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RICKS CABARET INTERNATIONAL INC

Form SB-2

August 24, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM SB-2

REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

Commission File Number \_\_\_\_\_

RICK'S CABARET INTERNATIONAL, INC.  
-----

(Exact name of small Business Issuer as specified in its charter)

TEXAS  
-----

(State or other jurisdiction of  
incorporation or organization)

76-0458229  
-----

(IRS Employer Identification No.)

5810  
-----

(Primary Standard Industrial  
Classification Code)

10959 CUTTEN ROAD  
HOUSTON, TEXAS  
-----

(Address of principal executive offices)

77066  
-----

(Zip Code)

(281) 397-6730  
-----

Issuer's telephone number, including area code

ERIC LANGAN  
CHIEF EXECUTIVE OFFICER AND PRESIDENT  
RICK'S CABARET INTERNATIONAL, INC.  
10959 CUTTEN ROAD  
HOUSTON, TEXAS 77066

Copies to:

ROBERT D. AXELROD, ESQ.  
AXELROD, SMITH & KIRSHBAUM, P.C.  
5300 MEMORIAL DRIVE, SUITE 700  
HOUSTON, TEXAS 77007  
(713) 861-1996

Approximate Date of Commencement of Proposed Sale to the Public: From time to  
time after the effective date of this registration statement.

CALCULATION OF REGISTRATION FEE  
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| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED                  | AMOUNT TO BE REGISTERED (1) | PROPOSED MAXIMUM OFFERING PRICE PER UNIT | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE | AMOUNT OF REGISTRATI FEE (2) |
|---|-----------------------------|--|---|------------------------------|
| Common Stock, \$.01 par value (3)                                   | 220,000                     | \$ 3.00                                  | \$ 660,000                                | \$ 77                        |
| Common Stock, \$.01 par value                                       | 150,000                     | \$ 2.50                                  | \$ 375,000                                | \$ 44                        |
| Common Stock, \$.01 par value                                       | 180,000                     | \$ 3.75                                  | \$ 675,000                                | \$ 79                        |
| Common Stock, \$.01 par value                                       | 200,000                     | \$ 2.00                                  | \$ 400,000                                | \$ 47                        |
| Common Stock, \$.01 par value/<br>Underlying a Convertible Note (4) | 360,000                     | \$ 5.46                                  | \$ 2,000,000                              | \$ 235                       |
| Common Stock, \$.01 par value/<br>Underlying Warrants (5)           | 50,000                      | \$ 3.00                                  | \$ 150,000                                | \$ 17                        |
| <b>TOTAL</b>  | <b>1,160,000</b>            | <b>N/A</b>                               | <b>\$ 4,260,000</b>                       | <b>\$ 501</b>                |

- (1) In accordance with Rule 416 under the Securities Act of 1933, as amended (the "Act"), this registration statement also covers any additional shares of common stock which may become issuable under by reason of any stock dividend, stock split, re-capitalization or any other similar transaction effected without the consideration which results in an increase in the number of registrant's outstanding shares of common stock.
- (2) This calculation is made solely for the purposes of determining the registration fee pursuant to the provisions of Rule 457 under the Securities Act of 1933, as amended.
- (3) Shares of Common Stock issuable upon the conversion of a Convertible Debenture.
- (4) Shares of Common Stock issuable upon the conversion of a Convertible Note with exercise prices ranging from \$4.50 to \$7.50 per share, with an average weighted conversion price of \$5.46 per share.
- (5) Shares of Common Stock issuable upon the exercise of Warrants.

DELAYING AMENDMENT UNDER RULE 473(A): The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to section 8(a), may determine.

The information in this prospectus is subject to completion or amendment. The securities covered by this prospectus cannot be sold until the registration statement filed with the Securities and Exchange Commission becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of that state.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING STOCKHOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND THE SELLING STOCKHOLDERS ARE NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PRELIMINARY PROSPECTUS  
SUBJECT TO COMPLETION, DATED AUGUST 23, 2005

RICK'S CABARET INTERNATIONAL, INC.  
1,160,000 SHARES OF COMMON STOCK

This prospectus relates to the offering for resale of up to 530,000 shares of our common stock, \$0.01 par value ("Common Stock") currently held by certain selling stockholders, 220,000 shares of Common Stock issuable upon the conversion of a Debenture currently held by a selling stockholder, 360,000 shares of Common Stock issuable upon the conversion of a Convertible Note currently held by a selling stockholder, and 50,000 shares of Common Stock issuable upon the conversion of warrants. For a list of the selling stockholders, please see "Selling Stockholders." We are not selling any shares of our Common Stock in this offering and therefore will not receive any proceeds from the sale thereof. We may, however, receive the benefit of proceeds upon the conversion of the Debenture and/or the Convertible Note held by certain selling stockholders for which we are registering the underlying shares of Common Stock. Upon conversion of any portion of the Debenture and/or the Convertible Note, we will apply the proceeds received directly to the debt for which the Debenture and/or Convertible Note was issued and the principal amount(s) of the Note and/or the Debenture will be reduced accordingly. Additionally, we may receive proceeds of approximately \$300,000 upon the exercise of warrants, which we would apply toward general operating expenses. We will bear all expenses, other than selling commissions and fees of the selling stockholders, in connection with the registration and sale of the shares being offered by this prospectus.

These shares may be sold by the selling stockholders from time to time in the over-the-counter market or other national securities exchange or automated interdealer quotation system on which our Common Stock is then listed or quoted, through negotiated transactions or otherwise at market prices prevailing at the time of sale or at negotiated prices.

Our common stock is quoted on the NASDAQ SmallCap Market under the symbol "RICK." On August 17, 2005, the last reported sales price of our Common Stock was \$3.50 per share.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISKS. PLEASE REFER TO

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THE "RISK FACTORS" BEGINNING ON PAGE 2.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS AUGUST \_\_\_\_, 2005.

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## PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all of the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, including the risk factors section, the financial statements and the notes to the financial statements. You should also review the other available information referred to in the section entitled "Where you can find more information" on page 37 in this prospectus and any amendment or supplement hereto. Unless otherwise indicated, the terms the "Company," "we," "us," and "our" refer and relate to Rick's Cabaret International, Inc. and its consolidated subsidiaries.

### THE COMPANY

Our name is Rick's Cabaret International, Inc. We currently own and operate a total of nine adult nightclubs that offer live adult entertainment, restaurant

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and bar operations. Three of our clubs operate under the name "Rick's Cabaret" and four of the clubs operate under the name "XTC". Our nightclubs are in Houston, Austin and San Antonio, Texas; Charlotte, North Carolina; Minneapolis, Minnesota; and New York, New York. In January 2005, we acquired a club in New York, New York. We are completing renovation of the location and anticipate opening this club as a fourth "Rick's Cabaret" in September 2005. In June 2004, we converted our original Rick's Cabaret nightclub in Houston's Galleria District into "Club Onyx", an upscale venue that welcomes all customers but cater especially to urban professionals, businessmen and professional athletes. We also own and operate a sports bar under the name of "Hummers" in Houston and own or operate premiere adult entertainment Internet websites.

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

### THE OFFERING

Outstanding Common Stock 4,287,148 shares (as of August 17, 2005).

Common Stock Offered Up to 530,000 shares of Common Stock held by certain selling stockholders, 220,000 shares of Common Stock issuable upon the conversion of a Convertible Debenture, 360,000 shares of common stock issuable upon the exercise of a Convertible Note (with conversion prices ranging from \$4.50 to \$7.50 per share and a weighted average price of \$5.46 per share), and 50,000 shares of Common Stock issuable upon the exercise of warrants.

Offering Price Determined at the time of sale by the selling stockholders.

Proceeds We are not selling any shares of our Common Stock in this offering and therefore will not receive any proceeds from the sale thereof. We may, however, receive the benefit of proceeds upon the conversion of the Debenture and/or the Convertible Note held by certain selling stockholders for which we are registering the underlying shares of Common Stock. Upon conversion of any portion of the Debenture and/or the Convertible Note, we will apply the proceeds received directly to the debt for which the Debenture and/or Convertible Note

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was issued and the principal amount(s) of the Note and/or the Debenture will be reduced accordingly. Additionally, we may receive proceeds of approximately \$300,000 upon the exercise of warrants, which we would apply toward general operating expenses.

The selling shareholders will pay any underwriting discounts and commissions and expenses incurred by the selling shareholders for brokerage, accounting, tax or legal services or any other

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expenses incurred by the selling shareholders in disposing of the shares. We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees, Nasdaq Small Cap Market listing fees, blue sky registration and filing fees, and fees and expenses of our counsel and our accountants.

Risk Factors      The securities offered hereby involve a high degree of risk. See "Risk Factors" herein.

### RISK FACTORS

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

#### RISKS RELATED TO THE COMPANY AND THE OFFERING

OUR BUSINESS OPERATIONS ARE SUBJECT TO REGULATORY UNCERTAINTIES WHICH MAY AFFECT OUR ABILITY TO CONTINUE OPERATIONS OF EXISTING NIGHTCLUBS ACQUIRE ADDITIONAL NIGHTCLUBS OR BE PROFITABLE.

Adult entertainment nightclubs are subject to local, state and federal regulations. Our business is regulated by local zoning, local and state liquor licensing, local ordinances and state and federal time place and manner restrictions. The adult entertainment provided by our nightclubs has elements of speech and expression and, therefore, enjoys some protection under the First Amendment to the United States Constitution. However, the protection is limited to the expression, and not the conduct of an entertainer. While our nightclubs are generally well established in their respective markets, there can be no assurance that local, state and/or federal licensing and other regulations will permit our nightclubs to remain in operation or profitable in the future.

WE MAY NEED ADDITIONAL FINANCING OR OUR BUSINESS EXPANSION PLANS MAY BE SIGNIFICANTLY LIMITED.

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

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shareholders, and debt financing, if available, may include restrictive covenants. Any failure by us to procure timely additional financing will have material adverse consequences on our business operations.

THERE IS SUBSTANTIAL COMPETITION IN THE NIGHTCLUB ENTERTAINMENT INDUSTRY WHICH

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MAY AFFECT OUR ABILITY TO OPERATE PROFITABLY OR ACQUIRE ADDITIONAL CLUBS.

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

### RISK OF ADULT NIGHTCLUB OPERATIONS

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

### PERMITS RELATING TO THE SALE OF ALCOHOL

We derive a significant portion of our revenues from the sale of alcoholic beverages. 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. Rick's presently holds 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 a member of the general 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. While we have never been subject to a protest hearing against the renewal of our Permits, there can be no assurance that such a protest could not be made in the future, nor can there be any assurance that the Permits would be granted in the event such a protest was made. Other states may have similar laws which may limit the availability of a permit to sell alcoholic beverages or which may provide for suspension or revocation of a permit to sell alcoholic beverages in certain circumstances. The temporary or permanent suspension or revocations of either of the Permits or the inability to obtain permits in areas of expansion would have a material adverse effect on the revenues, financial condition and results of operations of the Company.

WE MUST CONTINUE TO MEET THE NASDAQ SMALL CAP MARKET CONTINUED LISTING REQUIREMENTS OR WE RISK DELISTING.

Our securities are currently listed for trading on the Nasdaq Small Cap Market. We must continue to satisfy Nasdaq's continued listing requirements or risk delisting which would have an adverse effect on our business. If our securities are ever de-listed from the Nasdaq, it may trade on the over-the-counter market, which may be a less liquid market. In such case, our shareholders' ability to trade or obtain quotations of the market value of shares of our common stock would be severely limited because of lower trading volumes and transaction

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delays. These factors could contribute to lower prices and larger spreads

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in the bid and ask prices for our securities. There is no assurance that we will be able to maintain compliance with the Nasdaq continued listing requirements.

IN THE FUTURE, WE WILL INCUR SIGNIFICANT INCREASED COSTS AS A RESULT OF OPERATING AS A PUBLIC COMPANY, AND OUR MANAGEMENT WILL BE REQUIRED TO DEVOTE SUBSTANTIAL TIME TO NEW COMPLIANCE INITIATIVES.

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

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, commencing in fiscal 2006, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

### UNINSURED RISKS

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



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

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### LIMITATIONS ON PROTECTION OF SERVICE MARKS

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

### ANTI-TAKEOVER EFFECTS OF ISSUANCE OF PREFERRED STOCK

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

WE DO NOT ANTICIPATE PAYING DIVIDENDS ON COMMON SHARES IN THE FORESEEABLE FUTURE.

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

FUTURE SALES OF OUR COMMON STOCK MAY DEPRESS OUR STOCK PRICE.

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

THERE IS A LIMITED PUBLIC TRADING MARKET FOR OUR COMMON STOCK.

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Our stock is currently traded on the Nasdaq Small Cap Market under the trading symbol "RICK". There is a limited public trading market for our common stock. Without an active trading market, there can be no assurance of any liquidity or resale value of our common stock, and stockholders may be required to hold shares of our common stock for an indefinite period of time.

OUR STOCK PRICE HAS BEEN VOLATILE AND MAY FLUCTUATE IN THE FUTURE.

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

- our performance and prospects;
- the depth and liquidity of the market for our securities;
- sales by selling shareholders of shares issued or issuable in connection with the Debenture and/or Convertible Note;

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- investor perception of us and the industry in which we operate;
- changes in earnings estimates or buy/sell recommendations by analysts;
- general financial and other market conditions; and
- domestic economic conditions.

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

OUR MANAGEMENT CONTROLS A SIGNIFICANT PERCENTAGE OF OUR CURRENT OUTSTANDING COMMON STOCK AND THEIR INTERESTS MAY CONFLICT WITH THOSE OF OUR SHAREHOLDERS.

As of August 17, 2005, our Directors and executive officers and their respective affiliates collectively and beneficially owned approximately 27% of our outstanding common stock, including all warrants exercisable within 60 days. This concentration of voting control gives our Directors and executive officers and their respective affiliates substantial influence over any matters which require a shareholder vote, including, without limitation, the election of Directors, even if their interests may conflict with those of other shareholders. It could also have the effect of delaying or preventing a change in control of or otherwise discouraging a potential acquirer from attempting to obtain control of us. This could have a material adverse effect on the market price of our common stock or prevent our shareholders from realizing a premium over the then prevailing market prices for their shares of common stock.

WE ARE DEPENDENT ON KEY PERSONNEL.

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

CUMULATIVE VOTING IS NOT AVAILABLE TO STOCKHOLDERS.

Cumulative voting in the election of Directors is expressly denied in our

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

OUR DIRECTORS AND OFFICERS HAVE LIMITED LIABILITY AND HAVE RIGHTS TO INDEMNIFICATION.

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

The inclusion of these provisions in the Articles may have the effect of reducing the likelihood of derivative litigation against Directors and officers, and may discourage or deter stockholders or

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management from bringing a lawsuit against Directors and officers for breach of their duty of care, even though such an action, if successful, might otherwise have benefited us and our stockholders.

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

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

### CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We are including the following cautionary statement in this Form SB-2 to make applicable and take advantage of the safe harbor provision of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by us or on behalf of us. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Certain statements in this Form SB-2 are forward-looking statements. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of management and information currently available to management. The use of words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "should," "likely" or similar

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expressions, indicates a forward-looking statement. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties are set forth below. Our expectations, beliefs and projections are expressed in good faith and we believe that they have a reasonable basis, including without limitation, our examination of historical operating trends, data contained in our records and other data available from third parties. There can be no assurance that our expectations, beliefs or projections will result, be achieved, or be accomplished. In addition to other factors and matters discussed elsewhere in this Form SB-2, the following are important factors that in our view could cause material adverse affects on our financial condition and results of operations: the risks and uncertainties related to our future operational and financial results, the risks and uncertainties relating to our Internet operations, competitive factors, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, our dependence on key personnel, the ability to manage operations and the future operational strength of management, and the laws governing the operation of adult entertainment businesses. We have no obligation to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

For a discussion of some additional factors that may cause actual results to differ materially from those suggested by the forward-looking statements, please read carefully the information under "Risk Factors" beginning on page 2. The identification in this document of factors that may affect future performance and the accuracy of forward-looking statements is meant to be illustrative and by no means exhaustive. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

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We operate in a very competitive and rapidly changing environment. New risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. All forward-looking statements included in this prospectus are based on information available to us on the date of the prospectus. Except to the extent required by applicable laws or rules, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this prospectus.

You may rely only on the information contained in this prospectus. We have not authorized anyone to provide information different from that contained in this prospectus. Neither the delivery of this prospectus nor the sale of Common Stock means that information contained in this prospectus is correct after the date of this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy these securities in any circumstances under which the offer or solicitation is unlawful.

### THE BUSINESS

Our name is Rick's Cabaret International, Inc. We currently own and operate a total of nine adult nightclubs that offer live adult entertainment, restaurant and bar operations. Three of our clubs operate under the name "Rick's Cabaret" and four of the clubs operate under the name "XTC". Our nightclubs are in Houston, Austin and San Antonio, Texas; Charlotte, North Carolina; Minneapolis, Minnesota; and New York, New York. In January 2005, we acquired a club in New York, New York. We are completing renovation of the location and anticipate

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opening this club as a fourth "Rick's Cabaret" in September 2005. In June 2004, we converted our original Rick's Cabaret nightclub in Houston's Galleria District into "Club Onyx", an upscale venue that welcomes all customers but cater especially to urban professionals, businessmen and professional athletes. We also own and operate a sports bar under the name of "Hummers" in Houston and own or operate premiere adult entertainment Internet websites.

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

Our website address is [www.Ricks.com](http://www.Ricks.com). We make available free of charge our

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Annual Report on Form 10-KSB, Quarterly Reports on Form 10-QSB, Current Reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the SEC under Securities Exchange Act of 1934, as amended. Information contained in the website shall not be construed as part of this prospectus.

References to us in this prospectus registration statement include our 100%-owned and 51%-owned consolidated subsidiaries.

### BUSINESS ACTIVITIES-NIGHTCLUBS

Prior to the opening of the first Rick's Cabaret in 1983 in Houston, Texas, the topless nightclub business was characterized by small establishments generally managed by their owner. Operating policies of these establishments were often lax, the sites were generally dimly lit, standards for performers' personal

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appearance and personality were not maintained and it was customary for performers to alternate between dancing and waiting tables. The quantity and quality of bar service was low and food was not frequently offered. Music was usually "hard" rock and roll, played at a loud level by a disc jockey. Usually, only cash was accepted. Many businessmen felt uncomfortable in such environments. Recognizing a void in the market for a first-class adult nightclub, we designed Rick's Cabaret to target the more affluent customer by providing a unique quality entertainment environment. The following summarizes our areas of operation that distinguish us:

Female Entertainment. Our policy is to maintain high standards for both

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personal appearance and personality for the topless entertainers and waitresses. Of equal importance is a performer's ability to present herself attractively and to talk with customers. We prefer that the performers we hire be 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. At all clubs, except for our Minnesota location, the entertainers are independent contractors. We do not schedule their work hours.

Management. We often recruit staff from inside the topless industry, in the

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belief that management with experience in the sector adds to our ability to grow and attract quality entertainers. Management with experience is able to train new recruits from outside the industry.

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

Compliance Policies/Credit Cards. We review all credit card charges made by  
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our customers. We have in place a formal policy requiring that all credit card charges must be approved, in writing, by management before any charges are accepted. Management is trained to review credit card charges to ensure that the only charges approved for payment are for food, drink and entertainment.

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

Controls. Operational and accounting controls are essential to the  
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successful operation of a cash intensive nightclub and bar business. We have designed and implemented internal procedures and controls designed to ensure the integrity of our operational and accounting records. Wherever practicable, we separate management personnel from all cash handling so that management is isolated from and does not handle any cash. We use a combination of accounting and physical inventory control mechanisms to maintain a high level of integrity in our accounting practices.

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Information technology plays a significant role in capturing and analyzing a variety of information to provide management with the information necessary to efficiently manage and control 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

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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. We conduct a monthly independent overview of our financial condition and operating results.

Atmosphere. We maintain a high design standard in our facilities and decor.  
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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. The environment is carefully monitored for music selection, entertainer and waitress appearance and all aspects of customer service on a continuous basis.

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

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

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

### NIGHTCLUB LOCATIONS

We currently operate clubs under the name "Rick's Cabaret" in Houston, Texas, Minneapolis, Minnesota; and Charlotte, North Carolina. We intend to open a "Rick's Cabaret" in New York, New York in September 2005. We also operate a nightclub in Houston's Galleria District as "Club Onyx", an upscale venue that welcomes all customers but cater especially to urban professionals, businessmen and professional athletes. Additionally, we own four nightclubs in San Antonio, Austin, and Houston, Texas that operate under the name XTC. We also own a controlling interest in and operate a sport bar called "Hummers". We sold our New Orleans nightclub in March 1999, but it continues to use the name "Rick's Cabaret" under a licensing agreement. In early 2003, we acquired 51% control of the Wild Horse Cabaret adult nightclub near Hobby Airport, Houston, Texas and operate it as part of our popular XTC Cabaret group. In May 2003, we opened a sports bar called "Hummers", which is located next to Wild Horse Cabaret, in Houston, Texas.

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### RECENT NIGHTCLUB TRANSACTIONS

1. On March 3, 2004, we acquired the assets and business of a 7,000 square

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foot gentlemen's club in North Houston, which became our fourth XTC Cabaret. As a part of the transaction, we entered into a new five-year lease with an option for five additional years. The results of operations of this new venue are included in the accompanying consolidated financial statements from the date of acquisition.

2. In April 2003, we organized RCI Ventures, Inc. to acquire Nocturnal Concepts, Inc., which operates as an addition to our XTC Cabaret group, called "XTC Galleria". As part of this transaction, we transferred our ownership of Tantric Enterprises, Inc. (our subsidiary that operates Club Encounters) to RCI Ventures, Inc. As a result of these transactions we own a 51% interest in RCI Ventures, Inc. On September 30, 2004, we sold our shares in RCI Ventures, Inc. to unrelated third parties for \$15,000 cash and a \$235,000 note receivable with an annual interest rate of 6% over five years. As a part of the transaction, the Purchaser entered into a five-year lease for Club Encounters with an option for five additional years.
3. On September 15, 2004, our wholly-owned subsidiary, RCI Entertainment (New York), Inc., a New York corporation, entered into a definitive Stock Purchase Agreement with Peregrine Enterprises, Inc., a New York corporation and its shareholders, pursuant to which RCI New York agreed to purchase all of the shares of common stock of Peregrine. Peregrine owned and operated an adult entertainment cabaret located in midtown Manhattan. The cabaret club is located near the Empire State Building and Madison Square Garden, and is less than 10 blocks from Times Square. We completed this transaction on January 18, 2005.

Under the terms of the Stock Purchase Agreement, the purchase price of the transaction was \$7,625,000, payable \$2,500,000 in cash at closing and \$5,125,000 payable in a promissory note bearing simple interest at the rate of 4.0% per annum. The Promissory Note is payable commencing 120 days after Closing as follows: (a) the payment of \$58,333.33 per month for twenty-four (24) consecutive months; (b) the payment of \$63,333.33 for twenty-four (24) consecutive months; (c) the payment of \$68,333.33 for twelve (12) consecutive months; and (d) a lump sum payment of the remaining balance to be paid on the sixty-first (61st) month. \$2,000,000 of the principal amount of the Promissory Note is convertible into shares of our restricted common stock at prices ranging from \$4.00 to \$7.50 per share. The parties also entered a Stock Pledge Agreement and Security Agreement to secure the Promissory Note.

Upon closing of the transaction, the owners of Peregrine entered into a five-year covenant not to compete with Peregrine, RCI New York or the Company. In September 2005, we intend to open the cabaret club as "Rick's Cabaret" which will occupy 10,000 square feet on three levels, with an additional 4,000 square feet available for office space.

4. On March 31, 2005, we entered an Stock Purchase Agreement with MBG Acquisition, LLC, a Delaware limited liability company to sell all of the issued and outstanding shares of RCI Entertainment (Houston), Inc., our wholly owned subsidiary, which owned and operated an adult entertainment cabaret known as Rick's Cabaret - South located at 15301 Gulf Freeway, Houston, Texas. The Agreement provided for a sales price of \$550,000 which was paid in cash upon closing.
5. On June 10, 2005, our wholly owned subsidiary, RCI Entertainment (North Carolina), Inc., a North Carolina corporation entered a Purchase Agreement with Top Shelf, LLC, a North Carolina limited liability company and Tony Hege, the holder of Top Shelf's membership interests, to purchase all of the issued and outstanding membership interests of Top Shelf which owns a



nightclub known as "The Manhattan Club" located in Charlotte, North Carolina. RCI North Carolina has been managing the Club under the name "Rick's Cabaret" since February 2005.

The Purchase Agreement provides for a purchase price of \$1,000,000 which is payable with 180,000 shares of our common stock valued at \$3.75 per share and a seven year promissory note in the amount of \$325,000 bearing interest at the rate of 7% per annum. The Note is payable with an initial payment due November 1, 2005, of interest only for the period of time from the date of Closing until October 31, 2005, plus a principal reduction payment in the amount of \$3,009.29. Thereafter, RCI North Carolina will make eighty-three (83) successive equal monthly payments commencing December 1, 2005, of principal and interest in the amount of \$4,905.12 until paid in full. The Note is secured by the assets of RCI North Carolina.

Pursuant to the terms of the Note, on or after November 1, 2005, Hege shall have the right, but not the obligation to have Rick's purchase from Hege 4,285 Shares per month, calculated at a price per share equal to \$3.75 until Hege has received a total of \$1,000,000 from the sale of the Shares less the amount of the Note. At our election during any given month, we may either buy the Monthly Shares or, if we elect not to buy the Monthly Shares from Hege, then Hege shall sell the Monthly Shares in the open market. Any deficiency between the amount which Hege receives from the sale of the Monthly Shares and the Value of the Shares shall be paid by us within three (3) days of the date of sale of the Monthly Shares during that particular month. Our obligation to purchase the Monthly Shares from Hege shall terminate and cease at such time as Hege has received a total of \$1,000,000 from the sale of the Shares, less the amount of the Note.

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

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

Our Internet traffic is generated through the purchase of traffic from third-party adult sites or Internet domain owners and the purchase of banner advertisements or "key word" searches from Internet search engines. In addition, the bulk of our traffic now comes from search engines on which we don't pay for preferential listings. There are numerous adult entertainment sites on the Internet that compete with our sites.

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

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

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Program, which pays third party webmasters a percentage of every closing auction sale in which the buyer originally came from the affiliate webmaster's site. There are numerous auction sites on the Internet that offer adult products and erotica.

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### TRANSACTION WITH VOICE MEDIA

In May 2002, we purchased 700,000 shares of our own common stock from Voice Media, Inc. for an aggregate price of \$918,700 (or \$795,302 adjusted for imputed interest) that equals approximately \$1.32 per share. That purchase price was below market value on the date of the purchase. Voice Media, Inc. presently owns none of our shares of common stock. These shares are presently held as treasury shares. We may cancel these shares at a later date. The control person of Voice Media, Inc. is Ron Levi, who was a Director until June 2002. The terms of this transaction were the result of arms-length negotiations between Voice Media, Inc. and us. We believe the transaction was favorable to us in view of the market value of our common stock and the payment terms, although no appraisal or fairness opinion was done. All management contracts previously signed relating to the management of xxxPassword.com will remain in effect. Pursuant to the transaction, the payment schedule is as follows:

- (a) The amount of \$229,675 due on January 10, 2003;
- (b) The amount of \$229,675 due on January 10, 2004;
- (c) The amount of \$229,675 due on January 10, 2005; and
- (d) A final payment in the amount of \$229,675 due on January 10, 2006.

### TRANSACTION WITH TAURUS ENTERTAINMENT

On June 12, 2003, we entered into an Asset Purchase Agreement with Taurus Entertainment Companies, Inc., whereby we acquired all the assets and liabilities of Taurus in exchange for 3,752,008 shares of Taurus out of the 4,002,008 that we owned plus \$20,000 in cash. We also executed an Indemnification and Transaction Fee Agreement with Taurus for which we received \$270,000 in cash, with \$140,000 payable at closing, \$60,000 due on July 15, 2003 and \$70,000 due on August 15, 2003. We have received the \$60,000 payment and have restructured the remaining balance originally due August 15, 2003, with a note receivable bearing 12% annual interest over a five year term.

### COMPETITION

The adult topless club entertainment business is highly competitive with respect to price, service and location. All of our nightclubs compete with a number of locally owned adult clubs, some of whose names may have name recognition that equals that of 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. For example, there are approximately 50 adult nightclubs located in the Houston area, all of which are in direct competition with our Houston cabarets. In Minneapolis, Rick's Cabaret is favorably located downtown and is a short walk from the Metrodome Stadium and the Target Center. There are two adult nightclubs in Minneapolis in direct competition with us.

The names "Rick's" and "Rick's Cabaret" and "XTC Cabaret" are proprietary. We believe that the combination of our existing brand name recognition and the distinctive entertainment environment that we have created will allow us to compete effectively in the industry and within the cities where we operate.

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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.

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### 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, which has the authority, in its discretion, to issue the appropriate permits. We presently hold a Mixed Beverage Permit and a Late Hour Permit. 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. It is our policy, prior to expanding into any new market, to take steps to ensure compliance with all licensing and regulatory requirements for the sale of alcoholic beverages as well as the sale of food.

In addition to various regulatory requirements affecting the sale of alcoholic beverages, in Houston, and in many other cities, the 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", 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 is not subject to discretion; the Business Permit must be granted if the proposed operation satisfies the requirements of the Ordinance. (See "Legal Proceedings" herein.)

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. We were a plaintiff in civil litigation against the defendant City of Minneapolis. On September 16, 2003, the suit was settled mainly on the basis that the City of Minneapolis will enact a late hour's operation ordinance and allows qualifying liquor establishments, including us at our current location, to operate until 3:00 a.m. We believe that, in the long run, the restoration of late hours operation on a permanent basis is preferable to going forward with the litigation and in our best interest.

In San Antonio and Austin, Texas, we are required to be in compliance with city or county sexually oriented business ordinances. In New York, we will be required to be in compliance with all state and local laws governing the sale of liquor and zoning for adult oriented businesses.

### 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

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Patent and Trademark Office for the "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 August 17, 2005, we had approximately 407 employees, of which 54 are in management positions, including corporate and administrative operation and approximately 353 of which are engaged in entertainment, food and beverage service, including bartenders, waitresses, and entertainers. None of our

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employees are represented by a union and we consider our employee relations to be good. Additionally, we have independent contractor relationships with more than 600 entertainers, who are self-employed and perform at our locations on a non-exclusive basis as independent contractors. Our entertainers in Minneapolis, Minnesota act as commissioned employees.

### LEGAL PROCEEDINGS

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#### 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 "Ordinance"). The 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 Ordinance.

The City of Houston has appealed the District Court's rulings with the Fifth

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Circuit Court of Appeals. 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 our future. Our nightclub in our south Houston location has a valid permit/license that will expire in December 2005. The permits for our north Houston location and our Bering Drive location have expired.

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 Ordinance.

In November, 2003, a three judge panel from the Fifth Circuit Court of Appeals published their Opinion which affirmed the Trial Court's ruling regarding lighting levels, customer and dancer separation

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distances and licensing of dancers and staff. The Court of Appeals, however, did not follow the Trial Court's ruling regarding the distance from which a club may be located from a church or school. The Court of Appeals held that a distance measurement of 1,500 feet would be upheld upon a showing by the City of Houston that its claims that there were alternative sites available for relocating the clubs could be substantiated. The case was remanded for trial on the issue of the alternative sites.

There are other technical issues, which could additionally bear upon the location of the clubs, which were not decided at the trial level during the initial phase of the case. It is anticipated that these technical issues will be joined in the Trial Court. The City has not sought to modify any of the terms of the injunction against enforcement of any location provision of the Ordinance.

The appeals process as it relates to the Court's rulings in 1998 has been exhausted. The Trial Court has entered a new scheduling order which places trial on the remaining issues for June 2006. Under the holding of the Fifth Circuit Court of Appeals, the City of Houston has the burden of proof to show that, under the distance measurements contained in the 1997 ordinance, there are over 2,000 alternate sites available for relocation. If the City of Houston can meet this initial burden, then the Trial Court will consider the remaining location issues which were not decided during the initial summary phase of the case. In the event the City of Houston can meet its burden and the Trial Court moves forward with the case, an appeal is anticipated. A ruling on the remaining issues in favor of the City of Houston could have an adverse impact on the Rick's locations in Houston, Texas.

### OTHER LEGAL MATTERS

On May 2, 2003, a lawsuit was filed in the United States District Court for the Western District of Texas, San Antonio division, on behalf of XTC Cabaret, and others, as a result of the City of San Antonio having adopted a new ordinance, which, among other things, banned nude dancing. This suit asked the Court to declare the ordinance unconstitutional and enjoin the City from enforcing it. Prior to a resolution of this litigation, XTC Cabaret withdrew as a party to the lawsuit. Although a settlement was reached with the remaining parties in June 2005, it did not include nude dancing. XTC has elected to address the constitutionality of the ordinance by appealing any conviction obtained by the City through the state courts.

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

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The following discussion should be read in conjunction with our audited consolidated financial statements and the related notes to the financial statements included in this registration statement.

#### FORWARD LOOKING STATEMENT AND INFORMATION

We are including the following cautionary statement in this Form SB-2 registration statement to make applicable and take advantage of the safe harbor provision of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by us or on behalf of us. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Certain statements in this prospectus are forward-looking statements. Words such as "expects," "believes," "anticipates," "may," and "estimates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties are set forth below. Our expectations, beliefs and projections are expressed in good faith and we believe that they have a reasonable basis, including without limitation, our examination of historical operating trends, data contained in our records

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and other data available from third parties. There can be no assurance that our expectations, beliefs or projections will result, be achieved, or be accomplished. In addition to other factors and matters discussed elsewhere in this prospectus, the following are important factors that in our view could cause material adverse affects on our financial condition and results of operations: the risks and uncertainties related to our future operational and financial results, the risks and uncertainties relating to our Internet operations, competitive factors, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, our dependence on key personnel, the ability to manage operations and the future operational strength of management, and the laws governing the operation of adult entertainment businesses. We have no obligation to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

#### GENERAL

We operate in two businesses in the adult entertainment industry:

1. We own and operate upscale adult nightclubs serving primarily businessmen and professionals. Our nightclubs offer live adult entertainment, restaurant and bar operations. We own and operate seven adult nightclubs under the name "Rick's Cabaret" and "XTC" in Houston, Austin and San Antonio, Texas, Charlotte, North Carolina, and Minneapolis, Minnesota. We own a club in New York, New York, which we intend to begin operating in September 2005 as a "Rick's Cabaret." We also own and operate a sport bar called the "Hummers" and an upscale venue that caters especially to urban professionals, businessmen and professional athletes called "Club Onyx" in Houston. No sexual contact is permitted at any of our locations.
2. We have extensive Internet activities.

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- a) We currently own three adult Internet membership Web sites at www.CoupleTouch.com, CouplesClick.net and www.xxxpassword.com. We acquire xxxpassword.com site content from wholesalers.
- b) We operate an online auction site www.NaughtyBids.com. This site provides our customers with the opportunity to purchase adult products and services in an auction format. We earn revenues by charging fees for each transaction conducted on the automated site.

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

Beginning in fiscal 2002 and continuing through fiscal 2004, we greatly reduced our usage of promotional pricing for membership fees for our adult entertainment web sites. This reduced our revenues from these web sites.

### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Estimates and assumptions are based on historical experience, forecasted future events and various other assumptions that we believe to be reasonable under the circumstances. Estimates and assumptions may vary under different assumptions

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or conditions. We evaluate our estimates and assumptions on an ongoing basis. We believe the accounting policies below are critical in the portrayal of our financial condition and results of operations.

### ACCOUNTS AND NOTES RECEIVABLE

Accounts receivable trade is comprised of credit card charges, which are generally converted to cash in two to five days after a purchase is made. Our accounts receivable other is comprised of employee advances and other miscellaneous receivables. Notes receivable are included in other assets in the accompanying consolidated balance sheets. We recognize allowances for doubtful accounts or notes when, based on management judgment, circumstances indicate that accounts or notes receivable will not be collected. There is no allowance for doubtful accounts or notes receivable as of September 30, 2004 and 2003.

### INVENTORIES

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

### MARKETABLE SECURITIES

Marketable securities at September 30, 2004 and 2003 consist of common stock. As of September 30, 2004 and 2003, our marketable securities were classified as available-for-sale, which are carried at fair value, with unrealized gains and losses reported as other comprehensive income within the stockholders' equity section of the accompanying consolidated balance sheets. The cost of marketable

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equity securities sold is determined on a specific identification basis. The fair value of marketable equity securities is based on quoted market prices.

### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets for financial reporting purposes. Buildings have estimated useful lives ranging from 31 to 40 years. Furniture, equipment and leasehold improvements have estimated useful lives between five and seven years. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are charged or credited in the accompanying statement of income of the respective period.

### GOODWILL

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangibles Assets, which addresses the accounting for goodwill and other intangible assets. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed on an annual basis for impairment. We adopted SFAS effective October 1, 2001.

### REVENUE RECOGNITION

Except for VIP Memberships, we recognize revenue at the point-of-sale upon receipt of cash, check, or credit card charge. Membership revenue is deferred and recognized over the estimated membership usage period, which is estimated to be 12 and 24 months for annual and lifetime memberships, respectively. We recognize Internet revenue from monthly subscriptions to its online entertainment sites when notification

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of a new subscription is received from the third party hosting company or from the credit card company, usually two to three days after the transaction has occurred. We recognize Internet auction revenue when payment is received from the credit card as revenues are not deemed estimable nor collection deemed probable prior to that point.

### ADVERTISING AND MARKETING

Advertising and marketing expenses is primarily composed of costs related to public advertisements and giveaways, which are used for promotional purposes. Advertising and marketing expenses are expensed as incurred and are included in operating expenses.

### INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.



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RESULTS OF OPERATIONS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004 AS COMPARED TO THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

For the fiscal year ended September 30, 2004, we had consolidated total revenues of \$15,959,684, compared to consolidated total revenues of \$15,059,569 for the year ended September 30, 2003. This was an increase of \$900,115 or 5.97%. While we had an increase in total revenues in our existing and new nightclub operations of \$1,156,950, the decrease in total revenues resulted from our Internet businesses was \$256,835. Revenues from nightclub operations for same-location same-period increased by 5.88%, while revenues of Internet businesses for same-sites same-period decreased by 24.38%. The overall increase was primarily due to the increase in revenues of our existing and new club operations.

Our net income before minority interest for the year ended September 30, 2004 was \$780,029 compared to \$403,936 for the year ended September 30, 2003. The increase in net income was primarily due to the increase of income from operations. Our net income from operations for nightclub operations was \$2,542,482 for the year ended September 30, 2004 compared with \$1,934,150 for the year ended September 30, 2003. Our net income from operations for our Internet businesses was \$88,958 for the year ended September 30, 2004 compared with \$36,421 for the year ended September 30, 2003. Our net income for our nightclub operations for the same-location-same-period increased by 35.48%. Our net income for our Internet operations for the same-web-site-same-period increased by 144.25%.

Our cost of goods sold for the year ended September 30, 2004 was 12.42% of total revenues compared to 14.58 % of related revenues for the year ended September 30, 2003. The decrease was due primarily to decrease in costs of our Internet activities and an addition of XTC club, which has low cost of goods sold. Our cost of goods sold for the nightclub operations for the year ended September 30, 2004 was 12.55% of our total revenues from club operations compared to 14.40% for the year ended September 30, 2003. We continued our efforts to achieve reductions in cost of goods sold of the club operations through improved inventory management. We are continuing a program to improve margins from liquor and food sales and food service efficiency. Our cost of sales from our Internet operations for the year ended September 30,

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2004 was 8.77% compared to 17.41% of related revenues for the year ended September 30, 2003. We have implemented measures to reduce expenses in our Internet operations.

Our payroll and related costs for the year ended September 30, 2004 were \$5,491,401 compared to \$5,393,708 for the year ended September 30, 2003. The increase was primarily due to the increase in payroll in opening new clubs. Our payroll for our nightclub operations for same-location-same-period decreased by 1.14%. Our payroll for same-site-same-period Internet operations increased by 6.53%. We believe that our labor and management staff levels are at appropriate levels.

Our other general and administrative expenses for the year ended September 30, 2004 were \$7,419,507 compared to \$7,112,974 for the year ended September 30, 2003. The increase was primarily due to the increase in taxes & permit, rent, insurance, utilities, and advertising & marketing expenses from opening new locations. Other selling, general and administrative expenses for same-location-same-period for the nightclub operations increased by 5.32%, while the same expenses for same-site same-period for Internet operations decreased by 37.27%.

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Our interest expense for the year ended September 30, 2004 was \$344,438 compared to \$384,221 for the year ended September 30, 2003. The decrease was primarily due to the decrease in debt. We have decreased our long term debt to \$3,881,610 as of September 30, 2004 compared to debt of \$4,026,335 as of September 30, 2003.

### RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JUNE 30, 2005 AS COMPARED TO THE NINE MONTHS ENDED JUNE 30, 2004

For the nine months ended June 30, 2005, we had consolidated total revenues of \$10,504,612 compared to consolidated total revenues of \$10,647,459 for the nine months ended June 30, 2004, or a decrease of \$142,847. The decrease in total revenues was primarily attributable to the decrease in overall revenues generated by our club business in previous quarters plus a decrease of \$34,887 by our internet business. Our club operations in Houston benefited from the Super Bowl in the previous year. Total revenues for same-location-same-period of club operations decreased to \$9,539,247 for the nine months ended June 30, 2005 from \$9,610,536 for same period ended June 30, 2004, or by 0.74%. The decrease in internet revenues was due to our transition from programs which generate high revenues with very low margins to programs which will produce higher margins from lower revenues.

The cost of goods sold for the nine months ended June 30, 2005 was 12.23% of total revenues compared to 11.53% for the nine months ended June 30, 2004. This increase is attributable to the addition of Rick's club, which have higher cost of goods sold, offset by a reduction in costs of maintaining our internet operations. The cost of goods sold for the club operations for the nine months ended June 30, 2005 was 12.69% and 11.66% for the nine months ended June 30, 2004. The cost of goods sold from our internet operations for the nine months ended June 30, 2005 was 4.52% compared to 9.52% for the nine months ended June 30, 2004. The cost of goods sold for same-location-same-period of club operations for the nine months ended June 30, 2005, was 12.35%, compared to 11.61% for the same period ended June 30, 2004.

Payroll and related costs for the nine months ended June 30, 2005 were \$3,727,169 compared to \$3,676,524 for the nine months ended June 30, 2004. This increase was the result of additional personnel added to our new club operations offset by labor cost reduction in our existing club operations. Management currently believes that its labor and management staff levels are appropriate.

Other general and administrative expenses for the nine months ended June 30, 2005, were \$5,174,207 compared to \$4,809,424 for the nine months ended June 30, 2004. The increase was due primarily to an

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increase in legal and professional, rent, indirect operating expenses, travel and lodging, and utilities from opening new locations in New York, New York and Charlotte, North Carolina.

Interest expense for the nine months ended June 30, 2005 was \$438,298 compared to \$242,337 for the nine months ended June 30, 2004. The increase was attributable to us obtaining new debt to finance the purchase of the club in New York. As of June 30, 2005, the balance of long-term debt was \$12,839,849 compared to \$3,923,356 a year earlier.

Net income for the nine months ended June 30, 2005 was \$44,913 compared to \$698,087 for the nine months ended June 30, 2004. The decrease in net income was primarily due to the increase in operating expenses due to managing two new locations in New York and North Carolina and increase in interest expense

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related to the acquisitions of a club in New York. Net income for same-location-same-period of club operations increased to \$1,973,572 for the nine months ended June 30, 2005 from \$1,899,491 for same period ended June 30, 2004, or by 3.90%. Management currently believes that the Company is in position to continue to be profitable in fiscal 2005.

### LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2005, we had a working capital deficit of (\$1,195,509) compared to working capital of \$538,749 at September 30, 2004. The decrease in working capital was primarily due to increases in accrued liabilities and current portion of long term debt, and a decrease in prepaid expenses and other current assets. The value of available-for-sale marketable securities decreased by \$91,207, which was primarily due to market price fluctuation.

Net cash provided by operating activities in the nine months ended June 30, 2005 was \$944,159 compared to net cash provided of \$412,715 for the nine months ended June 30, 2004. The increase in cash provided by operating activities was primarily due to decreases in other current assets and increases in accounts payable and accrued expenses.

We used \$4,486,152 and \$529,142 of cash in investing activities during the nine months ended June 30, 2005 and 2004, respectively. \$3,744,479 of cash was provided and \$86,530 of cash was used in financing activities during the nine months ended June 30, 2005 and 2004, respectively.

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

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

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

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

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

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

On July 22, 2005, we entered into a secured convertible debenture with one of our shareholders for a principal sum of \$660,000, which includes the loan on June 17, 2005, in the amount of \$160,000. The term is for three years and the interest rate is 12% per annum. The debenture matures on August 1, 2008. The Company also issued 50,00 warrants at \$3.00 per share in relation to this debenture. The debenture is secured by our ownership in Citation Land, LLC and RCI Holdings, Inc., both of which are wholly owned subsidiaries.

In July 2005, we received additional borrowing in the amount of \$100,000 from the same unrelated individual who advanced \$100,000 in June 2005, and with whom we had two existing notes. The term is for 10 years and the interest rate is 11% per annum. On August 15, 2005, the notes were amended and the amounts from June and July (\$200,000) were included in one of the notes, for a combined total of \$1,341,520.34 payable to this individual.

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

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

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

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

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### SEASONALITY

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

### GROWTH STRATEGY

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

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

### MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### MARKET INFORMATION

Our common stock is quoted on the NASDAQ SmallCap Market under the symbol "RICK". The following table sets forth the quarterly high and low closing price per share for our common stock. Our fiscal year ends September 30.

|                     | HIGH   | LOW    |
|---------------------|--------|--------|
|                     | -----  | -----  |
| Fourth Quarter 2003 | \$1.75 | \$1.25 |
| First Quarter 2004  | \$1.84 | \$1.50 |
| Second Quarter 2004 | \$2.84 | \$1.74 |
| Third Quarter 2004  | \$3.30 | \$2.40 |
| Fourth Quarter 2004 | \$2.79 | \$2.21 |
| First Quarter 2005  | \$3.03 | \$2.20 |
| Second Quarter 2005 | \$4.61 | \$2.85 |
| Third Quarter 2005  | \$3.19 | \$2.65 |

On August 17, 2005, the closing price for a share of our common stock was \$3.50.

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#### RECORD HOLDERS.

As of August 17, 2005, there were approximately 1,344 holders of record of our common stock.

#### DIVIDENDS

We have never declared or paid any dividends on our common stock. We do not have any plans to pay cash dividends on our common stock. We plan to retain our future earnings, if any, to finance operations and expand our business. The decision whether to pay cash dividends on our common stock will be made by our Board of Directors, in its discretion, and will depend on our financial condition, operating results, capital requirements and other factors that our Board of Directors considers relevant.

#### CHANGES IN AND DISAGREEMENTS WITH

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### ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

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We have had no changes in or disagreements with accountants on accounting and financial disclosure.

### USE OF PROCEEDS

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We are not selling any shares of our Common Stock in this offering and therefore will not receive any proceeds from the sale thereof. We may, however, receive the benefit of proceeds upon the conversion of the Debenture and/or the Convertible Note held by certain selling stockholders for which we are registering the underlying shares of Common Stock. Upon conversion of any portion of the Debenture and/or the Convertible Note, we will apply the proceeds received directly to the debt for which the Debenture and/or Convertible Note was issued and the principal amount(s) of the Note and/or the Debenture will be reduced accordingly. Additionally, we may receive proceeds of approximately \$300,000 upon the exercise of warrants, which we would apply toward general operating expenses.

The selling shareholders will pay any underwriting discounts and commissions and expenses incurred by the selling shareholders for brokerage, accounting, tax or legal services or any other expenses incurred by the selling shareholders in disposing of the shares. We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees, Nasdaq Small Cap Market listing fees, blue sky registration and filing fees, and fees and expenses of our counsel and our accountants.

### DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

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Our Directors are elected annually and hold office until the next annual meeting of our stockholders or until their successors are elected and qualified. Officers are 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. The following table sets forth our Directors and executive officers:

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| NAME              | AGE | POSITION   |
|-------------------|-----|--|
| Eric S. Langan    | 37  | Director, Chairman of the Board, President, Chief Executive Officer, Chief Financial Officer |
| Travis Reese      | 35  | Director and V.P.-Director of Technology   |
| Robert L. Watters | 54  | Director   |
| Alan Bergstrom    | 60  | Director   |
| Steven L. Jenkins | 48  | Director   |

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### INFORMATION CONCERNING THE BOARD OF DIRECTORS AND ITS COMMITTEES

We have an Audit Committee whose members are Robert L. Watters, Alan Bergstrom and Steven L. Jenkins. Mr. Watters was our President until March 1999, and has not been an officer or employee since March 1999. Mr. Watters, Mr. Bergstrom and Mr. Jenkins are independent Directors. The primary purpose of the Audit Committee is to oversee our financial reporting process on behalf of the Board of Directors. The Audit Committee meets privately with our Chief Accounting Officer and with our independent registered public accounting firm and evaluates the responses by the Chief Accounting Officer both to the facts presented and to the judgments made by our outside independent registered public accounting firm. Our Audit Committee has reviewed and discussed our audited financial statements for the year ended September 30, 2004 with our management. Steven L. Jenkins serves as the Audit Committee's Financial Expert.

In May 2000, our Board adopted a Charter for the Audit Committee. 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 are independent. The Audit Committee is objective, and reviews and assesses the work of our independent registered public accounting firm and our internal audit department.

The Audit Committee reviewed and discussed the matters required by SAS 61 and our audited financial statements for the fiscal year ended September 30, 2004 with management and our independent registered public accounting firm. The Audit Committee has received the written disclosures and the letter from our independent registered public accounting firm required by Independence Standards Board No. 1, and the Audit Committee has discussed with the independent registered public accounting firm the independent registered public accounting firm's independence. The Audit Committee recommended to the Board of Directors that our audited financial statements for the fiscal year September 30, 2004 be included in our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2004, as amended.

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

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Subsequent to the fiscal year ending September 30, 2004, the Board of Directors formed a Compensation Committee whose members are Robert Watters, Alan Bergstrom and Steven L. Jenkins. Decisions concerning executive officer compensation for the fiscal year ending September 30, 2004 were made by the full Board of Directors. Eric S. Langan and Travis Reese are the only directors of the Company who are also officers of the Company. The primary purpose of the Compensation Committee is to evaluate and review the compensation of executive

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officers.

The Board of Directors held nine (9) meetings during the fiscal year ended September 30, 2004, one (1) of which was held by unanimous written consent. The Audit Committee held four (4) meetings during the fiscal year ended September 30, 2004. All of our Directors attended at least 75% of our Board meetings. All of our Audit Committee members attended at least 75% of our Audit Committee meetings.

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

### DIRECTOR COMPENSATION

We do not currently pay any cash directors' fees, but we pay the expenses of our directors in attending board meetings. In September 2005, we issued 10,000 options to each Director who is a member of our audit committee and 5,000 options to our other Directors. These options vest in September 2006 and have a strike price of \$2.54 per share and expire in September 2009.

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

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own beneficially more than ten percent of our common stock, to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Based solely on the reports we have received and on written representations from certain reporting persons, we believe that the directors, executive officers, and greater than ten percent beneficial owners have complied with all applicable filing requirements.

### EXECUTIVE COMPENSATION

The following table reflects all forms of compensation for services to us for the fiscal years ended September 30, 2004, 2003 and 2002 certain executive officers. No other executive officer of ours received compensation that exceeded \$100,000 during fiscal 2004. Mr. Langan is Chairman of the Board, a Director, Chief Executive Officer, President and Chief Financial Officer. Mr. Reese is Director and V.P.-Director of Technology.

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### SUMMARY COMPENSATION TABLE

| Name and<br>Principal Position | Year | Annual<br>Compensation |            | Long-Term Compensation                     |                                       |  |     |
|--------------------------------|------|------------------------|------------|--|---------------------------------------|--|-----|
|                                |      | Salary<br>(\$)         | Bonus (\$) | Awards                                     | Payouts                               | LTIP<br>Payouts<br>(\$)                          |     |
|                                |      |                        |            | Other<br>Annual<br>Compensation<br>(\$)(1) | Restricted<br>Stock<br>Awards<br>(\$) | Securities<br>Underlying<br>Options/<br>SARs (#) |     |
| Eric Langan                    | 2004 | \$ 326,038             | -0-        | -0-  | -0-                                   | 280,000  | -0- |
|                                | 2003 | \$ 260,000             | -0-        | -0-  | -0-                                   | 5,000  | -0- |
|                                | 2002 | \$ 260,000             | -0-        | -0-  | -0-                                   | -0-  | -0- |
| Travis Reese                   | 2004 | \$ 161,000             | -0-        | -0-  | -0-                                   | 55,000   | -0- |



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|      |            |     |     |     |       |     |
|------|------------|-----|-----|-----|-------|-----|
| 2003 | \$ 158,855 | -0- | -0- | -0- | 5,000 | -0- |
| 2002 | \$ 137,500 | -0- | -0- | -0- | -0-   | -0- |

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

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 (\$/Sh) | Expiration Date |
|--------------|--|---|--------------------------------|-----------------|
| Eric Langan  | 75,000   | 13.04%  | \$ 2.20                        | 2/06/2009       |
|              | 5,000 (1)  | .86%  | \$ 2.54                        | 9/14/2009       |
|              | 200,000  | 34.78%  | \$ 2.49                        | 9/14/2009       |
| Travis Reese | 5,000 (1)  | .86%  | \$ 2.54                        | 9/14/2009       |
|              | 55,000   | 9.56%   | \$ 2.49                        | 9/14/2009       |

(1) These options were granted to Messrs. Langan and Reese for serving in their capacity as Directors. There were no exercises of options by these persons during the fiscal year ended September 30, 2004.

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

| Name         | Shares Acquired on Exercise (#) | Value Realized (\$) | Number of Unexercised 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-                 | 190,000/205,000  | \$ 16,100/ -0-   |
| Travis Reese | -0- (1)                         | -0-                 | 40,000/55,000  | \$ 6,350/ -0-  |

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(1) These persons did not exercise of options during the fiscal year ended September 30, 2004.

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 the Company, thus enhancing their personal interest in our continued success and progress. The Plans also assists us and our subsidiaries in attracting and retaining key employees and directors. The Plans are administered by the Board of Directors. The Board of Directors has the exclusive power to select the participants in the Plans, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price equal to at least 85% of the fair market value of the common stock covered by the option on the grant date and to make all determinations necessary or advisable under the Plans.

In 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 September 30, 2001, a total of 167,500 stock options had been granted and are outstanding under the Plan, none of which have been exercised. We do not plan to issue any additional options under the 1995 Plan.

In August 1999 we adopted the 1999 Stock Option Plan (the "1999 Plan") with 500,000 shares authorized to be granted and sold under the 1999 Plan. In August 2004, shareholders approved an Amendment to the 1999 Plan (the "Amendment") which increased the total number of shares authorized to 1,000,000. As of September 30, 2004, 908,000 stock options are presently outstanding under the 1999 Plan. As of August 17, 2005, 50,000 of these stock options have been exercised.

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EQUITY COMPENSATION PLAN INFORMATION(1)

| PLAN CATEGORY   | NUMBER OF SECURITIES TO BE<br>ISSUED UPON EXERCISE OF<br>OUTSTANDING OPTIONS,<br>WARRANTS AND RIGHTS<br>(A) | WEIGHTED-AVERAGE EXERCISE<br>PRICE OF OUTSTANDING<br>OPTIONS, WARRANTS AND<br>RIGHTS<br>(B) | NUMBER<br>REMAINING<br>FUTURE<br>EQUITY CO<br>(EXCLUD<br>REFLECTE |
|---|---|---|---|
| Equity compensation plans<br>approved by security holders | 908,000   | \$ 2.42   |   |
| Equity compensation plans                                 |   |   |   |

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not approved by security  
holders

0

0

TOTAL

908,000 \$

2.42

(1) As of September 30, 2004.

EMPLOYMENT AGREEMENTS

We have a one-year employment agreement with Eric S. Langan. This Agreement extends through April 1, 2006 and provides for an annual base salary of \$340,000. The Agreement also provides for participation in all benefit plans maintained by us for salaried employees. This Agreement contains a confidentiality provision and an agreement by Mr. Langan not to compete with us upon the expiration of the Agreement.

We have a three-year employment agreement with Travis Reese. This Agreement extends through February 1, 2007 and provides for an annual base salary of \$175,000. The Agreement also provides for participation in all benefit plans maintained by us for salaried employees. This Agreement contains a confidentiality provision and an agreement by Mr. Reese not to compete with us upon the expiration of the Agreement.

CODE OF ETHICS

We have adopted a code of ethics for its Principal Executive and Senior Financial Officers, which was previously filed as Exhibit 14 to our Form 10-KSB for the fiscal year ended September 30, 2003, as filed with the SEC on December 29, 2003.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS  
AND MANAGEMENT

The following table sets forth certain information at August 17, 2005, 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 August 17, 2005, there were 4,287,148 shares of common stock outstanding.

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| NAME/ADDRESS  | NUMBER OF SHARES | TITLE OF CLASS | PERCENT OF CLASS (9) |
|---|------------------|----------------|----------------------|
| Eric S. Langan<br>10959 Cutten Road<br>Houston, Texas 77066             | 1,155,960 (1)    | Common stock   | 25.2%                |
| Robert L. Watters<br>315 Bourbon Street<br>New Orleans, Louisiana 70130 | 35,000 (2)       | Common stock   | 0.8%                 |

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|   |               |              |       |
|---|---------------|--------------|-------|
| Steven L. Jenkins<br>16815 Royal Crest Drive<br>Suite 160<br>Houston, Texas 77058 | 20,000 (3)    | Common stock | 0.4%  |
| -----   |               |              |       |
| Travis Reese<br>10959 Cutten Road<br>Houston, Texas 77066                         | 54,775 (4)    | Common stock | 1.2%  |
| -----   |               |              |       |
| Alan Bergstrom<br>707 Rio Grande, Suite 200<br>Austin, Texas 78701                | 30,000 (5)    | Common stock | 0.6%  |
| -----   |               |              |       |
| All of our Directors and<br>Officers as a<br>Group of five persons                | 1,295,720 (6) | Common stock | 27.4% |
| -----   |               |              |       |
| -----   |               |              |       |
| E. S. Langan, L.P.<br>10959 Cutten Road<br>Houston, Texas 77066                   | 578,632       | Common stock | 13.4% |
| -----   |               |              |       |
| Ralph McElroy<br>1211 Choquette<br>Austin, Texas, 78757                           | 748,467 (7)   | Common stock | 17.2% |
| -----   |               |              |       |
| William Friedrichs<br>16815 Royal Crest Dr., #260<br>Houston, Texas 77058         | 400,260 (8)   | Common stock | 9.3%  |
| -----   |               |              |       |

(1) Mr. Langan has sole voting and investment power for 252,328 shares that he owns directly. Mr. Langan has shared voting and investment power for 578,632 shares that he owns indirectly through E. S. Langan, L.P. Mr. Langan is the general partner of E. S. Langan, L.P. This amount also includes options to purchase up to 295,000 shares of common stock that are exercisable within 60 days.

(2) Includes options to purchase up to 35,000 shares of common stock that are exercisable within 60 days.

(3) Includes options to purchase up to 20,000 shares of common stock that are exercisable within 60 days.

(4) Includes 7,275 shares of common stock and options to purchase up to 47,500 shares of common stock that are exercisable within 60 days.

(5) Includes options to purchase up to 30,000 shares of common stock that are exercisable within 60 days.

(6) Includes options to purchase up to 427,500 shares of common stock that are exercisable within 60 days.

(7) Includes 698,467 shares of common stock held directly and 50,000 shares of common stock that would be issuable upon the exercise of warrants at an exercise price of \$3.00 per share. This number specifically excludes

220,000 shares of common stock that would be issuable upon conversion of a convertible debenture held by Mr. McElroy. The Debenture provides, absent shareholder approval, that the number of shares of our common stock that may be issued by us or acquired by the Holder upon conversion of the Debenture shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock.

(8) Includes 170,000 shares owned by WMF Investments, Inc. Mr. Friedrichs is a control person of WMF Investments, Inc.

(9) These percentages exclude treasury shares in the calculation of percentage of class.

#### CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

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

In May 2002, we loaned \$100,000 to Eric Langan who is our Chief Executive Officer. The promissory note is unsecured, bears interest at 11% and is amortized over a period of ten years. The note contains a provision that in the event Mr. Langan leaves the Company for any reason, the note immediately becomes due and payable in full. As of August 17, 2005, the balance of the note was \$79,164.

On July 22, 2005, we issued a Secured Convertible Debenture to Ralph McElroy, a greater than 10% shareholder of the Company, for the principal sum of \$660,000 bearing interest at the rate of 12% per annum, with a maturity date of August 1, 2008. Under the terms of the Debenture, we are required to make monthly interest payments beginning September 1, 2005. We have the right to redeem the Debenture in whole or in part at any time during the term of the Debenture. At the election of the Holder, the Holder has the right to require the Debenture to be repaid in thirty (30) equal monthly installments commencing February 2006. The Holder has the option to convert all or any portion of the principal amount of the Debenture into shares of our common stock at a rate of \$3.00 per share, subject to adjustment under certain conditions. The Debenture provides, absent shareholder approval, that the number of shares of our common stock that may be issued by us or acquired by the Holder upon conversion of the Debenture shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock. The Debenture is secured by certain of our assets. Additionally, we issued Mr. McElroy a Warrant to purchase 50,000 shares of our common stock at an exercise price of \$3.00 per share until July 22, 2008. The shares of Common Stock underlying the principal amount of the Debenture and the Warrants have piggyback registration rights.

#### SELLING STOCKHOLDERS

The following is a list of the selling stockholders who own or who have a right to acquire the 1,160,000 shares of Common Stock covered by this prospectus. Currently, 530,000 shares of Common Stock are held by certain selling stockholders. Up to 220,000 Shares of Common Stock are issuable upon the conversion of a Secured Convertible Debenture held by one selling stockholder. Up to 360,000 Shares are issuable upon the conversion of a Convertible Note held by one selling stockholder. Up to 50,000 Shares of Common Stock are issuable

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upon the exercise of Warrants held by one selling stockholder As set forth below and elsewhere in this prospectus, some of these selling stockholders hold, or within the

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past three years have held, a position, office or other material relationship with us or our predecessors or affiliates.

Beneficial ownership is determined in accordance with Rule 13d-3 promulgated by the Securities and Exchange Commission, and generally includes voting or investment power with respect to securities. In computing the number of shares beneficially owned by the holder and the percentage ownership of the holder, shares of common stock issuable upon exercise of the warrant held by the holder that are currently exercisable or exercisable within 60 days after the date of the table are deemed outstanding.

The percent of beneficial ownership for the selling stockholders is based on 4,287,148 shares of common stock outstanding as of August 17, 2005. Shares of common stock subject to warrants, options and other convertible securities that are currently exercisable or exercisable within 60 days of August 17, 2005, are considered outstanding and beneficially owned by a selling stockholders who holds those warrants, options or other convertible securities for the purpose of computing the percentage ownership of that selling stockholders but are not treated as outstanding for the purpose of computing the percentage ownership of any other stockholder.

The shares of common stock being offered under this prospectus may be offered for sale from time to time during the period the registration statement of which this prospectus is a part remains effective, by or for the account of the selling stockholders. After the date of effectiveness of the registration statement of which this prospectus is a part, the selling stockholder may have sold or transferred, in transactions covered by this prospectus or in transactions exempt from the registration requirements of the Securities Act, some or all of its common stock. Information about the selling stockholders may change over time. Any changed information will be set forth in an amendment to the registration statement or supplement to this prospectus, to the extent required by law.

The following table sets forth information concerning the selling stockholders, including the number of shares currently held and the number of shares offered by each selling security holder, to our knowledge as of August 17, 2005. At the time of the acquisition there were no agreements, understandings or arrangements with any other persons, either directly or indirectly, to distribute the securities.

| Name of Selling Stockholder | Position,<br>Office or<br>Other<br>Material<br>Relationship | BEFORE THE<br>OFFERING  | AFTER THE<br>OFFERING  |  | Per<br>Bene<br>aft<br>Of |
|-----------------------------|---|---|--|--|--------------------------|
|                             |   | Total<br>Number of<br>Shares of<br>common<br>stock<br>Beneficially<br>Owned Prior to<br>the Offering<br>(1) | Number of<br>Shares to<br>be Offered<br>for the<br>Account of<br>the Selling<br>Stockholder<br>(2) | Number<br>of Shares<br>to be<br>Owned<br>after this<br>Offering<br>(3) |                          |
|                             |   |   |  |  |                          |

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-----  
COMMON STOCK  
-----

|                  |                     |             |         |         |
|------------------|---------------------|-------------|---------|---------|
| Ralph McElroy    | >10%<br>shareholder | 748,467 (5) | 270,000 | 698,467 |
| -----            | -----               | -----       | -----   | -----   |
| Jay Teitelbaum   | None                | 150,000     | 150,000 | -0-     |
| -----            | -----               | -----       | -----   | -----   |
| Tony Hege        | None                | 180,000     | 180,000 | -0-     |
| -----            | -----               | -----       | -----   | -----   |
| Philip Eisenberg | None                | 360,000 (6) | 360,000 | -0-     |
| -----            | -----               | -----       | -----   | -----   |
| Ahmed Anakar     | Employee            | 40,900 (7)  | 15,000  | 25,900  |