

RICKS CABARET INTERNATIONAL INC

FORM 10KSB

(Annual Report (Small Business Issuers))

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Industry	Restaurants
Sector	Services
Fiscal Year	09/30

SECURITIES AND EXCHANGE COMMISSION **

WASHINGTON, D.C. 20549

FORM 10-KSB

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934 FOR THE FISCAL YEAR ENDED: SEPTEMBER 30, 2000

OR

☐ 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
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

76-0458229
(IRS EMPLOYER
IDENTIFICATION NO.)

505 NORTH BELT, SUITE 630
HOUSTON, TEXAS 77060
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE)

(281) 820-1181
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

Indicate by check mark whether the registrant (i) has 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 ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☒

Issuer's revenues for the year ended September 30, 2000 were \$12,739,316. The aggregate market value of Common Stock held by non-affiliates of the registrant at December 4, 2000, based upon the last reported sales prices on the Nasdaq SmallCap Market, was \$2,757,435. As of December 4, 2000, there were approximately 4,595,495 shares of Common Stock outstanding.

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PART I

ITEM 1. BUSINESS

INTRODUCTION

Rick's Cabaret International, Inc. currently owns and operates premiere adult entertainment Internet web sites at www.dancerdorm.com, www.amateurdan.com, and www.xxxpassword.com. These web sites contain our exclusive adult content. DancerDorm.com features exclusive live adult entertainment. AmateurDan.com features exclusive adult photo entertainment. XXXpassword.com. features adult content licensed through Voice Media Inc.

We also own and operate adult nightclubs under the name "Rick's Cabaret" and "XTC" which offer live adult entertainment, restaurant and bar operations. We own and operate our Internet content production studio and web site operations center, and three adult nightclubs in Houston, Texas. We also own and operate adult nightclubs in Austin and San Antonio, Texas, and Minneapolis, Minnesota.

References to us in this Form 10-KSB include our 100%-owned subsidiaries, and our 93%-owned subsidiary, Taurus Entertainment Companies, Inc.

Our company was organized as a Texas corporation in 1994 and became the successor to a private business that operated Rick's Cabaret since the 1980's.

HISTORY

Until 1996, we had one adult nightclub location. In January, 1997, we purchased a facility in Minneapolis, Minnesota, where we opened a new adult nightclub, which began operations in March 1998. In August, 1998, we acquired approximately 93% of the outstanding common stock of Taurus Entertainment Companies, Inc., a Colorado corporation ("Taurus") in a private stock exchange transaction with certain principal stockholders of Taurus. The Stock Exchange Agreement provided that we exchange one share of our common stock for each three and one-half shares of Taurus common stock owned by certain principal shareholders of Taurus. As a result of the Exchange, we exchanged a total of 571,713 shares (post-reverse split) of our common stock for approximately 4,002,006 shares of common stock of Taurus, giving us control of Taurus. The terms and conditions of the Exchange were determined by the parties through arms length negotiations. However, no appraisal was conducted. The financial results of Taurus have been consolidated into our financial statements since the date of acquisition.

Taurus is a publicly owned company traded on the OTCBB under the symbol "TAUR". In a transaction simultaneous to the acquisition of Taurus, we acquired certain real estate in San Antonio, Texas from one of the principal stockholders of Taurus. We acquired the property from a principal stockholder of Taurus for the same price that the principal stockholder paid for the property. We financed the purchase of the property by the issuance of a six year \$366,000 Convertible Debenture, secured by the real estate acquired.

In a transaction simultaneous to the acquisition of Taurus, Taurus acquired certain real estate in Houston, Texas from Mr. Ralph McElroy. Taurus acquired the property from Mr. McElroy for the same price that Mr. McElroy paid for the property. Taurus financed the purchase of the property by the issuance of a six year \$286,744 Convertible Debenture, secured by the real estate acquired. We are a guarantor of this Convertible Debenture. The Convertible Debenture is convertible into our shares at any time prior to maturity at the Conversion Price of \$5.50.

On March 29, 1999, Robert L. Watters, one of our Directors, purchased RCI Entertainment Louisiana, Inc. ("RCI Louisiana"), our subsidiary, for the purchase price of \$2,200,000 consisting of \$1,057,327 in cash, the endorsement over to us of a \$652,744 secured promissory note (the "McElroy Note"), a guaranteed promissory note in the amount of \$326,773 made by Mr. Watters (the "Watters Note"), and the cancellation by Mr. Watters of our \$163,156 indebtedness to him. The McElroy Note, which is due July 31, 2004, bears interest at the rate of twelve percent (12%) per annum with interest being paid monthly. The principal of the McElroy Note is due in one lump sum payment. The McElroy Note is secured by (i) our convertible debenture in the original principal amount of \$366,000, which we issued on August, 11, 1998, in favor of Mr. McElroy (the "Convertible Debenture") and (ii) a promissory note of Taurus Entertainment Companies, Inc. (our subsidiary) and guaranteed by us (which has a conversion feature) in the original principal amount of \$286,744.61, dated August 11, 1998, in favor of Mr. McElroy, (the "Convertible Promissory Note"). Both the Convertible Debenture and the Convertible Promissory Note are secured by certain of our real estate holdings. The Watters Note is guaranteed by RCI Louisiana, which operates a Rick's Cabaret in New Orleans, Louisiana. In connection with the acquisition of the stock of RCI Louisiana, Mr. Watters also

assumed RCI Louisiana's liabilities of approximately \$1,400,000. As a condition of this transaction, Mr. Watters arranged for the release by a lender of our liability of \$763,199 owed to the lender by RCI Louisiana, which we had guaranteed. We obtained an opinion from Chaffe & Associates, Inc., a New Orleans investment banking firm, stating that the purchase price paid by Mr. Watters for RCI Louisiana was fair from a financial point of view to our shareholders. The terms of this transaction were the result of arms length negotiations between us and Mr. Watters. In connection with the sale of RCI Louisiana, Mr. Watters, and Erich Norton White, our former director, entered into agreements with us to terminate their Employment Agreements and to cancel all stock options on our common stock which they held. Further, in connection with the sale of RCI Louisiana, we entered into an Exclusive Licensing Agreement with Mr. Watters which granted Mr. Watters the right to the use of the name "Rick's Cabaret" and all logos, trademarks and service marks attendant thereto for use in the states of Louisiana, Florida, Mississippi and Alabama.

In March, 1999, we had a 2:1 reverse stock split.

From time to time, we enter into agreements to operate adult clubs owned by others.

BUSINESS ACTIVITIES--INTERNET WEB SITES

In October, 1999, we began premiere adult Internet web site operations. DancerDorm.com features live web cam feeds of our dancers who reside in our dormitory. There are 32 web cams in the dormitory which provide voyeuristic views of the lives of our dancers. DancerDorm.com also features an interactive online "chat and look" experience for our members to chat with our dancers. Members may also visit our nightclubs to meet our dancers in person. Our members pay a monthly fee to visit our DancerDorm.com. We own the DancerDorm.com Internet production facility, which contains 8,000 square feet of studio and production space. Our AmateurDan.com web site is also a pay site that features exclusive photos of our dancers in provocative poses and activities. Our www.xxxpassword.com web site features adult content licensed through Voice Media Inc.

Our e-commerce includes our efforts to generate Internet traffic to our web sites. Internet traffic is generated through the purchase of traffic from third-party adult web sites or Internet domain owners and the purchase of banner advertisements or "key word" searches from Internet search engines.

There are numerous adult web sites on the Internet. Our web sites feature exclusive live adult entertainment and photos. Many of our competitors feature non-live, non-exclusive entertainment.

BUSINESS STRATEGY--NIGHTCLUBS

Prior to Rick's Cabaret opening in 1983 in Houston, Texas, the topless nightclub business was characterized by small establishments generally managed by their owner. Such establishments were often dimly lit and the standards for performers' personal appearance and personality were not maintained. 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 who frequently interrupted the music to make general announcements. Usually, only cash was accepted and businessmen felt uncomfortable in such an environment. Recognizing a void in the market for a first-class adult cabaret, we designed Rick's Cabaret to target the businessmen's segment of the market by providing a unique quality entertainment environment. The following summarize our areas of operation which distinguish us:

FEMALE ENTERTAINMENT. We have followed a policy of maintaining high standards in the areas of both personal appearance and personality of the topless entertainers and waitresses. Though a performer's physical appearance is very important, of equal importance is her ability to present herself attractively and to converse intelligently with customers. We prefer that the performers we hire are experienced dancers. We make a determination as to whether a particular applicant is suitable based on such factors of appearance, attitude, dress, communication skills and demeanor.

MANAGEMENT. We recruit staff from both inside and outside the topless industry, in the belief that management with vast years of experience in the adult entertainment industry adds to our ability to grow and attract top entertainers from within the industry. Management with experience is able to train our new recruits from outside the industry with skills that can only be learned primarily from prior experience in our industry.

COMPLIANCE POLICIES. 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 entertainer's lockers. Entertainers and waitresses who arrive for work are not allowed to leave the premises without the permission of management. Once an entertainer does leave the premises, she is not allowed to return to work until the next day. We continually monitors the behavior of entertainers, waitresses and customers to ensure that proper standards of behavior are observed.

We also review all credit card charges made by our customers. Specifically, we have in place a formal policy which provides that all credit card charges must be approved, in writing, by management before any charges are accepted. Management is particularly trained to review credit card charges to ensure that the only credit card charges approved for payment are for food, drink and entertainment at Rick's Cabaret.

FOOD AND DRINK. We believe that a key to the success of a premiere adult nightclub is a quality, first-class bar and restaurant operation to compliment our adult entertainment. We employ service managers who are in charge of recruiting and training a professional wait staff and ensuring that each customer receives prompt and courteous service. We employs chefs with restaurant experience and bar managers, who are in charge of ordering inventory and scheduling of 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. Our restaurant operations in all of the topless cabarets are full service operations which provides business lunch buffets and a full-scale lunch and dinner menu service offering hot and cold appetizers, salads, seafood, steak and lobster. An extensive selection of premiere wines are offered to compliment any customer's lunch or dinner selection.

CONTROLS. Operational and accounting controls are essential to the successful operation of a cash intensive nightclub and bar business. We have implemented internal procedures and controls designed to ensure the integrity of our operational and accounting records. We separate management personnel from all cash handling to ensure that management is isolated from and does not handle any cash. We use a combination of accounting and physical inventory control mechanisms to ensure a high level of integrity in our accounting practices. Computers play a significant role in capturing and analyzing a variety of information to provide management with the information necessary to efficiently manage and control the 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 management of any variances from expected financial results based on historical norms. Further, we conduct, on a monthly basis, an independent overview of our financial condition and have engaged independent accountants to conduct an annual audit and to review and advise us relating to our internal controls.

ATMOSPHERE. We maintain a high design standard in our facilities and D cor. The furniture and furnishings in the nightclubs are designed to create the feeling of an upscale restaurant. The sound system is designed to provide quality sound at levels where conversations can still take place. This environment is carefully monitored, in terms of maintenance, 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 business 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 marketing philosophy towards customers is to portray Rick's Cabarets as premiere cabarets providing topless entertainment in a fun, yet discreet, environment. Hotel publications, local radio, cable television, newspapers, billboards, taxi-cab reader boards as well as a variety of promotional campaigns ensure that the Rick's Cabaret name is kept before the public. We have also gained great exposure through the Internet through our web sites, including www.Ricks.com.

Rick's Cabaret has received a significant amount of media exposure over the years. Television segments about Rick's Cabaret have appeared on television talk shows. In addition, Penthouse magazine produced a nine page article on the club and Playboy magazine covered our 1993 golf tournament. In the past, we have sponsored golf tournaments and outings that have generated significant interest and tradition. Articles about Rick's Cabaret have appeared in Glamour Magazine and The Ladies Home Journal. Rick's Cabaret has been mentioned in an inside cover story in Time Magazine as well as being mentioned on numerous occasions in local newspapers and in Texas Monthly Magazine. In 1993 Rick's produced the Girls of Rick's video, a 90 minute video feature, which was aired as a Pay-per-View show on Warner Cable Television. This video was reviewed in several local newspapers as well as the Hollywood Variety magazine. Rick's Cabaret has provided entertainers for other Pay-Per-View features as well.

We received extensive national coverage of our Initial Public Offering of stock, our PI, and articles appeared in The Wall Street Journal, Los Angeles Times, Houston Business Journal, and numerous other regional newspapers. The television program "Extra" ran a short feature on Rick's, as did the program "Inside Edition."

NIGHTCLUB LOCATIONS

We have three Rick's Cabaret locations in Houston, Texas and one Rick's Cabaret in Minneapolis, Minnesota. We also own one nightclub in San Antonio, Texas that operates under the name XTC. Our 93%-owned subsidiary, Taurus, owns a nightclub in Austin, Texas also under the name XTC.

We sold our New Orleans nightclub in March, 1999. In July, 2000, we sold a facility in south Houston. We are continually looking at expansion opportunities to open more nightclubs throughout the U.S.

COMPETITION

The adult topless club entertainment business is highly competitive with respect to price, service and location, as well as the professionalism of our entertainment product. All of our nightclubs compete with a number of locally-owned adult cabarets, some of whose names may enjoy recognition that equals that of Rick's Cabaret or XTC. 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 and only the name "Rick's" and "Rick's Cabaret" and "XTC Cabaret" are proprietary. For example, there are approximately 50 adult cabarets located in the Houston area of which approximately 10 are in direct competition with us. In Minneapolis, Rick's is favorably located downtown and is a short walk from the Metrodome Stadium and the Target Center. There is only one cabaret in Minneapolis in direct competition with us. We believe that the combination of our existing name recognition and the distinctive entertainment environment that we have created, will allow us to effectively compete within the industry and within the cities in which we operate. 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 (the "TABC"), which has the authority, in its discretion, to issue the appropriate permits. We presently hold a Mixed Beverage Permit and a Late Hours

Permit (the "Permits"). These Permits are subject to annual renewal, 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 has 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. Prior to expanding into any new market, we will 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 Houston, and in many other cities, location of a topless cabaret is subject to restriction by city ordinance. Topless nightclubs in Houston, Texas are subject to "The Sexually Oriented Business Ordinance" (the "Ordinance") which contains prohibitions on the location of an adult cabaret. 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 ("Business Permit") is not subject to discretion; the Business Permit must be granted if the proposed operation satisfies the requirements of the Ordinance.

In January 1997, the City Council of the City of Houston passed a comprehensive new Ordinance regulating the location of and the conduct within Sexually Oriented Businesses. The new Ordinance established new minimum distances that Sexually Oriented Businesses may be located from schools, churches, playgrounds and other sexually oriented businesses. There were no provisions in the Ordinance exempting previously permitted sexually oriented businesses from the effect of the new Ordinance. In 1997, we were informed that one of our Houston locations at 3113 Bering Drive failed to meet the requirements of the Ordinance and accordingly the renewal of our Business License at that location was denied.

The Ordinance provided that a business which was denied a renewal of its operating permit due to changes in distance requirements under the Ordinance would be entitled to continue in operation for a period of time (the "Amortization Period") if the owner were unable to recoup, by the effective date of the Ordinance, its investment in the business that was incurred through the date of the passage and approval of the Ordinance.

We filed a request with the City of Houston requesting an extension of time during which operations at our north Houston facility could continue under the Amortization Period provisions of the Ordinance since we were unable to recoup our investment prior to the effective date of the Ordinance. An administrative hearing was held by the City of Houston to determine the appropriate Amortization Period to be granted to us. At the Hearing, we were granted an amortization period that has since been reached. We have the right to appeal any decision of the Hearing official to the district court in the State of Texas.

In May, 1997, the City of Houston agreed to defer implementation of the Ordinance until the constitutionality of the entire Ordinance was decided by court trial. In February 1998 the U.S. District Court for the Southern District of Texas, Houston, Division, struck down certain provisions of the Ordinance, including the provision mandating a 1,500 foot distance between a club and schools, churches and other sexually oriented business, leaving intact the provision of the 750 foot distance as it existed in the prior Houston, Texas Ordinance.

The City of Houston has appealed the District Court's rulings with the Fifth Circuit Court of Appeals, and the Company filed a brief with the Fifth Circuit. In the event that the City of Houston is successful in the appeal, the Company's Bering Drive location could be out of compliance. Such an outcome could have an adverse impact on the Company's future.

There are other provisions in the Houston, Texas Ordinance, such as provisions governing the level of lighting in a sexually oriented business, the distance between a customer and dancer while the dancer is performing in a state of undress and provisions regarding the licensing of dancers that were upheld which may be detrimental to our business. We, in concert with other sexually oriented businesses, are appealing these aspects of the Houston, Texas Ordinance. In the event that our court appeal is unsuccessful, such an outcome could have an adverse impact on us.

In 1998, the City of Houston began enforcing certain portions of the Ordinance, including the distance requirement between a customer and a dancer while dancing, and the requirement that dancers be licensed. The City of Houston's enforcement of the recently implemented provisions of the Ordinance could have an adverse impact on the Rick's locations in Houston, Texas. The current requirement of a three foot distance between a dancer and a customer could reduce customer satisfaction and could result in fewer customers at the Houston location. The requirement that a dancer be licensed may result in fewer dancers working, which could have an adverse impact on the Houston locations. It is unknown what future impact the enforcement of the Ordinance may have on our Houston locations.

In Minneapolis, we are required to be in compliance with state and city liquor licensing laws. Our location in Minneapolis is presently zoned to enable the operation of a topless cabaret.

In San Antonio and Austin we are required to be in compliance with city or county sexually oriented business ordinances.

TRADEMARKS

Our rights to the trademarks "Rick's" and "Rick's Cabaret" are established under common law, based upon our substantial and continuous use of these trademarks 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 our "RICK'S CABARET" service mark. 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, 2000, we had approximately 400 full-time employees, of which 40 are in management positions, including corporate and administrative operations, and approximately 360 are engaged in entertainment, food and beverage service, including bartenders and waitresses. None of our employees are represented by a union and we consider our employee relations to be good.

Additionally, we have independent contractor relationships with over 600 entertainers, who are self-employed and perform at our locations on a non-exclusive basis as independent contractors. Performers in Minneapolis, Minnesota act as commissioned employees.

SUBSEQUENT EVENT

In August 2000, we acquired the Chesapeake Bay Cabaret, an upscale gentlemen's club located just minutes from the Houston NASA Space Center and Houston's Hobby Airport. We issued 160,000 shares of our common stock to WMF Investments Inc., the seller, as consideration. We entered into a 10 year lease with an additional 10 year lease option for the Chesapeake Bay Cabaret property from WMF Investments, Inc.

ITEM 2. PROPERTIES

Our principal executive offices are co-located at 505 North Belt, Houston, Texas 77060 with our subsidiary, Taurus in leased facilities consisting of a total of 1,200 square feet. We pay rent of approximately \$1,100 per month for this space. 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 locations of our Internet production studio and DancerDorm, three locations of Rick's Cabaret (two in Houston and one in Minneapolis) and the two locations of XTC (one in Austin and one in San Antonio). We lease the Houston location of the Chesapeake Bay Club.

The Rick's Cabaret located on Bering Drive in Houston has aggregate 12,300 square feet of space. The balance as of September 30, 2000, that we owe on the mortgage is \$453,824 and the interest rate is prime plus 1%. We pay \$8,315 in monthly mortgage payments. The last mortgage payment is due in December, 2001 with a balloon payment of \$370,000.

The Rick's Cabaret located on Northbelt Drive in Houston has 12,000 square feet of space, and is owned by our 93%-owned subsidiary, Taurus. The balance as of September 30, 2000, that we owe on the mortgage is \$281,682 and the interest rate is 10%. We pay \$13,758 in monthly mortgage payments. The last mortgage payment is due in August 2002.

The Rick's Cabaret located in Minneapolis has 15,400 square feet of space. The balance as of September, 2000, that we owe on the mortgage is \$2,394,981 and the interest rate is 9%. We pay \$22,732 in monthly mortgage payments. The last mortgage payment is due in 2018.

The XTC nightclub in Austin has 6,800 square feet of space, which sits on 1.2 acres of land. The balance as of September, 2000, that we owe on the mortgage is \$184,376 and the interest rate is 14%. We pay \$17,957 in monthly mortgage payments. The last mortgage payment is due in August 2001.

The XTC nightclub in San Antonio has 7,800 square feet of space. We acquired the property from Mr. Ralph McElroy for the same price that Mr. McElroy paid for the property. We financed the purchase of the property by the issuance of a six year \$366,000 Convertible Debenture, secured by the real estate acquired. The principal balance of the Convertible Debenture is due in July, 2004, in one lump sum payment. Interest is due and payable monthly, with the first interest payment beginning in September, 1998. The Convertible Debenture is subject to redemption at our option, in whole or in part, at 100% of the principal face amount of the Convertible Debenture redeemed plus any accrued and unpaid interest on the redemption date, at any time and from time to time, upon not less than 30 nor more than 60 days notice, if the Closing Price of our common stock shall have equaled or exceeded \$17.00 per share of common stock for ten (10) consecutive trading days. The Convertible Debenture is convertible into shares of Common Stock at any time prior to maturity (unless earlier redeemed) at the Conversion Price of \$5.50. See, Certain Relationships and Related Transactions.

Our Internet production studio has 8,000 square feet of space. This property is owned by us free and clear.

Taurus formerly owned a 12,000 square foot building in Houston, Texas which Was Subsequently sold in July, 2000.

Taurus and its subsidiaries own a 350 acre ranch in Brazoria County, Texas, and approximately 50 acres of raw land in Wise County, Texas.

The balance as of September 30, 2000 that we owe on the Brazoria County ranch mortgage is \$305,732 and the interest rate is 9.25%. We pay \$2,573 in monthly mortgage payments. The last mortgage payment is due in 2006 with a balloon payment of \$287,920.

The balance as of September 30, 2000 that we owe on the Wise County raw land mortgage is \$146,634 and the interest rate is 12%. We pay \$1,537 in monthly mortgage payments. The last mortgage payment is due in March, 2026.

We lease the property in Houston where our Chesapeake Bay Cabaret is located. We acquired the operations of the Chesapeake Bay Club in August 2000. The lease term is for 10 years, with an additional 10 year lease option thereafter. The initial lease terms are \$12,000 monthly plus 4% of gross revenues that are in excess of \$125,000 per month (excluding payments that we make to dancers), with the total monthly rent not to exceed \$20,000 per month.

ITEM 3. LEGAL PROCEEDINGS

In November, 1998, LMTD, Inc. initiated litigation against a subsidiary of one of our subsidiaries, Citation Land, LLC ("Citation"), in a case styled LMTD, Inc. v. Texas Warehouse Company, Inc., et al. in Cause No. 98-12570, in the 200th Judicial District Court of Travis County, Texas. The plaintiff alleged a tortious interference claim against Citation in the amount of \$540,000 in connection with a Purchase Option Agreement the plaintiff claims to have with a company named Texas Warehouse Company, Inc. In October 2000, we were granted a partial summary judgment on some of the issues in this matter. In November 2000, the court signed a take-nothing judgment in our favor against the plaintiff on all other matters.

In April, 1999 we were served as a defendant in litigation styled John M. Skora and Robert Martin v. Trumps, Inc., Rick's Cabaret International, Inc., RCI Entertainment (Texas), Inc., and Robert L. Watters, Cause No. 1999-09394, in the 11th Judicial District Court of Harris County, Texas. The plaintiffs claimed that they purchased dances at our nightclubs and paid for the dances with credit cards. The plaintiffs assert that we violated the Texas Finance Code by imposing a surcharge for credit card use. The Plaintiffs non-suited (voluntarily dismissed) this action in August, 2000.

In January, 1999, the Company was named as a defendant in McGill v. RCI Entertainment (Minnesota) Inc., No. 98-2742, U.S. District Court, Minnesota. The plaintiffs asserted claims for federal and state civil rights acts for discrimination and harassment. Some of the plaintiffs settled with us, and all other matters were dismissed by the court

In June, 1999, the Company was named as defendant in Hubka v. RCI Entertainment (Minnesota). Inc., No. CT 99-009560, Hennepin County District Court. The plaintiff has asserted claims under the Minnesota Human Rights Act and for negligence. This matter has been resolved.

SEXUALLY ORIENTED BUSINESS ORDINANCE OF HOUSTON, TEXAS

In January 1997, the City Council of the City of Houston passed a comprehensive new Ordinance regulating the location of and the conduct within Sexually Oriented Businesses. The new Ordinance established new minimum distances that Sexually Oriented Businesses may be located from schools, churches, playgrounds and other sexually oriented businesses. There were no provisions in the Ordinance exempting previously permitted sexually oriented businesses from the effect of the new Ordinance. In 1997, we were informed that one of our Houston locations at 3113 Bering Drive failed to meet the requirements of the Ordinance and accordingly the renewal of our Business License at that location was denied.

The Ordinance provided that a business which was denied a renewal of its operating permit due to changes in distance requirements under the Ordinance would be entitled to continue in operation for a period of time (the "Amortization Period") if the owner were unable to recoup, by the effective date of the Ordinance, its investment in the business that was incurred through the date of the passage and approval of the Ordinance.

We filed a request with the City of Houston requesting an extension of time during which operations at our north Houston facility could continue under the Amortization Period provisions of the Ordinance since we were unable to recoup our investment prior to the effective date of the Ordinance. An administrative hearing was held by the City of Houston to determine the appropriate Amortization Period to be granted to us. At the Hearing, we were granted an amortization period that has since been reached. We have the right to appeal any decision of the Hearing official to the district court in the State of Texas.

In May, 1997, the City of Houston agreed to defer implementation of the Ordinance until the constitutionality of the entire Ordinance was decided by court trial. In February, 1998 the U.S. District Court for the Southern District of Texas, Houston, Division, struck down certain provisions of the Ordinance, including the provision mandating a 1,500 foot distance between a club and schools, churches and other sexually oriented business, leaving intact the provision of the 750 foot distance as it existed prior to the Houston, Texas Ordinance.

The City of Houston has appealed the District Court's rulings with the Fifth Circuit Court of Appeals, and we filed a brief with the Fifth Circuit. In the event that the City of Houston is successful in the appeal, we could be out of compliance and such an outcome could have an adverse impact on the our future.

There are other provisions in the Houston, Texas Ordinance, such as provisions governing the level of lighting in a sexually oriented business, the distance between a customer and dancer while the dancer is performing in a state of undress and provisions regarding the licensing of dancers and club managers that were upheld by the court which may be detrimental to our business. We, in concert with other sexually oriented businesses, are appealing these aspects of the Houston, Texas Ordinance. In the event that our court appeal is unsuccessful, such an outcome could have an adverse impact on us.

In 1998, the City of Houston began enforcing certain portions of the Ordinance, including the distance requirement between a customer and a dancer while dancing, and the requirement that dancers and club managers be licensed. The City of Houston's enforcement of the recently implemented provisions of the Ordinance could have an adverse impact on the Rick's locations in Houston, Texas. The current requirement of a three foot distance between a dancer and a customer could reduce customer satisfaction and could result in fewer customers at the Houston locations. The requirement that a dancer be licensed may result in fewer dancers working, which could have an adverse impact on the Houston locations. It is unknown what future impact the enforcement of the Ordinance may have on our Houston locations.

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

We held our annual meeting of shareholders on August 24, 2000. The shareholders elected the following seven persons as directors.

	Votes For

Eric S. Langan	4,007,048
Robert L. Watters	4,007,023
Michael S. Thurman	4,007,048
Alan Bergstrom	4,007,048
Travis Reese	4,007,048
Ron Levi	4,007,048
Pal Lesser	4,007,048

The shareholders ratified the selection of Jackson & Rhodes, P.C., as the Company's independent auditors:
4,004,601 Votes For The Ratification 5,762 Votes Against Ratification
1,408 Votes Abstaining

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the Nasdaq SmallCap Market under the symbol "RICK." The following table sets forth the quarterly high and low last sales prices per share for the common stock. Our fiscal year ends September 30, 2000.

COMMON STOCK PRICE RANGE

HIGH LOW

Fiscal 1999 (*)

First Quarter	\$ 9/16	\$ 5/16
Second Quarter	\$ 15/16	\$ 7/16
Third Quarter	\$ 5-1/16	\$ 1-7/8
Fourth Quarter	\$ 4-11/16	\$ 2-9/16

Fiscal 2000

First Quarter	\$ 3.50	\$ 2 1/16
Second Quarter	\$ 6 7/16	\$ 2 3/8
Third Quarter	\$ 5 3/8	\$ 2.00
Fourth Quarter	\$ 2.50	\$ 1 5/8

(*) In March, 1999, we had a 2:1 reverse stock split.

On December 4, 2000, the last sales price for the common stock as reported on the Nasdaq SmallCap Market was \$1.25. On December 4, 2000, there were approximately 410 stockholders of record of the common stock.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

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.

RECENT SALES OF UNREGISTERED SECURITIES

During the quarter ended September 30, 2000, we sold unregistered shares of our common stock in reliance upon exemptions from registration under the Securities Act of 1933 as amended (the "Act") as provided in Section 4(2) of the Act. Each certificate issued for unregistered securities contained a legend stating that the securities have not been registered under the Act and setting forth the restrictions on the transferability and the sale of the securities. No underwriter participated in, nor did we pay any commissions or fees to any underwriter in connection with any of these transactions. None of the transactions involved a public offering.

In July 2000, we issued 700,000 shares of our common stock to Voice Media, Inc. as consideration for our purchase of xxxpassword.com. Of these, 450,000 shares were issued at a value of \$669,375. The remaining 250,000 shares are held in escrow and are subject to an earnout requirement based on the financial performance of xxxpassword.com. These 250,000 shares are further subject to a voting agreement whereby our President, Eric Langan, holds the voting power for these shares. We made this sale in reliance upon exemptions from registration under Section 4(2) of the Act.

In August 2000, we issued 160,000 shares of our common stock to WMF Investments, Inc. as consideration for our purchase of the Chesapeake Bay Club. These shares were valued at \$189,000. We made this sale in reliance upon exemptions from registration under Section 4(2) of the Act.

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

The following discussion should be read in conjunction with the Company's audited consolidated financial statements and related notes thereto included in this annual report.

FORWARD LOOKING STATEMENT AND INFORMATION

The Company is 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, 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-KSB are forward-looking statements. Words such as "expects", "anticipates" 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 ordinance in the City of Houston, competitive factors, the timing of the openings of other clubs, the integration of operations of Taurus Entertainment Companies, Inc. with our operations and management, the availability of acceptable financing to fund corporate expansion efforts, competitive factors, 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 currently own and operate three adult Internet membership web sites at www.dancerdorm.com, www.amateurdan.com, and www.xxxpassword.com.

We also own and operate adult nightclubs under the name "Rick's Cabaret" and "XTC" which offer live adult entertainment, restaurant and bar operations. We own and operate our Internet content production studio and web site operations center, and three adult nightclubs in Houston, Texas. We also own and operate adult nightclubs in Austin and San Antonio, Texas, and Minneapolis, Minnesota.

Our revenues are derived from subscriptions to adult content internet web sites and from the sale of liquor, beer, wine and food, cover charges and other income. Our fiscal year end is September 30.

RESULTS OF OPERATIONS FOR THE FISCAL YEAR ENDED SEPTEMEBR 30, 2000 AS COMPARED TO THE FISCAL YEAR ENDED SEPTEMEBR 30, 1999

For the fiscal year ended September 30, 2000, the Company had consolidated total revenues of \$12,739,316 compared to consolidated total revenues of \$10,381,427 for the year ended September 30, 1999, or an increase of \$2,357,889. The increase in total revenues was due to the increase in revenues in the Company's existing and new locations of \$775,613 and to the revenues generated by the Company's Internet businesses of \$1,582,276.

The cost of goods sold for the year ended September 30, 2000 was 19 % of total revenues compared to 13% for the year ended September 30, 1999. The increase was due primarily to the initial costs of our Internet operations, the increase in cost of providing complimentary food in our XTC locations, and the addition of logo merchandise to our sales mix. The cost of goods sold for the club operation for the year ended September 30, 2000 was 24% of the sales of alcoholic beverages and food compared to 26% for the year ended September 30, 1999. We continued our efforts to achieve reductions in cost of goods sold of the club operations through improved inventory management. We continue a program to improve margins from liquor and food sales and food service efficiency. The cost of sales from our Internet operation for the year ended September 30, 2000 was 63%.

Payroll and related costs for the year ended September 30, 2000 were \$4,193,349 compared to \$3,637,637 for the year ended September 30, 1999. The increase was a reflection of the additional personnel experienced by the Company as it adds more locations and continues to increase the size and the scope of our internet operation. Management currently believes that its labor and management staff levels are of appropriate levels.

Other selling, general and administrative expenses for the year ended September 30, 2000 were \$5,986,936 compared to \$5,264,577 for the year ended September 30, 1999. The increase was due to increased number of the Company's locations and the expansion of our Internet business.

Interest expense for the year ended September 30, 2000 was \$414,660 compared to \$545,829 for the year ended September 30, 1999. The decrease was primarily due to the Company's position in not obtaining new debts, but to aggressively reduce its debt burden.

Other Income for year ended September 30, 2000 was \$281,076 as a result of vendors' concessions on our liabilities, and \$181,840 from the gain on the sale of assets.

Net income for the year ended September 30, 2000 was \$202,587 compared to a net loss of \$40,572 for the year ended September 30, 1999. The increase in net income was primarily due to the increase in net income in Company's locations, the vendors' concessions on Company's liability, the results of our Internet operations and the gain on sale of assets.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2000, the Company had a working capital deficit of \$133,686 compared to working capital of \$15,709 at September 30, 1999.

Net cash provided by operating activities in the year ended September 30, 2000 was \$774,077 compared to net cash used of \$543,347 for the year ended September 30, 1999. The increase in cash provided by operating activities was due to an increase in accounts payable and accrued expenses and significant profit before depreciation in fiscal 2000.

Depreciation and Amortization for the year ended September 30, 2000 were \$585,797 compared to \$630,001 for the year ended September 30, 1999.

In the opinion of management, working capital is not a true indicator of the financial status. Typically, the Company carries current liabilities in excess of current assets because the business receives 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 the Company 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 and mix of sales revenues, overall cash flow and profitability from operations and the level of long-term debt.

SEASONALITY

The Company is significantly affected by seasonal factors. Typically, the Company has experienced reduced revenues from April through September with the strongest operating results occurring during October through March.

YEAR 2000 ISSUES

We have not had any Year 2000 deficiencies internally or externally. We do not expect to have any Year 2000 deficiencies internally and externally. If a Year 2000 deficiency occurs internally or externally, we will shift our internal and external resources to fix the deficiency. We do not expect any Year 2000 deficiency to require an expenditure of more than \$10,000.

ITEM 7. FINANCIAL STATEMENTS

The information required hereunder is included in this report as set forth in the "Index to Financial Statements" on page F-1.

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

There have been no changes in accountants since our incorporation in 1994, nor have there been any disagreements with accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

PART III

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

DIRECTORS AND EXECUTIVE OFFICERS.

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 elected annually and serve at the discretion of the Board of Directors. There is no family relationship between or among any of our directors and executive officers. Our Board of Directors consists of five persons.

Name	Age	Position
Eric Langan	32	Director, CEO, President and Chief Financial Officer
Michael S. Thurman	40	Director, COO and V.P.-Director of Operations.
Travis Reese	30	Director and V.P.-Director of Technology
Robert L. Watters	49	Director
Alan Bergstrom	54	Director
Ron Levi	50	Director
Paul Lesser	41	Director

Eric S. Langan has been our Director since 1998 and our President since March, 1999. Mr. Langan is also our acting Chief Financial Officer. He has been involved in the adult entertainment business since 1989. Mr. Langan has also served as the President and Director of Taurus Entertainment Companies, Inc. since November, 1997. Taurus is our public subsidiary. From January 1997 through the present, he has held the position of President with XTC Cabaret, Inc., which was subsequently acquired by Taurus. From November 1992 until January 1997, Mr. Langan was the President of Bathing Beauties, Inc. Since 1989, Mr. Langan has exercised managerial control over the grand openings and operations of more than twelve adult entertainment businesses. Through these activities, Mr. Langan has acquired the knowledge and skills necessary to successfully operate adult entertainment businesses.

Robert L. Watters is the founder and has been our director since 1986. Mr. Watters was our president and our chief executive officer from 1991 until March, 1999. He was also a founder in 1989 and operator until 1993 of the Colorado Bar & Grill, an adult cabaret located in Houston, Texas and in 1988 performed site selection, negotiated the property purchase and oversaw the design and permitting for the cabaret 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 state. 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.

Michael S. Thurman became our Director and our V.P.- Director of Operations in 1999. He has been employed in the bar and restaurant industry since 1982 for several operators of bars and restaurants. He has served in various management positions. From 1986 through 1989 Mr. Thurman worked as the controller of a multi-location bar and restaurant chain with annual sales in 1989 of approximately \$6,000,000. Beginning in 1989, Mr. Thurman worked in managerial capacities for adult entertainment businesses located in Houston, Texas including the Colorado Bar & Grill, the Gold Club, Rick's, and Caligula XXI. From 1994 until 1997, Mr. Thurman was employed as the chief financial officer of XTC Group and the XTC Cabaret, businesses now owned and operated by Taurus Entertainment Companies, Inc., which became our subsidiary in 1998. During 1997 until mid-1998, Mr. Thurman was a director of Taurus Entertainment Companies, Inc.,

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 stock broker 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 our V.P.-Director of Technology in 1999. From 1997 through the present, Mr. Reese has been a senior network administrator at St. Vincent's Hospital in Sante Fe, New Mexico. During 1997, Mr. Reese was a computer systems engineer with Deloitte & Touche. From 1995 until 1997, Mr. Reese was a 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 Associates Degree in Aeronautical Science from Texas State Technical College.

Ron Levi, age 49, has been a director and officer of National Telemedia Corporation since 1991. Since 1992, Mr. Levi has been a director and officer of Voice Media, Inc. In July, 2000, Mr. Levi was appointed to our board in connection with our acquisition of certain assets of Voice Media, Inc. Voice Media, Inc. and the National Telemedia Corporation are global Internet media companies, focusing on Internet development and Electronic commerce applications for Web based entertainment products, including the development of proprietary technologies, industry-defining systems and marketing processes.

Paul Lesser, age 40, has been a director and officer of National Telemedia Corporation since 1991. Since 1992, Mr. Lesser has been a director and officer of Voice Media, Inc. In July, 2000, Mr. Levi was appointed to our board in connection with our acquisition of certain assets of Voice Media, Inc. Voice Media, Inc. and the National Telemedia Corporation are global Internet media companies, focusing on Internet development and Electronic commerce applications for Web based entertainment products, including the development of proprietary technologies, industry-defining systems and marketing processes.

COMMITTEES OF THE BOARD OF DIRECTORS

We have no compensation committee and no nominating committee. Decisions concerning executive officer compensation for 1999 were made by the full Board of Directors. Eric S. Langan, Michael S. Thurman and Travis Reese are our only directors who are also our officers.

We have an Audit Committee of independent directors whose members are Robert L. Watters and Alan Bergstrom. The primary purpose of the Audit Committee is to oversee our financial reporting process on behalf of the Board of Directors. The Audit Committee will meet privately with our Chief Accounting Officer and with our independent public accountants and evaluates the responses by the Chief Accounting Officer both to the facts presented and to the judgments made by the outside independent accountants. The Audit Committee reports its activities to the full Board after each such meeting so that the Board is kept informed of its activities on a current basis. In addition, the activities and responsibilities of the Audit Committee include the nomination or selection of the independent auditors, review of the results of the audit and a detailed review of the overall Company and the adequacy of our internal controls.

In May 2000, the Board adopted a Charter for the Audit Committee. 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 accountants and our internal audit department.

A majority of our Audit Committee members must be independent Directors and we will meet this requirement by June 2001. The Board of Directors shall elect the Members annually. Members shall serve until their successors are duly elected and qualified. Unless an Audit Committee Chairperson is elected by the full Board, the Members of the Committee may designate a Chairperson by majority vote of the all Members. A majority of the members will be free from any relationship that could conflict with a Member's independent judgment. All Members must be able to read and understand fundamental financial statements, including a balance sheet, income statement, and cash flow statement. At least one Member must have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background, including a current or past position as a chief executive or financial officer or other senior officer with financial oversight responsibilities.

The Board of Directors held four meetings during the fiscal year ended September 30, 2000.

There is no family relationship between or among any of our directors and executive officers.

CERTAIN SECURITIES FILINGS

We believe that all persons subject to Section 16(a) of the Exchange Act in connection with their relationship with us have complied on a timely basis.

ITEM 10. EXECUTIVE COMPENSATION

The following table reflects all forms of compensation for services to us for the fiscal years ended September 30, 2000, 1999 and 1997 of certain executive officers. No other executive officer of ours received compensation that exceeded \$100,000 during fiscal 2000.

SUMMARY COMPENSATION TABLE								
Name and Principal Position	Year	Annual Compensation		Other Annual Compensation (1)	Long Term Compensation Awards			All Other Compensation
		Salary	Bonus		Restricted Stock Awards	Underlying Options/SARs	Payouts	
Eric Langan	2000	\$175,890(2)	\$1,000	-0-	-0-	-0-	5,000	-0-
Director	1999	\$155,000(2)	-0-	-0-	-0-	85,000	-0-	-0-
President and CFO	1998	-0-	-0-	-0-	-0-	50,000	-0-	-0-
and Acting CFO								

(1) We provide certain executive officers certain personal benefits. Since the value of such benefits does not exceed the lesser of \$50,000 or 10% of annual compensation, the amounts are omitted.

(2) We paid Mr. Langan \$155,000 as compensation in fiscal 1999, of which \$52,000 was allocated to our subsidiary, Taurus Entertainment Companies, Inc.

OPTION/SAR GRANTS IN LAST FISCAL YEAR (Individual Grants)

Name	Number of Securities Underlying Options/SARs Granted	Percent of Total Options/SARs Granted To Employees In Fiscal Year	Exercise of Base Price	Expiration Date
Eric Langan	5,000 shares	1.2%	\$2.18	8/24/2005
	100,000 shares	25%	\$2.56	11/16/2004

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

Name	Shares Acquired On Exercise	Value Realized	Number Of Unexercised Securities Underlying Options/SARs At FY-End Exercisable/Unexercisable	Value of Unexercised In-The-Money Options/SARs At FY-End Exercisable/Unexercisable
Eric Langan	-0- (1)	-0-	175,000 / 55,000	-0- / -0-

(1) Mr. Langan did not exercise any options during the fiscal year ended September 30, 2000.

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, 2000, we issued 5,000 options to each present Director. These options have a strike price of \$2.18 per share and expire in August 2005.

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 for employee 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. 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 1995 we adopted the 1995 Stock Option Plan. A total of 300,000 shares may be granted and sold under the 1995 Plan. As of December 4, 2000 a total of 192,500 stock options had been granted and are outstanding under the Plan, none of which have been exercised. The Company does not plan to issue any additional options under the 1995 Plan.

In August, 1999 we adopted the 1999 Stock Option Plan. A total of 500,000 shares may be granted and sold under the 1999 Plan. As of September 30, 2000, a total of 398,000 stock options had been granted and are outstanding under the Plan, none of which have been exercised.

EMPLOYMENT AGREEMENT

We have a three year employment agreement with Eric S. Langan (the "Langan Agreement"). The Langan Agreement extends through August 11, 2001 and provides for an annual base salary of \$171,600. In April, 1999, Mr. Langan took a voluntary salary reduction for the remainder of fiscal year 1999 of 20% for a reduction of \$34,320. The Langan Agreement also provides for participation in all benefit plans maintained by us for salaried employees. Mr. Langan's Agreement contains a confidentiality provision and an agreement by Mr. Langan not to compete with us upon the expiration of the Langan Agreement. We have not established long term incentive plans or defined benefit or actuarial plans. Pursuant to the Langan Agreement, Mr. Langan has received options to purchase 125,000 shares at an exercise price of \$1.87 per share, which vested in August, 1999.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information at December 4, 2000, 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 4, 2000 there were approximately 4,595,495 shares of Common Stock outstanding.

Name and Address -----	Number of Shares -----	Title of Class -----	Percent of Class -----
Eric S. Langan 505 North Belt, Suite 630 Houston, Texas 77060	1,271,038 (1)	Common Stock	27%
Robert L. Watters 315 Bourbon Street New Orleans, Louisiana 70130	10,000 (2)	Common Stock	0.3%
Michael S. Thurman 505 North Belt, Suite 630 Houston, Texas 77060	22,471 (3)	Common Stock	0.4%
Travis Reese 505 North Belt, Suite 630 Houston, Texas 77060	22,600 (4)	Common Stock	0.4%
Alan Bergstrom 707 Rio Grande, Suite 200 Austin, Texas 78701	15,000 (2)	Common Stock	0.4%
Ron Levi Suite 205 5000 North Parkway Calabasas, California 91302	754,000 (5)	Common Stock	16.5%
Paul Lesser Suite 205 5000 North Parkway Calabasas Calabasas, California 91302	700,000 (5)	Common Stock	15.3%
Voice Media, Inc. Suite 205 5000 North Parkway Calabasas Calabasas, California 91302	700,000 (6)	Common Stock	15.2%
E. S. Langan, L.P. 505 North Belt, Suite 630 Houston, Texas 77060	578,632	Common Stock	12.6%
Ralph McElroy 1211 Choquette Austin, Texas, 78757	817,147 (7)	Common Stock	17.3%
All of our Directors and Officers as a group of seven persons	1,845,109 (8)	Common Stock	37.6%

(1) This amount includes shares owned indirectly through E. S. Langan, L.P. Mr. Langan is the general partner of E. S. Langan, L.P. Mr. Langan has sole voting and investment power for 207,406 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. This amount also includes options to purchase up to 235,000 shares of common stock that are presently exercisable. Includes 250,000 shares over which Mr. Langan has voting power.

(2) Includes options to purchase up to 10,000 shares of common stock which are presently exercisable.

(3) Includes options to purchase up to 20,000 shares of common stock which are presently exercisable.

(4) Includes options to purchase up to 22,500 shares of common stock that are presently exercisable

(5) Of these, 700,000 shares are owned directly by Voice Media, Inc. Messrs. Levi and Lesser are control person of Voice Media, Inc. Of these shares, 250,000 shares are subject to a voting agreement whereby Eric S. Langan has voting power over these shares. This voting agreement is related to the acquisition of the XXXPassword.com assets of Voice Media, Inc. by us.

- (6) Of these shares, 250,000 shares are subject to a voting agreement whereby Eric S. Langan has voting power over these shares. This voting agreement is related to the acquisition of the XXXpassword.com assets of Voice Media, Inc. by us.
- (7) Includes 66,545 shares of common stock which would be issuable upon conversion of a convertible debenture held by Mr. McElroy. Also includes 52,135 shares of common stock which would be issuable upon conversion of a convertible promissory note held by Mr. McElroy.
- (8) Includes options to purchase up to 297,500 shares of common stock which are presently exercisable.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our Board of Directors has adopted a policy that our 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 the 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.

In August, 1998, we acquired approximately 93% of the outstanding common stock of Taurus Entertainment Companies, Inc. ("Taurus") in a private stock exchange transaction with the certain principal stockholders of Taurus, among whom were Eric S. Langan and Ralph McElroy. The Stock Exchange Agreement provided that we exchange one share of our common stock for each three and one-half shares of Taurus common stock owned by certain principal shareholders of Taurus. As a result of the Exchange, Mr. Langan received 402,146 shares of our common stock, and Mr. McElroy received 393,389 shares of our common stock. The terms and conditions of the Exchange were determined by the parties through arms length negotiations.

In a transaction simultaneous to the acquisition of Taurus, we acquired certain real estate in San Antonio, Texas from Mr. McElroy. We acquired the property from Mr. McElroy for the same price that Mr. McElroy paid for the property. We financed the purchase of the property by the issuance of a six year \$366,000 Convertible Debenture, secured by the real estate acquired. The Convertible Debenture bears interest at the rate of 12% per annum, with interest payable monthly. Interest payments began in September, 1998. The principal balance of the Convertible Debenture is due in one lump sum payment in July, 2004. The Convertible Debenture is subject to redemption at our option, in whole or in part, at 100% of the principal face amount of the Convertible Debenture redeemed plus any accrued and unpaid interest on the redemption date, at any time and from time to time, upon not less than 30 nor more than 60 days notice, if the closing price of our common stock shall have equaled or exceeded \$8.50 per share of common stock for ten (10) consecutive trading days. The Convertible Debenture is convertible into shares of Common Stock at any time prior to maturity (unless earlier redeemed) at the Conversion Price of \$2.75 per share. In the event that we file a Registration Statement to register shares of our Common Stock with the Securities and Exchange Commission on Form S-3 or other similar form (except for Form S-8 or Form S-4) than we will undertake to use our best efforts to register for resale all of Mr. McElroy's shares into which the Convertible Debenture may be converted under the same Registration Statement.

In a transaction simultaneous to the acquisition of Taurus, Taurus refinanced a mortgage on one of its real estate holdings in Houston, Texas by extinguishing this mortgage and replacing it with a Convertible Debenture secured by this real estate. The mortgagee was Mr. McElroy and Mr. McElroy received the Convertible Debenture. Taurus had purchased the property from Mr. McElroy for the same price that Mr. McElroy paid for the property. We refinanced the purchase of the property on terms more favorable to Taurus by the issuance of a six year \$286,744 Convertible Debenture, secured by the real estate acquired. We are a guarantor of this Convertible Debenture. The Convertible Debenture bears interest at the rate of 12% per annum, with interest payable monthly. Interest payments began in September, 1998. The principal balance of the Convertible Debenture is due in one lump sum payment in July, 2004. The Convertible Debenture is convertible into shares of our common stock at any time prior to maturity at the Conversion Price of \$2.75 per share. In the event that we file a Registration Statement to register shares of our Common Stock with the Securities and Exchange Commission on Form S-3 or other similar form (except for Form S-8 or Form S-4) than we will undertake to use our best efforts to register for resale all of Mr. McElroy's shares into which the Convertible Debenture may be converted under the same Registration Statement.

On March 29, 1999, Robert L. Watters, our Director, purchased RCI Entertainment Louisiana, Inc. ("RCI Louisiana"), our subsidiary, for the purchase price of \$2,200,000 consisting of \$1,057,327 in cash, the endorsement over to us of a \$652,744 secured promissory note (the "McElroy Note"), a guaranteed promissory note in the amount of \$326,773 made by Mr. Watters (the "Watters Note"), and the cancellation by Mr. Watters of our \$163,156 indebtedness to him. The McElroy Note, which is due July 31, 2004, bears interest at the rate of twelve percent (12%) per annum with interest being paid monthly. The principal of the McElroy Note is due in one lump sum payment. The McElroy Note is secured by (i) our convertible debenture in the original principal amount of \$366,000, which we issued on August, 11, 1998, in favor of Mr. McElroy (the "Convertible Debenture") and (ii) a promissory note of Taurus Entertainment Companies, Inc. (our subsidiary) and guaranteed by us (which has a conversion feature) in the original principal amount of \$286,744.61, dated August 11, 1998, in favor of Mr. McElroy, (the "Convertible Promissory Note"). Both the Convertible Debenture and the Convertible Promissory Note are secured by certain real estate holdings of us or our subsidiaries. The Watters Note is guaranteed by RCI Louisiana, which operates a Rick's Cabaret in New Orleans, Louisiana. In connection with the acquisition of the stock of RCI Louisiana, Mr. Watters also assumed RCI Louisiana's liabilities of approximately \$1,400,000. As a condition of this transaction, Mr. Watters arranged for the release by a lender of our liability of \$763,199 owed to the lender by RCI Louisiana, which we had guaranteed. We obtained an opinion from Chaffe & Associates, Inc., a New Orleans investment banking firm, stating that the purchase price paid by Mr. Watters for RCI Louisiana was fair from a financial point of view to our shareholders. The terms of this transaction were the result of arms length negotiations between us and Mr. Watters. In connection with the sale of RCI Louisiana, Mr. Watters, and Erich Norton White, our former director, entered into agreements with us to terminate their Employment Agreements and to cancel all stock options on our common stock which they held. Further, in connection with the sale of RCI Louisiana, we entered into an Exclusive Licensing Agreement with Mr. Watters which granted Mr. Watters the right to the use of the name "Rick's Cabaret" and all logos, trademarks and service marks attendant thereto for use in the states of Louisiana, Florida, Mississippi and Alabama.

On July 6, 2000, we acquired the adult Internet web site www.XXXPassword.com from Voice Media, Inc., a corporation owned by Messrs. Levi and Lesser, who are two of our directors. This web site had gross revenues in excess of \$3,000,000 for the 11 months ended May 31, 2000. Under the terms of the acquisition, we issued 700,000 restricted shares of our common stock to Voice Media, of which 250,000 shares will remain in escrow until certain earnings benchmarks are achieved. Voice Media will also be entitled to receive a cash earn-out amount from us of \$380,000 during the next six years. In addition, Voice Media could receive up to an additional cash earn out amount of \$925,000 if certain earnings benchmarks are achieved. Voice Media would receive the entire amount if the EBIDTA (earnings before interest, depreciation, taxes and amortization) of XXXPassword during the next 12 months exceeds \$1,200,000. The cash earn-out portion of the purchase price is payable only from up to 50% of the free cash flow from the web site, payable over six years. As part of the acquisition, Voice Media will continue to manage and market XXXPassword for us at a flat monthly fee. This transaction was the result of arm length negotiations between the parties. However, no appraisal was done.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No. Identification of Exhibit

3.1	*	The Company's Articles of Incorporation, which are incorporated by reference to the Company's Form SB-2 Exhibit 3.1 as effective with the Commission on October 12, 1995.
3.2	*	The Company's By-laws, which are incorporated by reference to the Company's Form SB-2 Exhibit 3.2 as effective with the Commission on October 12, 1995.
4.1	*	Specimen of the Company's common stock certificate.
4.2	*	Instruments defining the rights of security holders, which are incorporated by reference to the Company's Form SB-2 Exhibit 4.2 as effective with the Commission on October 12, 1995.
4.3	*	Form of Debenture, which is incorporated by reference to the Company's Form 8-K dated August 11, 1998.
21.1	*	Subsidiaries, which is incorporated by reference to the Company's

Form 10-KSB for the year ended September 30, 1998.

27.1 ** Financial Data Schedule

* Incorporated by reference ** Filed herewith

(b) Reports on Form 8-K.

On July 12, 2000, we filed a report on Form 8-K reporting the acquisition of assets, other events and financial statements. On September 14, 2000 we filed a report on Form 8-K Amendment No. 1 reporting the financial statements for the same transaction. a report on Form 8-K reporting

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 6, 2000.

Rick's Cabaret International, Inc.

By: /s/ Eric Langan

Eric Langan, Director, CEO, President and
Chief Financial 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 ----
<hr/> /s/ Eric Langan		December 6, 2000

----- Director, CEO, President Eric Langan and Chief Financial Officer

/s/ Michael S. Thurman		December 6, 2000
-----	Director, COO and	
Michael S. Thurman	V.P.-Director of Operations	

/s/ Travis Reese		December 6, 2000
-----	Director and	
Travis Reese	V.P.-Director of Technology	

/s/ _____		December __, 2000
-----	Director	
Robert L. Watters		

/s/ Alan Bergstrom		December 6, 2000
-----	Director	
Alan Bergstrom		

/s/ Ron Levi		December 6, 2000
-----	Director	
Ron Levi		

/s/ Paul Lesser		December 6, 2000
-----	Director	
Paul Lesser		

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

AUDITED FINANCIAL INFORMATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
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, 2000 and 1999, and the related consolidated statements of operations, changes in 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 consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated 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, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Jackson & Rhodes P.C.

Dallas, Texas
November 30, 2000

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2000 AND 1999

ASSETS

	2000	1999
Current assets:		
Cash	\$ 374,532	\$ 378,161
Accounts receivable	297,761	225,565
Inventories	200,471	115,773
Prepaid expenses	67,661	102,031
Land held for sale	200,000	200,000
Total current assets	1,140,425	1,021,530
Property and equipment:		
Buildings, land and leasehold improvements	8,360,090	8,324,297
Furniture and equipment	1,508,990	1,569,767
	9,869,080	9,894,064
Less accumulated depreciation	(1,296,898)	(1,340,343)
	8,572,182	8,553,721
Other assets:		
Goodwill, less accumulated amortization of \$582,221 and \$386,066	3,412,827	2,839,745
Other	288,223	223,141
	3,701,050	3,062,886
	\$13,413,657	\$12,638,137
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt (Note 4)	\$ 456,749	\$ 375,622
Accounts payable - trade	437,083	514,447
Accrued expenses	380,279	115,752
Total current liabilities	1,274,111	1,005,821
Long-term debt, less current portion (Note 4)	3,409,767	4,282,777
Total liabilities	4,683,878	5,288,598
Commitments and contingencies (Note 7)	-	-
Minority interests	64,410	34,247
Stockholders' equity (Note 9):		
Preferred stock - \$.10 par, authorized 1,000,000 shares; none issued	-	-
Common stock - \$.01 par, authorized 15,000,000 shares; issued 4,348,678 and 3,613,678 shares	43,487	36,137
Additional paid-in capital	10,867,449	9,727,309
Retained earnings (deficit)	(2,245,567)	(2,448,154)
Total stockholders' equity	8,665,369	7,315,292
	\$13,413,657	\$12,638,137
	=====	=====

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

	2000	1999
	-----	-----
Revenues:		
Sales of alcoholic beverages	\$ 4,751,459	\$ 4,511,205
Sales of food	1,310,893	1,035,178
Service revenues	4,918,740	4,229,426
Internet revenues	1,582,276	-
Other	175,948	605,618
	-----	-----
	12,739,316	10,381,427
	-----	-----
Operating expenses:		
Cost of goods sold	2,444,429	1,437,553
Salaries and wages	4,193,349	3,637,637
Other general and administrative:		
Taxes and permits	1,745,975	1,408,115
Charge card fees	189,463	187,428
Rent	121,017	264,988
Legal and accounting	776,351	716,545
Advertising	793,836	585,470
Other	2,360,294	2,102,031
	-----	-----
	12,624,714	10,339,767
	-----	-----
Income (loss) from operations	114,602	41,660
Other income (expense)		
Interest expense	(414,660)	(545,829)
Gain on sale of assets	181,840	169,955
Excess of insurance proceeds over fire loss	-	290,769
Vendors' concessions (Note 10)	281,076	
Loss on lease termination	-	(219,780)
Other	39,729	222,653
	-----	-----
Net loss	\$ 202,587	\$ (40,572)
	=====	=====
Basic loss per common share	\$ 0.05	\$ (0.01)
	-----	-----
Weighted average shares outstanding	4,198,735	3,355,969
	=====	=====

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

	Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Total
	Number of Shares	Amount			
Balance, September 30, 1998	3,233,677	\$ 32,337	\$ 8,973,714	\$(2,407,582)	\$6,598,469
Sales of common stock for cash	312,501	3,125	621,877	-	625,002
Issuance of common stock for services	67,500	675	63,065	-	63,740
Stock options issued for future services	-	-	30,000	-	30,000
Stock options issued as compensation	-	-	38,653	-	38,653
Net income (loss)	-	-	-	(40,572)	(40,572)
Balance, September 30, 1999	3,613,678	36,137	9,727,309	(2,448,154)	7,315,292
Sales of common stock for cash	76,500	765	174,410	-	175,175
Issuance of common stock for services	28,500	285	73,655	-	73,940
Issuance of common stock for accounts payable	20,000	200	39,800	-	40,000
Shares issued for XXXPassword (Note 3)	450,000	4,500	664,875	-	669,375
Shares issued for Chesapeake Bay (Note 3)	160,000	1,600	187,400	-	189,000
Net income (loss)	-	-	-	202,587	202,587
Balance, September 30, 2000	4,348,678	\$ 43,487	\$10,867,449	\$(2,245,567)	\$8,665,369

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

	2000	1999
Net income (loss)	\$ 202,587	\$ (40,572)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	585,797	630,001
Issuance of common stock for services	73,940	63,740
Stock options issued as compensation	-	38,653
Loss on lease termination	-	219,780
Minority interest	30,163	22,351
Gain on sale of subsidiary	-	(169,955)
Excess of insurance proceeds over fire loss	-	(290,769)
Gain on sale of assets	(181,840)	-
Vendors' concessions (Note 10)	(281,076)	-
Changes in assets and liabilities:		
Accounts receivable	102,804	(520,169)
Inventories	(84,698)	(56,866)
Prepaid expenses and other assets	(30,712)	(68,981)
Accounts payable and accrued liabilities	357,112	(370,560)
Net cash provided (used) by operating activities	774,077	(543,347)
Cash flows from investing activities:		
Additions to property and equipment and goodwill	(552,261)	(1,038,600)
Insurance proceeds -- fire damage	-	496,625
Cash in subsidiary sold	-	(171,899)
Proceeds from sale of subsidiary	-	1,057,327
Proceeds from sale of assets	240,136	-
Net cash provided (used) by investing activities	(312,125)	343,453
Cash flows from financing activities:		
Common stock issued, less offering costs	175,175	625,002
Increase in long-term debt	228,150	9,057
Payments on long-term debt	(868,906)	(653,648)
Net cash used by financing activities	(465,581)	(19,589)
Net increase (decrease) in cash	(3,629)	(219,483)
Cash at beginning of year	378,161	597,644
Cash at end of year	\$ 374,532	\$ 378,161
Cash paid during the period for:		
Interest	\$ 418,701	\$ 501,864

Noncash activities:

During the year ended September 30, 2000, the Company issued common shares for accounts payable and for certain acquisitions (see Note 3).

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2000 AND 1999

1. ORGANIZATION

Rick's Cabaret International, Inc. (the "Company") was formed in December 1994, to acquire all the outstanding capital stock of Trumps Inc. ("Trumps"), a company owned 100% by the Company's sole stockholder. On October 13, 1995, the Company completed its public offering of 1,840,000 shares of common stock. The proceeds from the sale of stock amounted to approximately \$4,270,000 net of underwriting discounts, commissions and expenses of the offering. The Company originally owned a premiere adult nightclub offering topless entertainment and restaurant and bar operations and a non-sexually oriented bar in Houston, Texas. The Company opened another premier adult nightclub in leased facilities on Bourbon Street in New Orleans, Louisiana in January 1997 (sold in 1999 - see Note 4), and during the year ended September 30, 1998, the Company opened another premier adult nightclub in a facility purchased in Minneapolis, Minnesota. Also during the year ended September 30, 1998, the Company acquired approximately 93% of the outstanding common stock of Taurus Entertainment Companies, Inc. ("Taurus"), a publicly held company which also owns adult nightclubs. In December 1998, the Company opened another premier adult nightclub in north Houston, located near George Bush Intercontinental Airport in premises leased from a subsidiary of Taurus. During 2000, the Company has acquired another club location in Houston. The Company now operates six nightclubs in Houston, San Antonio and Austin, Texas and Minneapolis, Minnesota.

During the year ended September 30, 1999, the Company launched certain adult internet web sites and acquired another site during July 2000 (Note 3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Loss Per Common Share

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"). SFAS 128 provides a different method of calculating earnings per share than was formerly used in APB Opinion 15. SFAS 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. Dilutive earnings per share reflects the potential dilution of securities that could share in the earnings of the Company. The Company was required to adopt this standard in the fourth quarter of calendar 1997. All share and per share information in the accompanying financial statements has been retroactively adjusted to reflect the effects of a 1-for-2 reverse split of the Company's common shares in March 1999. The accompanying presentation is of basic earnings per share because dilutive earnings per share is the same as basic.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates and Assumptions

Preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventories

Inventories, consisting principally of liquor and food products, are stated at the lower of cost or market (first-in, first-out method).

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Cost of property renewals and betterments are capitalized; costs of property maintenance and repairs are charged against operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the individual assets, as follows:

Building and improvements	31	years
Equipment	5-7	years
Leasehold improvements	40	years

Revenue Recognition

The Company recognizes all revenues at point-of-sale upon receipt of cash, check or charge sale. This includes VIP Room Memberships, since the memberships are non-refundable and the Company has no material obligation for future performance.

Income Taxes

The Company accounts for its income taxes in accordance with Statement of Financial Accounting Standards No. 109, which reflects an asset and liability approach in accounting for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

Goodwill

Goodwill acquired in business acquisitions is stated at cost and amortized over the estimated useful lives of fifteen years for nightclubs and five years for internet web sites.

3. ACQUISITIONS

On July 6, 2000, the Company acquired an adult internet website, XXXPassword. The acquisition of XXXPassword was accounted for by the purchase method of accounting; therefore, the operations of XXXPassword have been included in the accompanying statement of operations since the date of acquisition. Under purchase accounting, the purchase price was allocated to goodwill, because XXXPassword has no tangible assets. The purchase price was based on the value of the 450,000 common shares of Rick's issued in the acquisition. Rick's also placed 250,000 common shares in escrow to be issued should the earnings, as defined, of XXXPassword aggregate \$400,000 for the first full 12 months following the closing date. These contingent shares are to be valued and charged to the purchase price if the contingency is met in the next twelve months.

The acquisition agreement between the Company and the seller of XXXPassword requires the Company to pay an Earn Out Amount of \$380,000 to the seller, plus either (1) \$475,000 if the earnings before depreciation, amortization, interest and taxes ("EBITDA") of XXXPassword during the first full twelve-month period beginning on the closing date exceeds \$800,000 but is less than \$1,200,000 (but not otherwise) or (2) \$925,000 if the EBITDA of XXXPassword during the first full twelve-month period beginning on the closing date exceed \$1,200,000. The Earn Out Amount is to be paid in monthly amounts equal only to 50% of the Free Net Cash Flow (as defined) of XXXPassword during the six year period from the closing date. Because the EBITDA in the period from July 6, 2000 to September 30, 2000 was approximately \$136,000, a portion of the Earn Out Amount (\$68,263) has been accrued in the accompanying financial statements. This amount has been added to goodwill at September 30, 2000.

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

3. ACQUISITIONS (CONTINUED)

The cost of the XXXPassword acquisition was as follows:

Fair value of 450,000 common shares issued	\$669,375
Earn out amount capitalized	68,263

Amount charged to goodwill	\$737,638
	=====

On May 1, 2000, the Company began operating an adult nightclub in Houston, Texas ("Chesapeake Bay") and acquired the club effective August 4, 2000. The acquisition of Chesapeake Bay was accounted for by the purchase method of accounting; therefore, the operations of Chesapeake Bay have been included in the accompanying statement of operations since the date of acquisition. Under purchase accounting, the purchase price was allocated to the assets acquired based on their fair values. Consideration for the purchase was 160,000 shares of Company common stock valued at their fair market value of \$189,000. The purchase price and adjustments to the historical book values of Chesapeake Bay are as follows:

Fair value of inventory acquired	\$ 12,165
Fair values of property and equipment	142,658
Excess cost over fair values assigned to goodwill	34,177

Purchase price	\$189,000
	=====

The following unaudited pro forma information for the year ended September 30, 1999 gives effect to the transaction as if it had occurred at the beginning of that year. Chesapeake Bay's operations are for the calendar year 1999. The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of results of operations that would have been achieved had the transaction been completed as of the beginning of the year, nor are they indicative of the Company's future results of operations.

	1998

Revenues	\$11,580,298

Net loss	\$ (97,769)

Net loss per common share	\$ (0.03)

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

4. LONG-TERM DEBT

	2000	1999
	-----	-----
Note payable to a bank, payable \$8,315 per month, including interest at the prime rate plus 1%, matures December 2001, collateralized by land and building in Houston, Texas.	\$ 453,824	\$ 502,027
9% notes payable to an individual, monthly payments aggregating \$22,732, including interest, maturing in 2018. Collateralized by real estate in Minneapolis, Minnesota.	2,394,981	2,449,511
Note payable to partnership maturing March 2026, due in monthly installments of \$576 including principal and interest at 12%; collateralized by real estate.	54,860	55,169
Note payable to partnership maturing July 2007, due in monthly installments of \$653 including principal and interest at 12%; collateralized by real estate.	62,207	62,557
Note payable to individual maturing March 2006, due in monthly installments of \$2,573, plus interest at 9.25%; collateralized by real estate.	305,731	308,202
Note payable to corporation maturing April 2002, due in monthly installments of \$13,758 including principal and interest at 10%; collateralized by real estate.	281,682	411,478
Note payable to a financing company maturing August 2003, due in monthly installments of \$5,380, including interest at 10%, collateralized by real estate .	-	547,464
Note payable to an individual, due in monthly installments of \$17,957, including interest at 14% through August 2001, collateralized by real estate	184,381	-
Various notes, at interest rates ranging from 6% to 12%, payable in monthly installments, including interest, aggregating approximately \$8,500, collateralized by real estate.	128,850	321,991
	-----	-----
	3,866,516	4,658,399
	(456,749)	(375,622)
	-----	-----
Less current maturities	\$3,409,767	\$4,282,777
	=====	=====

Following is a summary of long-term debt at September 30:

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

4. LONG-TERM DEBT (CONTINUED)

Substantially all the Company's assets are pledged to secure the above debt. The prime rate was 9.5% at September 30, 2000. Following are the maturities of long-term debt for the years ending September 30:

2000	\$ 375,622
2001	300,716
2002	301,859
2003	605,804
2004	294,878
Thereafter	2,779,520

	\$4,658,399
	=====

5. SALE OF SUBSIDIARY

On March 29, 1999 an investment partnership, headed by Eric Langan, President of the Company, and another investor, acquired all of Robert Watters' outstanding share of stock of the Company. At the same time, the Company sold one of its subsidiaries, RCI Entertainment Louisiana, Inc, which operates a Rick's Cabaret in New Orleans, Louisiana, to Mr. Watters for the purchase price of \$2,200,000, consisting of \$1,057,327 in cash, a \$652,744 secured promissory note made by one of the purchasers of Mr. Watters' stock, a \$326,773 secured promissory note made by Mr. Watters, and the cancellation by Mr. Watters of the Company's \$163,156 debt to him. The Company recorded a \$169,955 gain on the sale.

6. INCOME TAXES

Income tax expense (benefit) consisted of current taxes for 1999. Following is a reconciliation of income taxes (benefit) at the U.S. Federal tax rate to the amounts recorded by the Company for the years ended September 30:

	2000	1999
	-----	-----
Tax credit on loss before income taxes at the statutory rate	\$ (76,355)	\$ (13,000)
Separate return limitation - unavailable loss carrybacks	76,355	13,000
	-----	-----
	\$ -	\$ -
	=====	=====

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

6. INCOME TAXES (CONTINUED)

The components of the net deferred tax asset/liability are as follows at September 30:

	2000	1999
	-----	-----
Operating loss carryforwards	\$(1,087,000)	\$(1,140,000)
Deferred tax asset valuation allowance	1,087,000	1,140,000
	-----	-----
	\$ -	\$ -
	=====	=====

For tax purposes, the Company has a net operating loss carryforward amounting to approximately \$3,200,000 which will expire, if not utilized, beginning in 2012.

7. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases corporate office facilities. Following is a schedule of minimum lease payments for the years ending September 30:

2001	\$ 13,536
2002	14,382
2003	15,228
2004	7,416

Concentration of Credit Risk

The Company invests its cash and certificates of deposit primarily in deposits with major banks. Certain deposits may be in excess of federally insured limits. The Company has not incurred losses related to its cash on deposit with banks.

Litigation

In November, 1998, LMTD, Inc. initiated litigation against a subsidiary of one of the Company's subsidiaries, Citation Land, LLC ("Citation"), in a case styled LMTD, Inc. v. Texas Warehouse Company, Inc., et al. Cause No. 98-12570, in the 200th Judicial District Court of Travis County, Texas. The Plaintiff alleged a tortious interference claim against Citation in the amount of \$540,000 in connection with a Purchase Option Agreement the plaintiff claims to have with a company named Texas Warehouse Company, Inc. In October 2000, the Company was granted a partial summary judgment on some of the issues in this matter. In November 2000, the court signed a take-nothing judgment in the Company's favor against the plaintiff in all matters.

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

7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

On April 20, 1999 the Company was served as a defendant in litigation that was filed on February 23, 1999. The lawsuit is styled John M. Skora and Robert Martin v. Trumps, Inc., Rick's Cabaret International, Inc., RCI Entertainment (Texas), Inc., and Robert L. Watters, Cause No. 1999-09394, in the 11th Judicial District Court of Harris County, Texas. The plaintiffs claim that they purchased a dance from one of the dancers at one of the Company's nightclubs and paid for the dance by the use of their credit card. The plaintiffs assert that the Company violated the Texas Finance Code by imposing a surcharge for credit card use. The plaintiffs voluntarily dismissed this action in August 2000.

In January, 1999, the Company as named as a defendant in McGill v. RCI Entertainment (Minnesota) Inc., No. 98-2742, U.S. District Court, Minnesota. The plaintiffs have asserted claims for under federal and state civil rights acts for discrimination and harassment. Some of the plaintiffs settled with the Company, and all other matters were dismissed by the court.

In June, 1999, the Company was named as defendant in Hubka v. RCI Entertainment (Minnesota). Inc., No. CT 99-009560, Hennepin County District Court. The plaintiff has asserted claims under the Minnesota Human Rights Act and for negligence. This matter has been resolved.

The Company is also the subject of other routine legal matters in the ordinary course of business. The Company does not believe that the ultimate resolution of the above matters will have a material impact on the Company's financial position or results of operations.

Sexually Oriented Business Ordinance of Houston, Texas

In January 1997, the City Council of the City of Houston passed a comprehensive new Ordinance regulating the location of and the conduct within Sexually Oriented Businesses. The new Ordinance established new distances that Sexually Oriented Businesses may be located to schools, churches, playgrounds and other sexually oriented businesses. There were no provisions in the Ordinance exempting previously permitted sexually oriented businesses from the effect of the new Ordinance. In 1997, the Company was informed that Rick's Cabaret at its location at 3113 Bering Drive failed to meet the requirements of the Ordinance and accordingly the renewal of the Company's Business License at that location was denied. The location in north Houston opened in December, 1998 similarly failed to meet the requirements of the Ordinance as passed.

The Ordinance provided that a business which was denied a renewal of its operating permit due to changes in distance requirements under the Ordinance would be entitled to continue in operation for a period of time (the "Amortization Period") if the owner were unable to recoup, by the effective date of the Ordinance, its investment in the business that was incurred through the date of the passage and approval of the Ordinance.

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

7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Sexually Oriented Business Ordinance of Houston, Texas (Continued)

The Company filed a written request with the City of Houston requesting an extension of time during which the Company could continue operations at its original location under the Amortization Period provisions of the Ordinance since the Company was unable to recoup its investment prior to the effective date of the Ordinance. An administrative hearing (the "Hearing") was held by the City of Houston to determine the appropriate Amortization Period to be granted to the Company. At the Hearing, the Company was granted an amortization period through July 1998. The Company has the right to appeal any decision of the Hearing official to the district court in the State of Texas.

In May, 1997, the City of Houston agreed to defer implementation of the Ordinance until the constitutionality of the entire Ordinance was decided by court trial. In February 1998 the U.S. District Court for the Southern District of Texas, Houston, Division, struck down certain provisions of the Ordinance, including the provision mandating a 1,500 foot distance between a club and schools, churches and other sexually oriented business, leaving intact the provision of the 750 foot distance as it existed in the prior Houston, Texas Ordinance.

There are other provisions in the Houston, Texas Ordinance, such as provisions governing the level of lighting in a sexually oriented business, the distance between a customer and dancer while the dancer is performing in a state of undress and provisions regarding the licensing of dancers that were upheld which may be detrimental to the business by the Company. The Company, in concert with other sexually oriented businesses, is appealing these aspects of the Houston, Texas Ordinance.

The City of Houston has appealed the District Court's rulings with the Fifth Circuit Court of Appeals, and the Company filed a brief with the Fifth Circuit. In the event that the City of Houston is successful in an appeal, the Company's Bering Drive location could be out of compliance. Such an outcome could have an adverse impact on the Company's future.

On April 1, 1998, the City of Houston began enforcing certain portions of the Ordinance, including the distance requirement between a customer and a dancer while dancing, and the requirement that dancers be licensed. The City of Houston's enforcement of the recently implemented provisions of the Ordinance could have an adverse impact on the Rick's location in Houston, Texas. The current requirement of a three foot distance between a dancer and a customer could reduce customer satisfaction and could result in fewer customers at the Houston location. The requirement that a dancer be licensed may result in fewer dancers working, which could have an adverse impact on the Houston location. It is unknown what future impact the enforcement of the Ordinance may have on the Company's Houston locations.

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

7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, Disclosures about Fair Value of Financial Instruments. The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies.

The fair value of financial instruments classified as current assets or liabilities including cash and cash equivalents and notes and accounts payable approximate carrying value due to the short-term maturity of the instruments. The fair value of short-term and long-term debt approximate carrying value base on their effective interest rates compared to current market rates.

Other

The Company presently has a three year employment agreement with Eric Langan (the "Agreement") to serve as its President and Chief Executive Officer. The Agreement, which extends through 2001, provides for an annual base salary of \$171,600. The Agreement also allows for an annual bonus, at the discretion of the Board of Directors (excluding Mr. Langan), based upon the financial performance, including evaluation of the income and earnings of the Company during the year. The Agreement also provides for participation in all benefit plans maintained by the Company for salaried employees. The Agreement contains a confidentiality provision and an agreement by Mr. Langan not to compete with the Company upon the expiration of the Agreement.

8. EMPLOYEE STOCK OPTION PLAN

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 maybe either Incentive Stock Options, as that term is defined in Section 422A of the Internal Revenue Code of 1986, as amended, or nonstatutory options taxed under Section 83 of the Internal Revenue Code of 1986, as amended. 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 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 Plan. A total of 300,000 shares could be optioned and sold under the 1995 Plan and 500,000 shares under the 1999 Plan. The Company does not plan to issue any other options under the 1995 Plan.

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

8. EMPLOYEE STOCK OPTION PLAN (CONTINUED)

During the year ended September 30, 2000 and 1999, options were granted as follows:

	2000	Weighted Average Exercise Price	1999	Weighted Average Exercise Price
Outstanding at beginning of year	192,500	\$ 2.15	300,000	\$ 2.23
Granted	398,000	\$ 2.48	125,000	\$ 2.04
Expired	-	\$ -	(232,500)	\$ 2.23
Exercised	-	\$ -	-	
Outstanding at end of year	590,500	\$ 2.37	192,500	\$ 2.15
Exercisable at end of year	280,000	\$ 2.27	167,500	\$ 2.06

SFAS 123

In October 1995, the Financial Accounting Standards Board ("FASB") issued SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 defines a fair value based method of accounting for an employee stock option or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award. However, SFAS 123 also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees."

Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. Entities electing to remain with the accounting in Opinion 25 must make pro forma disclosures of net income and earnings per share as if the fair value based method of accounting had been applied. The Company has elected to measure compensation cost, including options issued, under Opinion 25. Under this method, compensation expense amounted to \$10,890 for the year ended September 30, 1999. The Company recorded an additional \$13,648 and \$27,763 in expense for 2000 and 1999, respectively under SFAS 123 for options issued to non-employees.

Pro forma disclosures as required by SFAS 123 for the fiscal years ended September 30, 2000 and 1999 are as follows:

	2000	1999
Pro forma net income (loss)	\$(187,705)	\$(176,374)
Pro forma net income (loss) per share	\$ (0.04)	\$ (0.05)

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

8. EMPLOYEE STOCK OPTION PLAN (CONTINUED)

The fair value of the awards was estimated at the grant date using a Black-Scholes option pricing model with the following weighted average assumptions for 2000: risk-free interest rate of 5.5%; volatility factor of 80%; and an expected life of the awards of two years. The weighted average assumptions for 1999 were: risk-free interest rate of 4.5%; volatility factor of 374%; and an expected life of the awards of one year. The weighted average contractual life of the outstanding options at September 30, 2000 and 1999 was 3.9 and 4.1 years, respectively.

9. STOCKHOLDERS' EQUITY

The Company acquired certain real estate in San Antonio, Texas under terms of a 12% subordinated convertible debenture (Note 4). The debenture is payable monthly, interest only, until maturity in July 2004. The Company has the option to redeem the debenture, in whole or in part, at its option if the closing price of the Company's common stock should equal or exceed \$8.50 per share for a period of ten days. The holder of the debenture has the option to convert any portion of the debenture to common shares of the Company at the conversion price of \$2.75 per share. The debentures are subordinated to the Company's bank debt and other "Senior Debt", as defined. The debentures are collateralized by the acquired real estate.

Taurus purchased real estate in Houston, Texas from Ralph McElroy, a principal stockholder of the Company, where Taurus operates an XTC Cabaret. The Company acquired the property from Mr. McElroy for the same price that Mr. McElroy paid for the property. The Company financed the purchase of the property by the issuance of a six-year \$286,744 Convertible Debenture, secured by the real estate acquired. The Company is a guarantor of this Convertible Debenture. The principal balance of the Convertible Debenture is due in July, 2004, in one lump sum payment. Interest is due and payable monthly, with the first interest payment beginning in September 1998. The Convertible Debenture is convertible into shares of Common Stock of the Company at any time prior to maturity at the Conversion Price of \$2.75 per share.

In connection with the sale of the Company's subsidiary in 1999 (Note 4), the Company received a note receivable from the holder of the two debentures above which is equal in amount and rate to the debentures above. The Company has offset these notes receivable and payable in the accompanying balance sheet at September 30, 1999.

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

10. OTHER INCOME

Other income includes approximately \$281,000 representing the writeoff of old outstanding accounts payable which the Company believes is no longer owed to certain third parties.

11. SEGMENT INFORMATION

Beginning in 2000, the Company is operating in two industries: adult night clubs and adult internet web sites.

Following is a summary of segment information for the year ended September 30, 2000:

Sales:	
Night clubs	\$11,157,040
Internet	1,582,276

	\$12,739,316
	=====
Operating income (loss):	
Night clubs	\$ 1,152,591
Internet	(309,201)

	843,390
General corporate expenses	(698,626)
Other income (expense), net	57,823

Net income	\$ 202,587
	=====
Identifiable assets:	
Night clubs	\$ 9,256,549
Internet	275,329

	9,531,878
General corporate assets	537,202

Total assets	\$10,069,080
	=====

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

11. SEGMENT INFORMATION (CONTINUED)

Capital expenditures:	
Night clubs	\$ 312,762
Internet	\$ 175,614
General corporate	63,885
	\$ 552,261
	=====

Depreciation and amortization:	
Night clubs	\$ 474,756
Internet	\$ 92,774
General corporate	18,267
	\$ 585,797
	=====

Operating income represents revenues less operating expenses for each segment and excludes income and expenses of a general corporate nature. Identifiable assets by segment are those assets that are used in the Company's operations within that industry but exclude investments in other industry segments. General corporate assets consist principally of corporate cash.

ARTICLE 5

MULTIPLIER: 1

PERIOD TYPE	12 MOS
FISCAL YEAR END	SEP 30 2000
PERIOD START	OCT 01 1999
PERIOD END	SEP 30 2000
CASH	374,532
SECURITIES	0
RECEIVABLES	297,761
ALLOWANCES	0
INVENTORY	200,471
CURRENT ASSETS	1,140,425
PP&E	9,869,080
DEPRECIATION	1,296,898
TOTAL ASSETS	13,413,657
CURRENT LIABILITIES	1,274,111
BONDS	3,409,767
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	43,487
OTHER SE	8,621,882
TOTAL LIABILITY AND EQUITY	13,413,657
SALES	12,739,316
TOTAL REVENUES	12,739,316
CGS	2,444,429
TOTAL COSTS	12,624,714
OTHER EXPENSES	(502,645)
LOSS PROVISION	0
INTEREST EXPENSE	414,660
INCOME PRETAX	202,587
INCOME TAX	0
INCOME CONTINUING	202,587
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	202,587
EPS BASIC	(.05)
EPS DILUTED	(.05)

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