants at \$3.00 per share in relation to this debenture. The warrants were exercisable at any time within the period beginning on July 22, 2005 and expiring on July 22, 2008 and were exercised in July 2008. The value of the discount on note payable was estimated to be \$106,656 at the date of grant using a Black-Scholes option-pricing model with the following assumptions:

Volatility	138%
Expected life	3 years
Expected dividend yield	-
Risk free rate	4.31%

For the years ended September 30, 2008 and 2007, the Company recorded \$29,627 and \$35,552, respectively of interest expense. The debenture was secured by the Company's ownership in Citation Land, LLC and RCI Holdings, Inc., both are wholly owned subsidiaries of the Company.

The Company has accounted for this transaction under Emerging Issues task Force ("EITF") Issue No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments. The value of the embedded beneficial conversion feature on the note payable was estimated to be \$53,856, which was calculated using the EITF Issue No. 98-5 model. For the years ended September 30, 2008 and 2007, the Company recorded \$14,960 and \$17,952, respectively, of interest expense related to the value of the embedded beneficial conversion feature.

As a part of the purchase the New York club, the Company obtained a \$5.125 million promissory note bearing simple interest at the rate of 4.0% per annum with a balloon payment at the end of five years. \$2,000,000 of the principal amount of the promissory note is convertible into shares of restricted common stock at prices ranging from \$4.00 to \$7.50 per share. For the year ended September 30, 2007, \$75,000 of principal was converted into 10,000 shares of the Company's restricted common stock.

On February 6, 2006, 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 was 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 had the right to redeem the Debenture in whole or in part during the term of the Debenture. At the election of the holder, the holder had the right at any time to convert all or any portion of the principal or interest amount of the Debenture into shares of the Company's common stock at a rate of \$4.75 per share, which approximates the closing price of the Company's stock on February 6, 2006. The proceeds of the Debenture were used to pay off certain debt and increase working

capital. During the year ended September 30, 2007, the holder had elected to convert \$401,752 of principal and interest into 84,579 shares of the Company's restricted common stock. In November 2007, the holder elected to convert all remaining principal of \$691,689 and accrued interest of \$21,448 into 150,134 shares of the Company's restricted common stock.

On April 28, 2006, the Company entered into convertible debentures with three shareholders, one of which is a greater than 10% shareholder, for a principal sum of \$825,000. The debentures mature April 30, 2009 and bore interest at a rate of 12% per annum. At the election of the holders, the holders had the right to convert (subject to certain limitations) until April 30, 2008, all or any portion of the principal amount of the debentures into shares of the Company's common stock at a rate of \$6.55 per share, which approximated the closing price of the Company's stock on April 28, 2006. The holders converted the debentures in April 2008 into 125,953 shares of the Company's common shares. The proceeds of the debentures were used for the acquisition of Joint Ventures, Inc.

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RICK'S CABARET INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

F. Long-term Debt - continued

On August 24, 2006, as part of the purchase of a club in San Antonio, Texas (formerly known as "Centerfolds"), the Company obtained three promissory notes: a \$400,000 note bearing simple interest at the rate of 12% per annum and maturing March 2007, a \$200,000 note bearing interest at the rate of 12% per annum maturing February 2007, and a \$1,700,000 note bearing interest at the rate of 7.5% with a balloon payment at end of five years. These notes payable are secured by the real estate.

On November 9, 2006, the Company entered into convertible debentures with three shareholders for a principal sum of \$600,000. The term is for two years and the interest rate is 12% per annum. At the election of the holders, the holders have the right to convert (subject to certain limitations) all or any portion of the principal amount of the debentures into shares of the Company's common stock at a rate of \$7.50 per share, which was higher than the closing price of the Company's stock on November 9, 2006. The debentures provide, absent shareholder approval, that the number of shares of the Company's common stock that may be issued by the Company or acquired by the holders upon conversion of the debentures shall not exceed 19.99% of the total number of issued and outstanding shares of the Company's common stock. The proceeds of the debentures were used for the acquisition of a 51% ownership interest of Playmates Gentlemen's Club LLC. The debentures were paid in cash in November 2008.

On April 23, 2007, RCI Holdings, Inc., the Company's wholly owned subsidiary ("RCI"), entered into an assignment of a certain real estate sales contract between the owner of the property and W.K.C., Inc. for the purchase of the real property located at 7101 Calmont, Fort Worth, Texas 76116 (the "Real Property") where the club is located for a total purchase price of \$2,500,000, which consisted of \$100,000 in cash and \$2,400,000 payable in a six year promissory note to the sellers which will accrue interest at the rate of 7.25% for the first two years, 8.25% for years three and four and 9.25% thereafter (the "Promissory Note"). The Promissory Note is secured by a deed of trust and security agreement. Further, the Company entered into an assignment and assumption of lease agreement with sellers to assume the lease agreement for the Real Property.

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

In connection with the acquisition of Tootsie's Cabaret in Miami Gardens, Florida, the Company entered into two Secured Promissory Notes for a total of \$10,000,000 (the "Notes"). The Notes bear interest at the rate of 14% per annum with the principal payable in one lump sum payment on November 30, 2010. The Company cannot pre-pay the Notes during the first twelve (12) months; thereafter, the Company may prepay the Notes, in whole or in part, provided that (i) any prepayment by the Company from December 1, 2008 through November 30, 2009, shall be paid at a rate of 110% of the original principal amount and (ii) any prepayment by the Company after November 30, 2009, may be prepaid without penalty at a rate of 100% of the original principal amount. The Notes are secured by the stock of the companies acquired under a Pledge and Security Agreement.

Effective February 1, 2008, the Company borrowed \$1,000,000 from a lender. The funds were utilized to pay off certain other Company debt in the amount of \$1,797,529. The new debt bears interest at 9% and interest is payable

monthly until February 1, 2013 at which time the principal is due in full. The note is collateralized by certain Company-owned property in Minneapolis, Minnesota.

In February 2008, the Company borrowed \$1,561,500 from a lender. The funds were used to purchase an aircraft. The debt bears interest at 6.15% with monthly principal and interest payments of \$11,323 beginning March 12, 2008. The note matures on February 12, 2028.

As part of the acquisition of the Executive Club in Dallas, the Company acquired the related Real Property from DPC Holdings, LLC, a Texas limited liability company ("DPC"). As part of the consideration for the purchase of the Real Property, the Company entered into a \$3,640,000 five year promissory note (the "Promissory Note"). The Promissory Note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), and is guaranteed by the Company and Eric Langan, the Company's Chief Executive Officer, individually.

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## F. Long-term Debt - continued

As part of the acquisition of the Platinum Club II in Dallas, the Company acquired the Real Property from Wire Way, LLC, a Texas limited liability company ("Wire Way"). Pursuant to a Real Estate Purchase and Sale Agreement (the "Real Estate Agreement") dated May 10, 2008, the Company paid total consideration of \$6,000,000, which was paid \$1,650,000 in cash and \$4,350,000 through the issuance of a five (5) year promissory note (the "Promissory Note"). The Promissory Note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), which is guaranteed by the Company and by Eric Langan, the Company's Chief Executive Officer, individually.

On September 5, 2008, as part of the purchase of a club in Las Vegas, Nevada (formerly known as "Scores"), the Company obtained an unsecured promissory note in the amount of \$3,000,000 bearing simple interest at the rate of 8% per annum with a five year amortization, with the initial monthly payment due in April 2009 and a balloon payment of all then outstanding principal and interest upon the expiration of two (2) years from the execution of the note.

In May 2008, the Company borrowed \$150,000 from two unrelated individuals under terms of a 10% convertible debenture. Interest only is payable quarterly beginning in August 2008 and the note matures on May 2009. At the election of the holders, the holders have the right to convert (subject to certain limitations) all or any portion of the principal and interest amounts of the debentures into shares of the Company's common stock at a rate of \$25.32 per share. On August 31, 2008, the Company paid part of the principal in the amount of \$50,000 in cash.

Future maturities of long-term debt consist of the following:

2009	\$ 2,644,541
2010	4,512,345
2011	11,710,241
2012	872,690
2013	2,777,770
Thereafter	11,039,819
<b>Total maturities of long-term debt</b>	<b>\$33,557,406</b>

## G. Income Taxes

The provision for income taxes consisted of the following for the years ended September 30, 2008 and 2007:

	2008	2007
Current	\$ 1,991,506	\$ 436,810
Deferred	1,448,472	(200,364)
<b>Total income tax expense</b>	<b>\$ 3,439,978</b>	<b>\$ 236,446</b>

Income tax expense for the years 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 years ended September 30, as a result of the following:

	2008	2007
Computed expected tax expense	\$ 3,774,220	\$ 1,119,057
State income taxes	220,997	32,913
Stock option disqualifying dispositions and other permanent differences	(346,344)	(584,516)
Net operating loss carryforward	-	(286,838)
Change in deferred tax valuation allowance	(154,679)	(44,170)
Other	(54,216)	-
Total income tax expense	\$ 3,439,978	\$ 236,446

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## G. Income Taxes - continued

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities at September 30 are as follows:

	2008	2007
Deferred tax assets (liabilities):		
Bad debts allowance	\$ 96,819	\$ 93,560
Goodwill and indefinite lived intangibles	(15,266,648)	(5,019,816)
Property and equipment	(1,815,896)	481,172
Net operating losses	-	154,679
Unrealized (gain)/loss on marketable securities	4,671	(7,008)
Other	213,034	139,365
Valuation allowance	-	(154,679)
Net deferred tax liabilities	\$ (16,768,020)	\$ (4,312,727)

The net deferred tax liabilities are recorded in the balance sheets as follows:

	2008	2007
Current assets	\$ 126,236	\$ 78,772
Long-term liabilities	(16,894,256)	(4,391,499)
Net deferred tax liabilities	\$ (16,768,020)	\$ (4,312,727)

At September 30, 2007, the Company had net operating loss carryforwards related to a subsidiary not included in the Company's consolidated income tax return of approximately \$442,000, which expire in 2027 and were fully reserved with a valuation allowance due to uncertainty of the timing and amounts of future taxable income of this subsidiary. During the year ended September 30, 2008, the remaining 49% of this subsidiary was acquired and the carryforwards were utilized.

During the 2007 fiscal year, the Company realized that certain deferred tax liabilities needed to be recognized relating to prior business acquisitions and recorded these in the September 30, 2007 balance sheet. The offset to the deferred tax liabilities was to goodwill. The recognition of these balance sheet items had no effect on income tax expense for any period.

## H. Stock Options

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") (collectively, "the Plans"). 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.

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## H. Stock Options - continued

Following is a summary of options for the years ended September 30, 2008 and 2007:

		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value at September 30, 2008
Outstanding at October 1, 2006	727,500	\$ 2.70		
Granted	70,000	9.40		
Forfeited	-	-		
Exercised	(252,500)	2.58		
Outstanding at September 30, 2007	545,000	3.60		
Granted	-	-		
Forfeited	-	-		
Exercised	(125,000)	2.78		
Outstanding at September 30, 2008	420,000	\$ 3.86	1.25	\$ 2,502,750
Exercisable at September 30, 2008	410,000	\$ 3.73	1.18	\$ 2,498,550

As of September 30, 2008, the range of exercise prices for outstanding options was \$2.49 - \$9.40.

In August 2007, the Company issued 10,000 stock options to each Director who is a member of the Company's Audit Committee and 5,000 options to the Company's other Directors. These options (50,000 in total) become exercisable on August 24, 2008, have a strike price of \$9.40 per share and expire in August 2009. On the same date, an officer received 20,000 options to purchase shares of the Company's common stock at an exercise price of \$9.40 as compensation. The stock options, which expire on August 24, 2012, vest over two years with 10,000 stock options becoming exercisable on August 24, 2008 and 10,000 stock options becoming exercisable on August 24, 2009.

The fair value of options issued for the year ended September 30, 2007 were estimated to be \$219,170 at the date of grant using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	75%
Expected lives	2.38 years
Expected dividend yield	-
Risk free rates	4.42%
Expected forfeiture rate	14%

The expected lives were determined by using the simplified method in accordance with Staff Accounting Bulletin 107.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions

including the expected stock price volatility. Because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

During the years ended September 30, 2008 and 2007, the Company recorded \$157,080 and \$196,871 of stock-based compensation, respectively. Total unamortized stock compensation expense at September 30, 2008 was \$44,065 and will be fully expensed in fiscal year 2009.

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## I. Commitments and Contingencies

## Leases

The Company leases certain equipment and facilities under operating leases, of which rent expense was approximately \$2,431,000 and \$1,494,000 for the years ended September 30, 2008 and 2007, respectively.

Rent expense for the Company's operating leases, which generally have escalating rentals over the term of the lease, is recorded using the straight-line method over the initial lease term whereby an equal amount of rent expense is attributed to each period during the term of the lease, regardless of when actual payments are made. Generally, this results in rent expense in excess of cash payments during the early years of a lease and rent expense less than cash payments in the later years. The difference between rent expense recognized and actual rental payments is recorded as other long-term liabilities in the consolidated balance sheets.

Future minimum annual lease obligations as of September 30, 2008 are as follows:

2009	\$ 3,261,190
2010	3,233,958
2011	2,280,482
2012	1,947,159
2013	1,940,185
Thereafter	8,873,224
Total future minimum lease obligations	\$ 21,536,198

## Legal Matters

## Sexually Oriented Business Ordinance of Houston, Texas

In 1997, the City of Houston passed a comprehensive new ordinance regulating the location of and the conduct within sexually oriented businesses (the "Ordinance"), which became the subject of litigation, which affects the Company's Sexually Oriented Business licenses in Houston, Texas. After extensive litigation, the Trial Court in Houston rendered its judgment in favor of the City of Houston in January 2007. The Trial Court found that the City of Houston met its burden that there were sufficient alternate sites available to relocate all of the existing sexually oriented businesses in Houston in 1997. The Trial Court found the Ordinance constitutional and enforceable. Post-trial motions were heard and the relief sought, a stay against enforcement, was denied by the Trial Court. An appeal to the Fifth Circuit Court of Appeals was timely filed. The Fifth Circuit granted a stay pending appeal. Oral argument was held before the Fifth Circuit Court of Appeals in August 2007. The Fifth Circuit Court of Appeals ruled in favor of the City of Houston in September 2007. Pleadings were filed seeking a stay against enforcement of the provisions of the Ordinance with the United States Supreme Court in conjunction with the request that the United States Supreme Court hear an appeal of the Fifth Circuit Court of Appeals ruling. The United States Supreme Court refused to hear the matter.

Additionally, the Company filed on behalf of three of the Company's club locations in Houston state court lawsuits seeking judicial review of the results of the amortization process contained within the Ordinance. The amortization process was abated in 1998 due to the possible multiplicity of court actions. The final order by the Trial Court resulted

in the termination of the abatement and allowed the amortization process to continue as provided in the Ordinance. Trial on the amortization cases was held in April 2008. At the conclusion of the trial, the Court ruled that the amortization awards were proper and requested that findings of fact and conclusions of law be submitted to the Court as well as a judgment in the case. A form of judgment has been entered by the Court. The amortization award periods have already expired for the Company's affected clubs. An appeal of the amortization review by the Harris County District Court was filed. A stay sought by the clubs during the appeal was denied. In the event all efforts to stop enforcement activity fail and the City of Houston elects to enforce the judgment, the Company, as well as every other similarly situated sexually oriented business located within the incorporated area of Houston, Texas, will have to either cease providing nude or semi-nude entertainment or develop alternate methods of operating. We have already taken steps to clothe the Company's entertainers in a manner to eliminate the need for licenses and not to be subject to the Ordinance. Approximately 9.4% of the Company's club operation's revenues and 2.2% of income before income taxes for the twelve months ended September 30, 2008 were in Houston, Texas. It is unknown at this time whether this will have a material effect on the Company's operations.

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## I. Commitments and Contingencies - continued

## Other Legal Matters

Beginning January 1, 2008, the Company's Texas clubs became subject to a new state law requiring each club to collect a \$5 surcharge for every club visitor. A lawsuit was filed by the Texas Entertainment Association, 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 has appealed the court's ruling. In Texas, when cities or the State give notice of appeal, it supersedes and suspends the judgment, including the injunction. Therefore, the judgment of the District Court cannot be enforced until the appeals are completed. Given the suspension of the judgment, the State has opted to collect the tax pending the appeal. The Company has paid the tax for the first three calendar quarters under protest and expensed the tax in the accompanying financial statements. The Company's Texas clubs have filed a lawsuit against the State to demand repayment of the taxes.

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

## J. Segment Information

The following information is presented in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company is engaged in adult nightclubs, adult entertainment websites ("Internet") and adult entertainment magazines and trade shows ("Media"). The Company has identified such segments based on management responsibility and the nature of the Company's products, services and costs. There are no major distinctions in geographical areas served as all operations are in the United States. The Company measures segment profit as income from operations. Total assets are those assets controlled by each reportable segment.

The following table sets forth certain information about each segment's financial information for the years ended September 30:

	2008	2007
Business segment sales:		
Night clubs	\$ 58,412,504	\$ 31,283,311
Internet	715,759	730,629
Media	801,215	-
	\$ 59,929,478	\$ 32,013,940
Business segment operating income:		
Night clubs	\$ 17,018,592	\$ 6,643,197
Internet	148,194	111,919
Media	(28,016)	-
General corporate	(3,418,750)	(2,651,430)
	\$ 13,720,020	\$ 4,103,686
Business segment capital expenditures:		

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Night clubs	\$ 11,009,546	\$ 2,821,222
Internet	3,039	2,146
General corporate	19,938,871	2,686,103
	\$ 30,951,456	\$ 5,509,471
Business segment depreciation and amortization:		
Night clubs	\$ 2,015,013	\$ 1,341,346
Internet	15,539	23,056
Media	10,000	-
General corporate	501,131	232,248
	\$ 2,541,683	\$ 1,596,650

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## J. Segment Information - continued

	2008	2007
Business segment assets:		
Night clubs	\$ 97,583,959	\$ 29,738,132
Internet	196,290	110,871
Media	1,128,216	-
General corporate	38,160,341	17,226,757
	\$ 137,068,806	\$ 47,075,760

## K. Common Stock

During the year ended September 30, 2007, the following common stock transactions occurred:

Stock options totaling 252,500 shares were exercised by employees and directors for proceeds of \$650,531. Also, 675,000 shares of the Company's common stock were sold in two private transactions for \$5,345,500, net of offering costs. The Company also sold 125,000 shares subject to put rights for \$1,033,750. The seller of the New York club converted \$75,000 of principal from the related promissory note into 10,000 shares of restricted common stock. The Company issued 84,579 shares of common stock for \$401,751 of principal and interest owed on existing convertible debt.

During the year ended September 30, 2008, the following common stock transactions occurred:

Stock options totaling 125,000 shares were exercised by employees and directors for proceeds of \$347,700. Also, 1,837,000 shares of the Company's common stock were sold in two private transactions for \$27,352,500, net of offering costs. The Company also sold 611,740 shares subject to put rights for \$13,448,594. The Company issued 552,069 shares of common stock for \$2,419,923 of principal and interest owed on existing convertible debt. The Company also issued 60,000 shares in connection with the Las Vegas transaction which were accounted for as a deduction from additional paid in capital of \$108,300 due to the accounting for the related put option shares.

## L. Related Party Transactions

In May 2002, the Company loaned \$100,000 to Eric Langan, Chief Executive Officer of the Company. The note is unsecured, bears interest at 11% and is amortized over a period of ten years. The note contains a provision that in the event Mr. Langan leaves the Company for any reason, the note immediately becomes due and payable in full. The balance of the note was approximately \$61,000 at September 30, 2007 and is included in other assets in the accompanying consolidated balance sheets. The note was paid off in full subsequent to September 30, 2007.

On July 22, 2005, the Company entered into a secured convertible debenture with a greater than 10% shareholder for a principal sum of \$660,000. The debenture matured on August 1, 2009 and bears interest at a rate of 12% per annum. The debenture was converted to 220,000 shares of common stock in July 2008. The Company also issued 50,000 detachable warrants at \$3.00 per share in relation to this debenture. The warrants were exercised in July 2008. The value of the discount on note payable was estimated to be \$106,656 at the date of grant using a Black-Scholes option-pricing model with the following assumptions:



Volatility	138%
Expected life	3 years
Expected dividend yield	-
Risk free rate	4.31%

For the year ended September 30, 2008 and 2007, the Company recorded \$29,627 and \$35,552 of interest expense, respectively. The debenture was secured by the Company's ownership in Citation Land, LLC and RCI Holdings, Inc., both are wholly owned subsidiaries of the Company. The Company has accounted for this transaction under Emerging Issues task Force ("EITF") Issue No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments. The value of the embedded beneficial conversion feature on the note payable was estimated to be \$53,856, which was calculated using the EITF Issue No. 98-5 model. For the years ended September 30, 2008 and 2007, the Company recorded \$14,960 and \$17,952, respectively, of interest expense related to the value of the embedded beneficial conversion feature.

On April 28, 2006, the Company entered into convertible debentures with three shareholders, one of which is a greater than 10% shareholder, for a principal sum of \$825,000. The debentures mature April 30, 2009 and bear interest at a rate of 12% per annum. At the election of the holders, the holders had the right to convert (subject to certain limitations) until April 30, 2008, all or any portion of the principal amount of the debentures into shares of the Company's common stock at a rate of \$6.55 per share, which approximates the closing price of the Company's stock on April 28, 2006. The shares were converted in April 2008 into 125,953 shares of common stock. The shares of Common Stock underlying the principal amount of the debentures had piggyback registration rights and were registered with the SEC in June 2006. The proceeds of the debentures were used for the acquisition of Joint Ventures, Inc.

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RICK'S CABARET INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

K. Related Party Transactions – continued

On November 9, 2006, the Company entered into convertible debentures with three shareholders for a principal sum of \$600,000. The term is for two years and the interest rate is 12% per annum. At the election of the holders, the holders have the right to convert (subject to certain limitations) all or any portion of the principal amount of the debentures into shares of the Company's common stock at a rate of \$7.50 per share, which was higher than the closing price of the Company's stock on November 9, 2006. The debentures provide, absent shareholder approval, that the number of shares of the Company's common stock that may be issued by us or acquired by the holders upon conversion of the debentures shall not exceed 19.99% of the total number of issued and outstanding shares of the Company's common stock. The proceeds of the debentures were used for the acquisition of a 51% ownership interest of Playmates Gentlemen's Club LLC. These debentures matured and were paid in cash in November 2008.

M. Employee Retirement Plan

The Company sponsors a Simple IRA plan (the "Plan"), which covers all of the Company's corporate employees. The Plan allows the corporate employees to contribute up to the maximum amount allowed by law, with the Company making a matching contribution of 3% of the employee's salary. Expenses related to matching contributions to the Plan approximated \$44,000 and \$39,000 for the years ended September 30, 2008 and 2007, respectively.

N. Acquisitions and Dispositions

On April 5, 2006, the Company's wholly owned subsidiary, RCI Holdings, Inc. completed the acquisition of real property located at 9009 Airport Blvd., Houston, Texas where the Company currently operates Club Onyx South (previously Hummers Sports Bar and XTC South clubs). Pursuant to the terms of the agreement, the Company paid a total purchase price of \$1,300,000, which consisted of \$500,000 in cash and 160,000 shares of the Company's restricted common stock. The purchase price of \$1,300,000 was determined to be the fair value of the real property based on the nature of the restrictions of the shares issued in the transaction. As part of the transaction, the Company agreed to file a registration statement for the resale of such restricted common stock within 45 days after the closing. The registration statement became effective on June 23, 2006. Additionally, nine months after the filing of the registration statement, the Seller has the right, but not the obligation, to have the Company buy the shares at a price of \$5.00 per share at a rate of no more than 10,000 shares per month until such time as the Seller receives a total of \$800,000 from the sale of such shares. Alternatively, the Seller has the option to sell such shares in the open market. As of September 30, 2007, 90,000 of the shares of restricted common stock were classified on the consolidated balance sheet as temporary equity in accordance with EITF Topic D-98, Classification and Measurement of Redeemable Securities. During the year ended September 30, 2008, the Seller completed the sale of the related shares and the Company reclassified the 90,000 shares out of temporary to permanent equity. The transaction was the result of arms-length negotiations between the parties.

On November 10, 2006, the Company purchased a 51% ownership interest of Playmates Gentlemen's Club LLC, an operator of an adult nightclub in Austin, Texas. The club is located at 8110 Springdale Street. The purchase price of \$1,533,750 was paid \$500,000 cash at closing and 125,000 shares of the Company's restricted common stock, valued at \$8.27 per share in accordance with EITF 99-12. The club has been converted to a Rick's Austin. As part of the agreement, twelve months after the closing date, the seller has the right, but not the obligation, to have the Company buy the shares at a price of \$8.00 per share at a rate of no more than 5,000 shares per month until such time as the seller receives a total of \$1,000,000 from the sale of such shares. Alternatively, the seller has the option to sell such

shares in the open market. The transaction was the result of arms-length negotiations between the parties.

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

Property and equipment	\$ 633,411
Non-compete agreement	175,000
Goodwill	725,339
Net assets acquired	\$ 1,533,750

The results of operations of this acquired entity are included in the Company's results of operations since November 10, 2006. Proforma results of operations have not been provided, as the amounts were not deemed material to the consolidated financial statements. The transaction follows the Company's growth strategy.

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## N. Acquisitions and Dispositions – continued

On April 23, 2007, the Company completed a transaction for the purchase of 100% of the outstanding common stock of W.K.C., Inc., a Texas corporation (the "Business"), which owned and operated an adult entertainment cabaret known as New Orleans Nights ("New Orleans Nights") located in Fort Worth, Texas. Pursuant to the stock purchase agreement, the Company acquired the Business for a total cash purchase price of \$4,900,000. As part of the transaction, the seller entered a five-year covenant not to compete with the Company or the Business. In addition, RCI Holdings, Inc., the Company's wholly owned subsidiary ("RCI"), entered into an assignment of that certain real estate sales contract between the owner of the property and W.K.C., Inc. for the purchase of the real property located at 7101 Calmont, Fort Worth, Texas 76116 (the "Real Property") where New Orleans Nights is located for a total purchase price of \$2,500,000, which consisted of \$100,000 in cash and \$2,400,000 payable in a six year promissory note to the sellers which will accrue interest at the rate of 7.25% for the first two years, 8.25% for years three and four and 9.25% thereafter (the "Promissory Note"). The Promissory Note is secured by a deed of trust and security agreement. Further, RCI entered into an assignment and assumption of lease agreement with the sellers to assume the lease agreement for the Real Property.

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

Net current assets	\$ 30,489
Property and equipment	2,968,126
Non-compete agreement	100,000
Goodwill	1,561,989
SOB licenses	4,401,512
Deferred tax liability	(1,540,292)
Net assets acquired	\$ 7,521,824

The results of operations of this acquired entity are included in the Company's results of operations since April 24, 2007.

The following unaudited pro forma information for the year ended September 30, 2007, presents the results of operations as if the acquisition had occurred as of October 1, 2006. The pro forma information is not 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.

Revenues	\$ 34,732,721
Net income	3,613,878
Net income per share – basic	\$ 0.63
Net income per share – diluted	\$ 0.58
Weighted average shares outstanding – basic	5,700,548
Weighted average shares outstanding - diluted	6,215,285

On May 10, 2007, the Company entered into a Licensing Agreement with Rick's Buenos Aires Sociedad Anonima ("Licensee"), a corporation organized under the laws of Argentina. The Company agreed to grant Licensee a license for use and exploitation of the Company's logos, trademarks and service marks for the operation of an adult entertainment facility in the city of Buenos Aires, Argentina, and Latin America. Pursuant to the agreement, Licensee agreed to pay the Company a royalty fee equal to 10% of gross revenues of Licensee's business, net of any value added tax. No club has opened as of this time.

On November 30, 2007, the Company entered into a Stock Purchase Agreement for the acquisition of 100% of the issued and outstanding common stock of Stellar Management Corporation, a Florida corporation (the "Stellar Stock") and 100% of the issued and outstanding common stock of Miami Garden Square One, Inc., a Florida corporation (the "MGSO Stock") which owns and operates an adult entertainment cabaret known as "Tootsie's Cabaret" ("Tootsie's") located at 150 NW 183rd Street, Miami Gardens, Florida 33169 (the "Transaction"). Pursuant to the Stock Purchase Agreement, the Company acquired the Stellar Stock and the MGSO Stock from Norman Hickmore ("Hickmore") and Richard Stanton ("Stanton") for a total purchase price of \$25,486,000 (which includes inventory and other assets), payable to the sellers \$15,486,000 in cash, \$10,000,000 pursuant to two secured promissory notes in the amount of \$5,000,000 each to Stanton and Hickmore (the "Notes"), plus estimated transaction costs of

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## N. Acquisitions and Dispositions – continued

\$175,000. The Notes will bear interest at the rate of 14% per annum with the principal payable in one lump sum payment on November 30, 2010. Interest on the Notes will be payable monthly, in arrears, with the first payment being due thirty (30) days after the closing of the Transaction. The Company cannot pre-pay the Notes during the first twelve (12) months; thereafter, the Company may prepay the Notes, in whole or in part, provided that (i) any prepayment by the Company from December 1, 2008 through November 30, 2009, shall be paid at a rate of 110% of the original principal amount and (ii) any prepayment by the Company after November 30, 2009, may be prepaid without penalty at a rate of 100% of the original principal amount. The Notes are secured by the Stellar Stock and MGSO Stock under a Pledge and Security Agreement. As part of the Transaction, Hickmore and Stanton entered into five-year covenants not to compete with the Company. Additionally, as part of the Transaction, the Company entered into Assignment to Lease Agreements with the landlord for the property where Tootsie's is located. The underlying lease agreements for the property provide for an original lease term through June 30, 2014, with two option periods which give the Company the right to lease the property through June 30, 2034. The terms and conditions of the transaction were the result of extensive arm's length negotiations between the parties.

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.

Net current assets	\$ 390,000
Property and equipment and other assets	4,823,020
Non-compete agreement	200,000
Other assets	96,000
Goodwill	7,044,050
SOB licenses	20,125,856
Deferred tax liability	(7,044,050)
Net assets acquired	\$ 25,634,876

The results of operations of this acquired entity are included in the Company's results of operations since December 1, 2007.

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 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 YEAR ENDED SEPTEMBER 30,	
	2008	2007
Revenues	\$ 62,896,132	\$ 50,230,000
Net income	\$ 8,022,159	\$ 6,404,000

Net income per share – basic	\$	1.01	\$	0.93
Net income per share – diluted	\$	0.96	\$	0.87
Weighted average shares outstanding – basic		7,931,121		6,866,000
Weighted average shares outstanding – diluted		8,417,187		7,380,000

On March 31, 2008, the Company’s wholly owned subsidiary, RCI Entertainment (Philadelphia), Inc. (the “Purchaser”) completed the acquisition of 100% of the issued and outstanding shares of common stock (the “TEZ Shares”) of The End Zone, Inc., a Pennsylvania corporation (the “Corporation”) which owns and operates “Crazy Horse Too Cabaret” (the “Club”) located at 2908 South Columbus Blvd., Philadelphia, Pennsylvania 19148 (the “Real Property”) from Vincent Piazza (the “Seller”). As part of the transaction, the Company’s wholly owned subsidiary, RCI Holdings, Inc. (“RCI Holdings”) acquired from the Piazza Family Limited Partnership (the “Partnership Seller”) 51% of the issued and outstanding partnership interest (the “Partnership Interests”) in TEZ Real Estate, LP, a Pennsylvania limited partnership (the “Partnership”) and 51% of the issued and outstanding membership interest (the “Membership Interests”) in TEZ Management, LLC, a Pennsylvania limited liability company, which is the general partner of the Partnership (the “General Partner”). The Partnership owns the Real Property where the Club is located. At closing, the Company paid a purchase price of \$3,500,000 in cash for the Partnership Interests and Membership Interests, and issued 195,000 shares of the Company’s restricted common stock (the “Rick’s Shares”) valued at \$23 per share for the TEZ Shares.

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## N. Acquisitions and Dispositions – continued

As part of the transaction, the Company entered into a Lock-Up/Leak-Out Agreement with the Seller pursuant to which, on or after one year after the closing date, the Seller shall have the right, but not the obligation, to have Rick's purchase from Seller 5,000 Rick's Shares per month (the "Monthly Shares"), calculated at a price per share equal to \$23.00 ("Value of the Rick's Shares"). At the Company's election during any given month, the Company may either buy the Monthly Shares or, if the Company elects 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 Rick's Shares shall be paid by the Company within three (3) business days of the date of sale of the Monthly Shares during that particular month. The Company's obligation to purchase the Monthly Shares from the Seller shall terminate and cease at such time as the Seller has received a total of \$4,485,000 from the sale of the Rick's Shares and any deficiency. As of September 30, 2008, the 195,000 shares of restricted common stock were classified on the consolidated balance sheet as temporary equity in accordance with EITF Topic D-98, Classification and Measurement of Redeemable Securities.

Additionally, at closing, the Seller and the Partnership Seller entered a five-year agreement not to compete with the Company within a twenty (20) mile radius of the Club. Finally, the Corporation entered into a new lease agreement with the Partnership giving it the right to lease the Real Property for twenty (20) years ("Original Term") with an option for an additional nine (9) years eleven (11) eleven months ("Option Term") with rent payable at the rate of (i) \$50,000 per month, subject to adjustment for increases in the Consumer Price Index (CPI) every five years during the Original Term and the Option Term, or (ii) 8% of gross sales, whichever is higher. The maximum increase in the CPI for any five (5) year period shall be 15%.

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.

Property and equipment and other assets	\$ 3,882,885
Non-compete agreement	100,000
Goodwill	1,458,583
SOB licenses	4,207,770
Deferred tax liability	(1,458,583)
Net assets acquired	\$ 8,190,655

The results of operations of this acquired entity are included in the Company's results of operations since March 31, 2008.

Proforma results of operations have not been provided, as the amounts were not deemed material to the consolidated financial statements. The transaction follows the Company's growth strategy.

On March 31, 2008, the Company's subsidiary, RCI Entertainment (Austin), Inc. ("RCI"), completed the acquisition of 49% of the membership interest of Playmates Gentlemen's Club, LLC ("Playmates") from Behzad Bahrami ("Seller"), resulting in 100% ownership by the Company of RCI. Playmates owns an adult entertainment cabaret known as



“Playmates” (the “Club”) located at 8110 Springdale Road, Austin, Texas 78724 (the “Premises”). Under the terms of the Purchase Agreement, RCI paid a total purchase price of \$1,401,711 which was paid \$701,711 in cash and debt forgiveness at the time of closing and the issuance of 35,000 shares of the Company’s restricted common stock valued at \$20.00 per share (the “Shares”). For accounting purposes, the Company’s investment is only \$751,000, due to the previous losses of the minority interest which have been expensed. The investment has been assigned to goodwill.

Pursuant to the terms of the Purchase Agreement, on or after one year after the closing date, the Seller shall have the right, but not the obligation to have the Company purchase from Seller 5,000 Shares per month (the “Monthly Shares”), calculated at a price per share equal to \$20.00 (“Value of the Shares”). Seller shall notify the Company during any given month of its election to “Put” the Monthly Shares to the Company during that particular month. At the Company’s election during any given month, the Company may either buy the Monthly Shares or, if the Company elects 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 the Company within three (3) business days of the date of sale of the Monthly Shares during that particular month. The Company’s obligation to purchase the Monthly Shares from the Seller shall terminate and cease at such time as the Seller has received a total of \$700,000 from the sale of the Shares. As of September 30, 2008, the 35,000 shares of restricted common stock were classified on the consolidated balance sheet as temporary equity in accordance with EITF Topic D-98, Classification and Measurement of Redeemable Securities.

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RICK'S CABARET INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

N. Acquisitions and Dispositions – continued

In the event the Seller elects not to "Put" the Shares to the Company, the Seller shall not sell more than 10,000 Shares during any 90-day period in the open market, provided that Seller complies with Rule 144 of the Securities Act of 1933, as amended, in connection with his sale of the Shares.

The full results of operations of this entity are included in the Company's results of operations since March 31, 2008.

In April 11, 2008, the Company's wholly owned subsidiary, RCI Entertainment (Dallas), Inc., completed the acquisition of 100% of the issued and outstanding partnership interest (the "Partnership Interest") of Hotel Development - Texas, Ltd, a Texas limited partnership (the "Partnership") and 100% of the issued and outstanding membership interest (the "Membership Interest") of HD-Texas Management, LLC, a Texas limited liability company, the general partner of the Partnership (the "General Partner") from Jerry Golding, Kenneth Meyer, and Charles McClure (the "Sellers"). The Partnership owns and operates an adult entertainment cabaret known as "The Executive Club" (the "Club"), located at 8550 North Stemmons Freeway, Dallas, Texas 75247 (the "Real Property"). As part of the transaction, the Company's wholly owned subsidiary, RCI Holdings, Inc. ("RCI"), also acquired the Real Property from DPC Holdings, LLC, a Texas limited liability company ("DPC").

At closing, the Company paid a total purchase price of \$3,590,609 for the Partnership Interest and Membership Interest, which was paid through the issuance of 50,694 shares of the Company's restricted common stock to each of Messrs. Golding, Meyer and McClure, for an aggregate total of 152,082 shares (collectively, the "Rick's Club Shares") to be valued at \$23.30 per share (\$3,544,119) and \$46,490 in cash. As consideration for the purchase of the Real Property, RCI paid total consideration of \$5,599,721, which was paid (i) \$4,250,000, payable \$610,000 in cash and \$3,640,000 through the issuance of a five year promissory note (the "Promissory Note") and (ii) the issuance of 57,918 shares of the Company's restricted common stock (the "Rick's Real Property Shares") to be valued at \$23.30 per share (\$1,349,721). The Promissory Note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), and is guaranteed by Rick's and Eric Langan, individually. At Closing, the Parties entered into an Amendment to Purchase Agreement solely to provide for the Sellers to set aside 10,500 Rick's Club Shares under an Escrow Agreement for the offset of certain liabilities of the Partnership. The Company also incurred costs in the amount of \$37,848, which was paid in cash.

At Closing, the Sellers entered into Lock-Up/Leak-Out Agreements pursuant to which on or after one year after the closing date, the Sellers shall have the right, but not the obligation to have Rick's purchase from Sellers not more than an aggregate of 3,621 Shares per month (the "Monthly Club Shares"), calculated at a price per share equal to \$25.00 per share ("Value of the Rick's Club Shares") until each of the individual Sellers has received a total of \$1,267,350 from the sale of the Rick's Club Shares. At the Company's election during any given month, the Company may either buy the Monthly Club Shares or, if the Company elects not to buy the Monthly Club Shares from the Sellers, then the Sellers shall sell the Monthly Club Shares in the open market. Any deficiency between the amount, which the Sellers receive from the sale of the Monthly Club Shares and the Value of the Rick's Club Shares shall be paid by the Company within three (3) business days of the date of sale of the Monthly Club Shares during that particular month. The Company's obligation to purchase the Monthly Club Shares from the Sellers shall terminate and cease at such time as the Sellers have received an aggregate total of \$3,802,050 from the sale of the Rick's Club Shares and any deficiency.

Additionally, at Closing, DPC entered into a Lock-Up/Leak-Out Agreement pursuant to which on or after one year after the closing date, DPC shall have the right, but not the obligation to have Rick's purchase from DPC 1,379 Shares per month (the "Monthly Real Estate Shares"), calculated at a price per share equal to \$25.00 per share ("Value of the Rick's Real Estate Shares") until DPC has received a total of \$1,447,950 from the sale of the Rick's Real Estate Shares. At the Company's election during any given month, the Company may either buy the Monthly Real Estate Shares or, if the Company elects not to buy the Monthly Real Estate Shares from DPC, then DPC shall sell the Monthly Real Estate Shares in the open market. Any deficiency between the amount which DPC receives from the sale of the Monthly Real Estate Shares and the Value of the Rick's Real Estate Shares shall be paid by the Company within three (3) business days of the date of sale of the Monthly Real Estate Shares during that particular month. The Company's obligation to purchase the Monthly Real Estate Shares from DPC shall terminate and cease at such time as DPC has received an aggregate total of \$1,447,950 from the sale of the Rick's Real Estate Shares and any deficiency.

Finally, at Closing each of the Sellers entered a five year Non-Competition Agreement with the Company pursuant to which they agreed not to compete with the Company in Dallas County or any adjacent county.

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## N. Acquisitions and Dispositions – continued

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.

Net current assets	\$ 34,445
Property and equipment and other assets	6,264,850
Non-compete agreement	300,000
Goodwill	977,082
SOB licenses	2,640,763
Deferred tax liability	(977,082)
Net assets acquired	\$ 9,240,058

The results of operations of this entity are included in the Company's results of operations since April 11, 2008.

Proforma results of operations have not been provided, as the amounts were not deemed material to the consolidated financial statements. The transaction follows the Company's growth strategy.

On June 18, 2008, the Company's wholly owned subsidiary RCI Entertainment (Northwest Highway), Inc. (the "Purchaser") completed the acquisition of certain assets (the "Purchased Assets") of North by East Entertainment, Ltd., a Texas limited partnership (the "Seller") by and through its general partner, Northeast Platinum, LLC, a Texas limited liability company (the "General Partner") pursuant to an Asset Purchase Agreement dated May 10, 2008. The Seller owned and operated an adult entertainment cabaret known as "Platinum Club II" (the "Club"), located at 10557 Wire Way (at Northwest Highway), Dallas, Texas 75220 (the "Real Property").

At closing, the Company paid a total purchase price of \$1,500,000 cash for the Purchased Assets. At Closing, the principal of the Seller entered into a five-year agreement not to compete with the Club by operating an establishment with an urban theme that both serves liquor and provides live female nude or semi-nude adult entertainment in Dallas County, Tarrant County, Texas or any of the adjacent counties thereto.

As part of the transaction, the Company's wholly owned subsidiary RCI Holdings, Inc. ("RCI") also acquired the Real Property from Wire Way, LLC, a Texas limited liability company ("Wire Way"). Pursuant to a Real Estate Purchase and Sale Agreement (the "Real Estate Agreement") dated May 10, 2008, RCI paid total consideration of \$6,000,000, which was paid \$1,650,000 in cash and \$4,350,000 through the issuance of a five (5) year promissory note (the "Promissory Note"). The Promissory Note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), which is guaranteed by the Company and by Eric Langan, the Company's Chief Executive Officer, individually. The Company also incurred \$69,998 in costs, which was paid in cash.

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.

Net current assets	\$ 151,784
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Property and equipment and other assets	6,000,000
Non-compete agreement	100,000
Goodwill	1,402,970
Other assets	43,500
Net assets acquired	\$ 7,698,254

The full results of operations of this entity are included in the Company's results of operations since June 18, 2008.

Proforma results of operations have not been provided, as the amounts were not deemed material to the consolidated financial statements. The transaction follows the Company's growth strategy.

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RICK'S CABARET INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

N. ACQUISITIONS AND DISPOSITIONS – continued

On September 5, 2008, the Company's wholly owned subsidiary RCI Entertainment (Las Vegas), Inc. (the "Purchaser") completed the acquisition of certain assets (the "Purchased Assets") of DI Food & Beverage of Las Vegas, LLC, a Nevada limited liability company (the "Seller") pursuant to a Third Amended Asset Purchase Agreement (the "Third Amendment") between Purchaser,

Rick's Cabaret International, Inc. ("Rick's"), Seller, and Harold Danzig ("Danzig"), Frank Lovaas ("Lovaas") and Dennis DeGori ("DeGori") who are all members of Seller. The Seller owned and operated an adult entertainment cabaret known as "Scores" (the "Club"), located at 3355 Procyon Street, Las Vegas, Nevada 89102 (the "Real Property").

At Closing, Purchaser paid Seller an aggregate amount as follows (the "Purchase Price"):

- (i) \$12,000,000 payable by wire transfer;
- (ii) \$3,000,000 pursuant to a promissory note ("the Rick's Promissory Note"), executed by and obligating Rick's, bearing interest at eight percent (8%) per annum with a five (5) year amortization, with monthly payments of principal and interest, with the initial monthly payment due in April 2009 with a balloon payment of all then outstanding principal and interest due upon the expiration of two (2) years from the execution of the Rick's Promissory Note; and
- (iii) 200,000 shares of restricted common stock, par value \$0.01 of Rick's (the "Rick's Shares") issued to the Seller, valued at \$13.77 per share

As part of the transaction, the Company entered into a Lock-Up/Leak-Out Agreement with the Seller pursuant to which, on or after seven (7) months after the closing date, the Seller shall have the right, but not the obligation, to have Rick's purchase from Seller a total of 150,000 of the Rick's Shares ("Rick's Put Share") in an amount and at a rate of not more than 6,250 of the Rick's Put Shares per month (the "Monthly Shares") calculated at a price per share equal to \$20.00 per share ("Value of the Rick's Shares"). At the Company's election during any given month, the Company may either buy the Monthly Shares or, if the Company elects 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 Rick's Shares shall be paid by us within three (3) business days of the date of sale of the Monthly Shares during that particular month. The Company's obligation to purchase the Monthly Shares from the Seller shall terminate and cease at such time as the Seller has received a total of \$3,000,000 from the sale of the Rick's Shares and any deficiency. Under the terms of the Lock-Up/Leak-Out Agreement, Seller may not sell more than 25,000 Rick's Shares per 30-day period, regardless of whether the Seller "Puts" the Rick's Put Shares to Rick's or sells them in the open market or otherwise.

Upon closing of the transaction, the Company entered a two-year Non-Compete Agreement with DeGori (the "DeGori Non-Compete Agreement") pursuant to which DeGori agreed not to compete with the Club by operating an establishment serving liquor and providing live female nude or semi-nude adult entertainment in Clark County, Nevada or in a radius of 25 miles of Clark County, Nevada; provided, however, that the Non-Competition Agreement specifically excluded the Penthouse Club and the Bada Bing Club located in Clark County, Nevada. The Company agreed to pay DeGori cash consideration of \$66,667 for entering into the Non-Competition Agreement. Additionally, at Closing, the Company also entered into a 12-month Consulting Agreement with DeGori (the "Consulting

Agreement”) for a total aggregate of \$133,333 in consulting fees payable in eighteen (18) equal monthly payments of \$7,407.38 per month with the first payment due October 15, 2008.

Upon closing of the transaction, the Company entered a one-year Non-Compete Agreement with Lovaas (the “Lovaas Non-Compete Agreement”) pursuant to which Lovaas agreed not to compete with the Club by operating an establishment serving liquor and providing live female nude or semi-nude adult entertainment in Clark County, Nevada, or any of its surrounding counties; provided, however, that this Non-Competition Agreement shall specifically exclude the Penthouse Club and the Bada Bing Club located in Clark County, Nevada.

The Company incurred \$326,830 in costs in connection with the acquisition.

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## N. ACQUISITIONS AND DISPOSITIONS – continued

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.

Net current assets	\$ 112,885
Property and equipment and other assets	1,953,065
Non-compete agreement	100,000
Goodwill	15,981,548
Net assets acquired	\$ 18,147,498

The results of operations of this acquired entity are included in the Company's results of operations since September 5, 2008.

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 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 YEAR ENDED SEPTEMBER 30,	
	2008	2007
Revenues	\$ 76,508,029	\$ 50,567,000
Net income	\$ 9,006,947	\$ 4,462,000
Net income per share – basic	\$ 1.11	\$ 0.68
Net income per share – diluted	\$ 1.05	\$ 0.64
Weighted average shares outstanding – basic	8,131,121	6,573,000
Weighted average shares outstanding – diluted	8,617,187	7,087,000

The following unaudited pro forma information presents the results of operations as if the acquisitions of W.K.C., Inc., Miami Gardens Square One, Inc. and DI Food and Beverage of Las Vegas, LLC had occurred as of the beginning of the immediate preceding period. The pro forma information is not 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 YEAR ENDED SEPTEMBER 30,	
	2008	2007



Revenues	\$ 79,474,683	\$ 71,501,841
Net income	\$ 9,368,439	\$ 8,370,080
Net income per share – basic	\$ 1.15	\$ 1.18
Net income per share – diluted	\$ 1.10	\$ 1.11
Weighted average shares outstanding – basic	8,131,121	7,065,548
Weighted average shares outstanding – diluted	8,617,187	7,580,285

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RICK'S CABARET INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

N. ACQUISITIONS AND DISPOSITIONS – continued

Media Acquisitions

On April 15, 2008, the Company's wholly owned subsidiary, RCI Entertainment (Media Holdings), Inc., a Texas corporation ("RCI Media"), acquired 100% of the issued and outstanding common stock (the "ED Stock") of ED Publications, Inc., a Texas corporation ("ED"), 100% of the issued and outstanding common stock (the "TEEZE Stock") of TEEZE International, Inc., a Delaware corporation ("TEEZE") and 100% of the issued and outstanding membership interest (the "Membership Interest") of Adult Store Buyers Magazine, LLC, a Georgia limited liability company.

ED Publications, Inc.

Under the terms of a Purchase Agreement between Don Waitt ("Waitt"), RCI Media and Rick's Cabaret International, Inc. ("Rick's") dated April 15, 2008 (the "ED Purchase Agreement"), the Company agreed to pay Waitt the following consideration for the purchase of the ED Stock:

- (i) \$300,000 cash at closing;
- (ii) \$200,000 cash payable in 6 months; and
- (iii) The issuance of 8,696 shares of restricted common stock valued at \$23.00 per share (the "Closing Shares").

Additionally, during the three (3) year period following the Closing Date (the "Earn Out Period"), Waitt shall be entitled to earn additional consideration (the "Additional Consideration") of up to \$2,000,000 (the "Maximum Amount") consisting of \$500,000 cash (the "Cash") and 65,217 shares of restricted common stock valued at \$23.00 per share (the "Earn Out Shares"), based upon the earnings before income tax, depreciation and amortization ("EBITDA") of RCI Media. RCI Media will pay the Maximum Amount of the Additional Consideration to the Seller if RCI Media's EBITDA during the three (3) year period following the Closing Date totals an aggregate of \$2,400,000. At the end of each twelve (12) month period after the Closing Date, RCI Media shall determine its EBITDA and shall pay to Waitt any such portion of the Additional Consideration as has been earned. The Closing Shares and Earn Out Shares are collectively referred to as the "Rick's Shares".

At Closing, Waitt entered into a Lock-Up/Leak-Out Agreement with the Company pursuant to which on or after one year after the closing date with respect to the Closing Shares, or on or after seven (7) months from the date of issuance with respect to the Earn Out Shares, if any, Waitt shall have the right, but not the obligation to have with respect to the Earn Out Shares, if any, Waitt shall have the right, but not the obligation to have Rick's purchase from Waitt 5,000 Rick's Shares per month (the "Monthly Shares"), calculated at a price per share equal to \$23.00 per share ("Value of the Rick's Shares") until Waitt has received an aggregate of \$1,700,000 (i) from the sale of the Rick's Shares sold in the open market or in a private transaction or otherwise, and (ii) the payment of any deficiency (as defined in the ED Purchase Agreement) by Rick's. At the Company's election during any given month, the Company may either buy the Monthly Shares or, if the Company elects not to buy the Monthly Shares from Waitt, then Waitt shall sell the Monthly Shares in the open market. Any deficiency between the amount which Waitt receives from the sale of the Monthly Shares and the Value of the Rick's Shares shall be paid by the Company within three (3) business days of the date of sale of the Monthly Shares during that particular month. The Company's obligation to purchase the Monthly Shares

from Waitt shall terminate and cease at such time as Waitt has received an aggregate total of \$1,700,000 from the sale of the Rick's Shares and any deficiency (as defined in the ED Purchase Agreement).

At Closing, Waitt also entered a three (3) year Employment Agreement with RCI Media (the "Employment Agreement") pursuant to which he will serve as President. The Employment Agreement extends through April 15, 2011, and provides for an annual base salary of \$250,000. Pursuant to the Employment Agreement, Mr. Waitt is also eligible to participate in all benefit plans maintained by the Company for salaried employees. Under the terms of the Employment Agreement, Mr. Waitt is bound to a confidentiality provision and cannot compete with the Company upon the expiration of the Employment Agreement.

#### TEEZE/Adult Store Buyers Magazine LLC

Under the terms of a Purchase Agreement between John Cornetta ("Cornetta"), Waitt, RCI Media and Rick's dated April 15, 2008 (the "TEEZE/ASB Purchase Agreement"), the Company agreed to pay the following consideration to Cornetta and Waitt for the purchase of the TEEZE Stock and the Membership Interest:

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## N. ACQUISITIONS AND DISPOSITIONS – continued

(i) an aggregate of \$200,000 cash at closing; and

(ii) the issuance of 6,522 shares of restricted common stock to each of Messrs. Waitt and Cornetta, for an aggregate of 13,044 shares of restricted common stock to be valued at \$23.00 per share (the "Rick's TEEZE Shares").

Pursuant to the TEEZE/ASB Purchase Agreement, on or after one year after the closing date, each of Messrs. Waitt and Cornetta shall have the right, but not the obligation to have Rick's purchase the Rick's TEEZE Shares calculated at a price per share equal to \$23.00 per share ("Value of the Rick's TEEZE Shares") until Messrs. Waitt and Cornetta have each received \$150,000 (i) from the sale of the Rick's TEEZE Shares sold by them, regardless of whether sold to Rick's, sold in the open market or in a private transaction or otherwise, and (ii) the payment of any deficiency (as defined in the TEEZE/ASB Purchase Agreement) by Rick's. At the Company's election during any given month, the Company may either buy the Rick's TEEZE Shares or, if the Company elects not to buy the Rick's TEEZE Shares, then Cornetta and/or Waitt shall sell the Rick's TEEZE Shares in the open market. Any deficiency between the amount which Cornetta or Waitt receives from the sale of the Rick's TEEZE Shares and the Value of the Rick's TEEZE Shares shall be paid by the Company within three (3) business days of the date of sale of the Rick's TEEZE Shares during that particular month. The Company's obligation to purchase the Rick's TEEZE Shares shall terminate and cease at such time as Waitt and Cornetta have each received \$150,000 from the sale of the Rick's TEEZE Shares and any deficiency.

At Closing, Cornetta entered a five year Non-Competition Agreement with the Company pursuant to which he agreed not to compete with the Company either directly or indirectly with TEEZE, ASB, RCI Media, Rick's or any of their affiliates by publishing any sexually oriented industry trade print publications, with the exception of a publication known as "Xcitement" which is currently owned and operated by Cornetta.

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 for the ED Publications, Inc., Adult Store Buyers Magazine LLC, and TEEZE International, Inc. acquisitions. Subsequent adjustments may be recorded upon the completion of the valuation and the final determination of the purchase price allocation.

Net current assets	\$ 469,378
Non-compete agreement	100,000
Goodwill	567,125
Net current liabilities	(66,749)
Net assets acquired	\$ 1,069,754

The results of operations of these entities are included in the Company's results of operations since April 15, 2008.

Proforma results of operations have not been provided, as the amounts were not deemed material to the consolidated financial statements. The transaction follows the Company's growth strategy.

## P. Subsequent Events

Subsequent to the fiscal year end, the Company purchased 48,200 shares of common stock at prices ranging from \$3.54 to \$5.95.

Certain related party debentures aggregating \$600,000 matured and were paid in cash in November 2008.

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## RICK'S CABARET INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## Q. Quarterly Results of Operations (Unaudited)

	Fiscal Year 2008			
	Quarters Ended			
	Dec. 31	March 31	June 30	Sept. 30
Revenues	\$ 10,954,338	\$ 15,464,260	\$ 16,278,461	\$ 17,232,419
Net income	\$ 1,783,272	\$ 2,605,380	\$ 1,829,204	\$ 1,442,811
Basic net income per share	\$ 0.26	\$ 0.34	\$ 0.22	\$ 0.16
Diluted net income per share	\$ 0.24	\$ 0.32	\$ 0.21	\$ 0.15
Basic weighted average shares outstanding	6,806,234	7,561,163	8,240,914	9,116,171
Diluted weighted average shares outstanding	7,635,326	8,473,497	8,860,699	9,378,452
	Fiscal Year 2007			
	Quarters Ended			
	Dec. 31	March 31	June 30	Sept. 30
Revenues	\$ 7,030,129	\$ 7,569,589	\$ 8,446,351	\$ 8,968,243
Net income	\$ 352,954	\$ 492,344	\$ 1,031,727	\$ 1,178,208
Basic net income per share	\$ 0.07	\$ 0.09	\$ 0.17	\$ 0.19
Diluted net income per share	\$ 0.06	\$ 0.09	\$ 0.16	\$ 0.18
Basic weighted average shares outstanding	5,141,489	5,365,602	6,112,678	6,182,423
Diluted weighted average shares outstanding	5,433,024	5,647,442	6,789,647	6,865,947