RICKS CABARET INTERNATIONAL INC
Form 10QSB
May 15, 2006

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

FORM 10-QSB

[X] Quarterly report pursuant to Section 13 Or 15(d) of the Securities Exchange Act of 1934; For the quarterly period ended: March 31, 2006

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

Commission File Number: 0-26958

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

On May 5, 2006, there were 4,901,148 shares of common stock, $.01 par value, outstanding.

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

RICK'S CABARET INTERNATIONAL, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

ASSETS

	3/31/06 (UNAUDITED)	9/30/05 (AUDITED)
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,473,186	$ 480,330
Accounts receivable		
Trade	231,152	310,692
Other, net	140,009	118,872
Marketable securities	51,164	28,919
Inventories	226,254	257,626
Prepaid expenses and other current assets	257,802	87,991
Total current assets	2,379,567	1,284,430
PROPERTY AND EQUIPMENT:		
Buildings, land and leasehold improvements	13,663,451	13,630,778
Furniture and equipment	3,276,540	3,019,445
	16,939,991	16,650,223
Accumulated depreciation	(3,690,565)	(3,233,468)
Total property and equipment, net	13,249,426	13,416,755
OTHER ASSETS:		

Goodwill and indefinite lived intangibles	9,836,560	9,836,560
Definite lived intangibles, net	115,089	126,262
Other	350,936	365,011
Total other assets	10,302,585	10,327,833
Total assets	$25,931,578	$25,029,018

See accompanying notes to consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	3/31/06 (UNAUDITED)	9/30/05 (AUDITED)
CURRENT LIABILITIES:		
Accounts payable - trade	$ 510,442	$ 1,034,508
Accrued liabilities	702,328	852,865
Current portion of long-term debt	948,898	1,349,894
Line of credit	---	94,888
Total current liabilities	2,161,668	3,332,155
Other long-term liabilities	258,674	193,648
Long-term debt less current portion	11,650,845	11,896,942
Total liabilities	14,071,187	15,422,745
COMMITMENTS AND CONTINGENCIES	---	---
MINORITY INTERESTS	32,681	31,337
STOCKHOLDERS' EQUITY:		
Preferred stock, $.10 par, 1,000,000 shares authorized; none issued and outstanding	---	---
Common stock, $.01 par, 15,000,000 shares authorized; 5,499,678 and 5,220,678 shares issued	54,997	52,207
Additional paid-in capital	14,000,780	13,004,567
Accumulated other comprehensive income	37,817	15,572
Accumulated deficit	(972,104)	(2,203,630)
Less 908,530 shares of common stock held in treasury, at cost	(1,293,780)	(1,293,780)
Total stockholders' equity	11,827,710	9,574,936
Total liabilities and stockholders' equity	$25,931,578	$25,029,018

See accompanying notes to consolidated financial statements.

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

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2006	2005	2006	2005
	(UNAUDITED)		(UNAUDITED)	
Continuing Operations:				
Revenues:				
Sales of alcoholic beverages	$2,215,489	$1,192,768	$4,385,484	$2,403,044
Sales of food and merchandise	677,275	413,996	1,315,999	791,098
Service revenues	2,841,119	1,586,890	5,435,920	3,092,841
Internet revenues	203,751	180,729	412,909	367,960
Other	181,882	69,007	348,941	120,657
Total revenues	6,119,516	3,443,390	11,899,253	6,775,600
Operating expenses:				
Cost of goods sold	745,295	448,165	1,454,533	845,935
Salaries and wages	1,678,813	1,203,595	3,348,524	2,411,544
Other general and administrative:				
Taxes and permits	779,450	477,037	1,474,765	921,627
Charge card fees	104,074	55,609	206,310	115,296
Rent	296,732	105,875	593,578	177,823
Legal and professional	185,288	178,753	335,946	346,079
Advertising and marketing	315,882	215,796	606,550	357,602
Depreciation and amortization	235,788	140,453	468,269	267,242
Other	814,713	618,081	1,663,127	1,177,199
Total operating expenses	5,156,035	3,443,364	10,151,602	6,620,347
Income from continuing operations	963,481	26	1,747,651	155,253
Other income (expense):				
Interest income	8,950	11,556	15,386	20,745
Interest expense	(271,469)	(167,835)	(534,521)	(256,949)
Minority interests	(2,731)	(6,877)	(1,344)	(6,414)
Other	7,839	46	4,354	(734)
Net income (loss) from continuing operations	706,070	(163,084)	1,231,526	(88,099)
Discontinued operations:				
Loss from discontinued operations	---	(66,825)	---	(148,294)
Gain on sale of subsidiary	---	291,987	---	291,987
Net income	$ 706,070	$ 62,078	$ 1,231,526	$ 55,594
Basic and diluted earnings (loss) per share:				
Income (loss) from continuing operations	$ 0.16	$ (0.04)	$ 0.28	$ (0.02)
Income from discontinued operations	---	0.06	---	0.04

Net income, basic	$ 0.16	$ 0.02	$ 0.28	$ 0.02
Net income, diluted	$ 0.14	$ 0.02	$ 0.26	$ 0.01
Weighted average number of common shares outstanding:				
Basic	4,408,237	3,782,481	4,364,649	3,741,315
Diluted	5,347,386	3,964,987	4,973,583	3,923,821

Comprehensive income (loss) for the three months ended March 31, 2006 and 2005 were $728,315 and $28,710, and for the six months were $1,253,771 and ($22,265), respectively. This includes the changes in available-for-sale securities and net income (loss).

See accompanying notes to consolidated financial statements.

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

	SIX MONTHS ENDED MARCH 31, 2006 (UNAUDITED)	2005 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (loss) from continuing operations	$ 1,231,526	$ (88,099)
Adjustments to reconcile income (loss) from continuing operations to cash provided by operating activities:		
Depreciation and amortization	468,269	267,242
Issuance of warrants	17,777	---
Minority interests	1,344	6,414
Stocks issued for professional services	---	27,120
Changes in operating assets and liabilities	(697,031)	813,580
Cash provided by operating activities	1,021,885	1,026,257
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(289,768)	(988,626)
Proceeds from sale of discontinued operations	---	550,000
Acquisition of business, net of cash acquired	---	(2,650,000)
Payments for notes receivable	21,493	(10,012)
Cash used in investing activities	(268,275)	(3,098,638)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	75,000	474,650
Proceeds from stock options exercised	249,003	---
Proceeds from long-term debt	1,035,425	3,802,000
Payments on line-of-credit	(94,888)	---
Payments on long-term debt	(1,025,294)	(488,973)
Cash provided by financing activities	239,246	3,787,677
CASH FLOW FROM DISCONTINUED OPERATIONS:		

Cash provided by operating activities	---	200,042
Cash used in investing activities	---	(402,585)
Cash used in financing activities	---	(176,089)
Cash used in discontinued operations	---	(378,632)
NET INCREASE IN CASH	992,856	1,336,664
CASH AT BEGINNING OF PERIOD	480,330	275,243
CASH AT END OF PERIOD	$ 1,473,186	$ 1,611,907
CASH PAID DURING PERIOD FOR:		
Interest	$ 552,227	$ 242,151

Non-cash transactions:

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

In March 2006, the seller of the New York club converted $675,000 of principal from the related promissory note into 150,000 shares of restricted common stock.

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. They do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the financial statements for the year ended September 30, 2005 included in the Company's Annual Report on Form 10-KSB, as amended and filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-KSB. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the three months and six months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending September 30, 2006.

2. STOCK OPTIONS

The Company accounts for its stock options under the recognition and measurement principles of Accounting Principles Board ("APB") opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the

Company had applied the fair value recognition provisions of Statement of Financial Accounting Standard ("SFAS") No. 123, Accounting for Stock Based Compensation, to stock-based employee compensation. The following presents pro forma net income (loss) and per share data as if a fair value accounting method had been used to account for stock-based compensation:

	FOR THE THREE MONTHS ENDED MARCH 31, 2006	FOR THE THREE MONTHS ENDED MARCH 31, 2005	FOR THE SIX MONTHS ENDED MARCH 31, 2006	FOR THE SIX MONTHS ENDED MARCH 31, 2005
Net income, as reported	$ 706,070	$ 62,078	$1,231,526	$ 55,594
Less total stock-based employee compensation expense determined under the fair value based method for all awards	(135,630)	(128,393)	(271,260)	(256,786)
Pro forma net income (loss)	$ 570,440	$ (66,315)	$ 960,266	$(201,192)
Earnings (loss) per share:				
Basic - as reported	$ 0.16	$ 0.02	$ 0.28	$ 0.02
Diluted - as reported	$ 0.14	$ 0.02	$ 0.26	$ 0.01
Basic - pro forma	$ 0.13	$ (0.02)	$ 0.22	$ (0.05)
Diluted - pro forma	$ 0.11	$ (0.02)	$ 0.19	$ (0.05)

3. RECLASSIFICATIONS

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

4. COMPREHENSIVE INCOME

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

5. COMMON STOCK

On October 11, 2005, 10,000 stock options were exercised by one of the Company's directors for proceeds of $21,300. In January 2006, 54,000 stock options were exercised by the Company's employees for proceeds of $138,240 and in February 2006, 10,000 stock options by one of the Company's directors for $25,400. Also, 30,000 shares of the Company's common stock was sold to a non-employee for $75,000 in January 2006. In March 2006, a non-employee exercised 25,000 stock options for $64,063 and the seller of the New York club converted $675,000 of principal from the related promissory note into 150,000 shares of restricted common stock.

6. SEGMENT INFORMATION

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

	FOR THE THREE MONTHS ENDED MARCH 31, 2006	FOR THE THREE MONTHS ENDED MARCH 31, 2005	FOR THE SIX MONTHS ENDED MARCH 31, 2006	FOR THE SIX MONTHS ENDED MARCH 31, 2005
REVENUES				
Club operations	$5,915,580	$3,262,661	$11,484,298	$ 6,407,640
Internet websites	203,936	180,729	414,955	367,960
	$6,119,516	$3,443,390	$11,899,253	$ 6,775,600
NET INCOME				
Club operations	$1,317,697	$ 317,999	$ 2,340,205	$ 947,568
Internet websites	30,447	27,226	79,296	58,412
Corporate expenses	(642,074)	(508,309)	(1,187,975)	(1,094,079)
Discontinued operations	---	225,162	---	143,693
	$ 706,070	$ 62,078	$ 1,231,526	$ 55,594

7. REVENUE RECOGNITION

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

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

If the Company had deferred membership revenue and recognized it based on the lives above, the impact on revenue and net income recognized would have been an increase of approximately $0 and $4,243 for the three months and an increase of $0 and $3,936 for the six months ended March 31, 2006 and 2005, respectively. This would have also resulted in a deferred revenue balance of approximately $0 and $2,066 as of March 31, 2006 and 2005, respectively. Management does not believe the impact of this difference in accounting treatment is material to the Company's annual and quarterly financial statements. However, the Company began to record revenues in such manner effective January 1, 2004, and hence as of March 31, 2006 deferred revenues of approximately $19,200 have been recorded related to such memberships.

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

8. LONG-TERM DEBT

On 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 is required to make three quarterly interest payments beginning May 1, 2006. Thereafter, the Company is required to make nine equal quarterly principal and interest payments. At any time after 366 days from the date of issuance of this Debenture, the Company has the right to redeem the Debenture in whole or in part at any time during the term of the Debenture. At the election of the Holder, the Holder has the right at any time to convert all or any portion of the principal or interest amount of the Debenture into shares of our common stock at a rate of $4.75 per share, which approximates the closing price of the Company's stock on February 6, 2006. The proceeds of the Debenture was used to

8. LONG-TERM DEBT (CONTINUED)

payoff certain debt and increase our working capital.

9. ACQUISITIONS AND DISPOSITIONS

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

The following 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 THREE MONTHS ENDED MARCH 31, 2005	FOR THE SIX MONTHS ENDED MARCH 31, 2005

Revenues	$	3,443,390	$	7,261,600
Net income (loss) from continuing operations	$	(163,084)	$	(368,099)
Net income (loss)	$	62,078	$	(224,406)
Net income (loss) per share - basic and diluted	$	0.02	$	(0.06)

On March 31, 2005, the Company completed the sale of one of its clubs known as 'Rick's South' to MBG Acquisition LLC for $550,000 cash. In connection with the sale, the Company recorded a gain of $291,987. The club's business was accounted for as discontinued operations under accounting principles generally accepted in the United States of America and therefore, the club's results of operations and such assets and liabilities as of March 31, 2005 have been removed from the Company's consolidated results of continuing operations and balance sheet for all periods presented in this document and the cash flows for the six months ended March 31, 2005 have been provided in the consolidated statement of cash flows.

10. SUBSEQUENT EVENTS

On April 17, May 1, and May 3, 2006, the seller of the New York club converted a total of $900,000 of principal from the related promissory note into 150,000 shares of restricted stock.

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 Rick's Sports Bar (previously Hummers Sports Bar and XTC South clubs). Pursuant to the terms of the Agreement, the Company paid a total sales price of $1,300,000 which consisted of $500,000 in cash and 160,000 shares of the Company's restricted common stock. As part of the transaction, the Company has agreed to file a registration statement for the resale of such restricted common stock within 45 days after the closing. Additionally, nine months after the filing of the Registration Statement, the Seller shall have 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 shall have the option to sell such shares in the open market upon the effectiveness of the Registration Statement. The transaction was the result of arms-length negotiations between the parties.

On May 9, 2006, the Company purchased Joint Ventures, Inc., an operator of an adult nightclub in South Houston, Texas, formerly known as Dreamers Cabaret & Sports Bar located at 802 Houston Blvd. The purchase price was for $840,000 paid in cash. The club, located in Houston suburbs, has been converted to an XTC Cabaret.

On April 28, 2006, the Company entered into convertible debentures with three shareholders for a principal sum of $825,000. 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 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 $6.55 per share. The debenture provides, 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 debenture shall not exceed 19.99% of the total number of issued and outstanding shares of the Company's common stock.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS.

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

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FORWARD LOOKING STATEMENT AND INFORMATION

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

GENERAL

We presently conduct our business in two different areas of operation:

We own and operate upscale adult nightclubs serving primarily businessmen and professionals. Our nightclubs offer live adult entertainment, restaurant and bar operations. We own and operate seven adult nightclubs under the name "Rick's Cabaret" and "XTC" in Houston, Austin and San Antonio, Texas; Minneapolis, Minnesota; Charlotte, North Carolina, and New York, New York. We also own and operate a sports bar called "Rick's Sports Cabaret" and an upscale venue that caters especially to urban professionals, businessmen and professional athletes called "Club Onyx" in Houston. No sexual contact is permitted at any of our locations. On May 9, 2006, the Company purchased Joint Ventures, Inc., an operator of an adult nightclub in South Houston, Texas, formerly known as Dreamers Cabaret & Sports Bar located at (802 Houston Blvd.) for $840,000 cash. The club has been converted to an XTC Cabaret.

2. We have extensive internet activities.

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

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

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2006 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2005

For the three months ended March 31, 2006, we had consolidated total revenues of $6,119,516 compared to consolidated total revenues of $3,443,390 for the three months ended March 31, 2005, an increase of $2,676,126 or 77.72%. The increase in total revenues was primarily attributable to the increase in revenues generated by our new clubs in Charlotte, North Carolina, and New York, New York, in the amount of $1,639,367; by the increase in revenues generated by our existing clubs in the amount of $1,013,552, a 32.23% increase; and by the increase in internet operations in the amount of $23,207, a 12.84% increase, from a year ago. Our club operations in Houston benefited from the NBA All-Star weekend. Total revenues for same-location-same-period of club operations increased to $4,537,345 for the three months ended March 31, 2006 from $2,953,105 for same period ended March 31, 2005, a 53.65% increase. The increase was primarily attributable to the overall increase in revenues in our club operations.

The cost of goods sold for the three months ended March 31, 2006 was 12.18% of total revenues compared to 13.02% for the three months ended March 31, 2005. The decrease was due primarily to the reduction of cost of goods sold in alcoholic beverages and food at Rick's clubs and by reduction in costs of maintaining our internet operations. The cost of goods sold for the club operations for the three months ended March 31, 2006 was 12.45% compared to 13.45% for the three months ended March 31, 2005. We continue a program to improve margins from liquor and food sales and food service efficiency. The cost of goods sold from our internet operations for the three months ended March 31, 2006 was 4.40% compared to 5.21% for the three months ended March 31, 2005. The cost of goods sold for same-location-same-period of club operations for the three months ended March 31, 2006 was 13.02%, compared to 13.12% for the same period ended March 31, 2005.

Payroll and related costs for the three months ended March 31, 2006 were $1,678,813 compared to $1,203,595 for the three months ended March 31, 2005. Payroll for same-location-same-period of club operations increased to $1,086,447 for the three months ended March 31, 2006 from $851,017 for the same period ended March 31, 2005. The increase was primarily due to an increase in entertainers payroll in our club in Minnesota and addition of the new clubs. Management currently believes that its labor and management staff levels are appropriate.

Other general and administrative expenses for the three months ended March 31, 2006 were $2,731,927 compared to $1,791,604 for the three months ended March 31, 2005. The increase was due primarily to increase in taxes and permits, credit card fees, rent, advertising and marketing, indirect operating expenses, insurance, and utilities from adding new locations in New York, New York and Charlotte, North Carolina.

Interest expense for the three months ended March 31, 2006 was $271,469 compared to $167,835 for the three months ended March 31, 2005. The increase was attributable to our obtaining new debt to finance the purchase and renovation of the club in New York. As of March 31, 2006, the balance of long-term debt was $12,599,743 compared to $12,558,047 a year earlier.

Net income for the three months ended March 31, 2006 was $706,070 compared to $62,078 for the three months ended March 31, 2005. The increase in net income was primarily due to increase in overall revenues in our existing clubs. Net income for same-location-same- period of club operations increased to $1,195,011 for the three months ended March 31, 2006 from $525,873 for same period ended March 31, 2005, or by 127.24%.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2006 AS COMPARED TO THE SIX MONTHS ENDED MARCH 31, 2005

For the six months ended March 31, 2006, we had consolidated total revenues of $11,899,253 compared to consolidated total revenues of $6,775,600 for the six months ended March 31, 2005, an increase of $5,123,653 or 75.62%. The increase in total revenues was primarily attributable to the increase in revenues generated by our new clubs in Charlotte, North Carolina, and New York, New York, in the amount of $3,264,866; by the increase in revenues generated by our existing clubs in the amount of $1,811,791, a 28.81% increase; and by the increase in internet operations in the amount of $46,996, a 12.77% increase from a year ago. Our club operations in Houston benefited from the NBA All-Star weekend. Total revenues for same-location-same-period of club operations increased to $8,788,016 for the six months ended March 31, 2006 from $5,945,885 for same period ended March 31, 2005. The increase was primarily attributable to the overall increase in revenues in our club operations.

The cost of goods sold for the six months ended March 31, 2006 was 12.22% of total revenues compared to 12.48% for the six months ended March 31, 2005. The decrease was due primarily to the reduction of cost of goods sold in alcoholic beverages and food at Rick's clubs and reduction in costs of maintaining our internet operations. The cost of goods sold for the club operations for the six months ended March 31, 2006 was 12.51% compared to 12.93% for the three months ended March 31, 2005. We continue a program to improve margins from liquor and food sales and food service efficiency. The cost of goods sold from our internet operations for the six months ended March 31, 2006 was 4.32% compared to 4.68% for the six months ended March 31, 2005. The cost of goods sold for same-location-same-period of club operations for the six months ended March 31, 2006 was 13.39%, compared to 13.03% for the same period ended March 31, 2005.

Payroll and related costs for the six months ended March 31, 2006 were $3,348,524 compared to $2,411,544 for the six months ended March 31, 2005. Payroll for same-location-same-period of club operations increased to $2,185,588 for the six months ended March 31, 2006 from $1,710,976 for the same period ended March 31, 2005. The increase was primarily due to an increase in entertainers payroll in our club in Minnesota and the addition of new clubs. Management currently believes that its labor and management staff levels are appropriate.

Other general and administrative expenses for the six months ended March 31, 2006 were $5,348,545 compared to $3,362,868 for the six months ended March 31, 2005. The increase was due primarily to increase in taxes and permits, credit card fees, rent, advertising and marketing, indirect operating expenses, insurance, and utilities from adding new locations in New York, New York and Charlotte, North Carolina.

Interest expense for the six months ended March 31, 2006 was $534,521 compared to $256,949 for the six months ended March 31, 2005. The increase was attributable to our obtaining new debt to finance the purchase and renovation of the club in New York. As of March 31, 2006, the balance of long-term debt was $12,599,743 compared to $12,558,047 a year earlier.

Net income for the six months ended March 31, 2006 was $1,231,526 compared to $55,594 for the six months ended March 31, 2005. The increase in net income was primarily due to increase in overall revenues in our existing clubs. Net income for same-location-same-period of club operations increased to $2,132,747 for the six months ended March 31, 2006 from $1,136,087 for same period ended March 31, 2005, or by 87.73%. Management currently believes that the Company is in the position to continue to be profitable by the end of fiscal 2006, but there are no guarantees with the uncertainties of our new clubs.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, we had a working capital of $217,899 compared to a deficit of $2,047,725 at September 30, 2005. The increase in working capital was primarily due to increases in cash and cash equivalents and prepaid expenses, other current assets, and by decreases in accounts payable, accrued liabilities, current portion of long term debt, and line of credit as a result of increased cash flow from operations. The value of available-for-sale marketable securities increased by $22,245.

Including cash provided by discontinued operations, net cash provided by operating activities in the six months ended March 31, 2006 was $1,021,885 compared to $1,226,299 for the six months ended March 31, 2005. The decrease in cash provided by operating activities was primarily due to the disposition of discontinued operations.

Including cash used by discontinued operations, we used $268,275 of cash in investing activities during the six months ended March 31, 2006 compared to $3,501,223 during the six months ended March 31, 2005. Including cash used by discontinued operations, cash of $239,246 was provided by financing activities during the six months ended March 31, 2006 compared to $3,611,588 during the six months ended March 31, 2005.

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

On February 6, 2006, we issued an unsecured Convertible Debenture (the "Debenture") to an unrelated investment group for the principal sum of $1,000,950 bearing interest at the rate of 10% per annum, with a maturity date of February 1, 2009. Under the terms of the Debenture, we are required to make three quarterly interest payments beginning May 1, 2006. Thereafter, we are required to make nine equal quarterly principal and interest payments. At any time after 366 days from the date of issuance of this Debenture, we have the right to redeem the Debenture in whole or in part at any time during the term of the Debenture. At the election of the Holder, the Holder has the right at any time to convert all or any portion of the principal or interest amount of the Debenture into shares of our common stock at a rate of $4.75 per share, which approximates the closing price of the Company's stock on February 6, 2006. The proceeds of the Debenture was used to payoff certain debt and increase our working capital.

On April 28, 2006, the Company entered into convertible debentures with three shareholders for a principal sum of $825,000. 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 at any time to convert all or any portion of the principal or interest amount of the debenture into shares of our common stock at a rate of $6.55 per share. The debenture provides, absent shareholder approval, that the number of shares of our common stock that may be issued by us or acquired by the holders upon conversion of the debenture shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock. The proceeds were partially used to fund the purchase of Joint Ventures, Inc., an operator of an adult nightclub in South Houston, Texas, formerly known as Dreamers Cabaret & Sports Bar located at 802 Houston Blvd. The purchase price was for $840,000 paid in cash. The club, located in the Houston suburbs, has been converted to an XTC Cabaret.

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

We have available a $100,000 unsecured line-of-credit with a bank other than our existing debt. Interest is payable monthly on the outstanding balance at a floating rate of prime plus 1.5%. This arrangement is subject to renewal in June 2006. There was no outstanding balance under this agreement at March 31, 2006. However, there can be no assurance that we will be able to obtain additional financing on reasonable terms in the future, if at all, should the need arise.

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

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

SEASONALITY

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

GROWTH STRATEGY

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

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

Item 3. CONTROLS AND PROCEDURES.

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

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PART II OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities

During our quarter ended March 31, 2006, 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 January 2006, we sold 30,000 shares of our restricted common stock to a non-employee for $75,000.

In March 2006, the seller of the New York club converted $675,000 of principal from the related promissory note into 150,000 shares of restricted common stock.

Item 6. Exhibits.

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

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

SIGNATURES

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

RICK'S CABARET INTERNATIONAL, INC.

Date: May 12, 2006 By: /s/ Eric S. Langan

Eric S. Langan
Chief Executive Officer and
Chief Financial Officer