

RICKS CABARET INTERNATIONAL INC

FORM 8-K/A

(Amended Current report filing)

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CIK	0000935419
Industry	Restaurants
Sector	Services
Fiscal Year	09/30

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Securities and Exchange Commission
Washington, D.C. 20549

FORM 8-K
AMENDMENT NUMBER 1

Current Report
Pursuant To Section 13 or 15(d) Of
The Securities Exchange Act of 1934

Date of Earliest Report Event: April 23, 2007

RICK'S CABARET INTERNATIONAL, INC.

(Exact Name of Registrant As Specified in Its Charter)

Texas
(State Or Other Jurisdiction of
Incorporation)

0-26958
(Commission File Number)

76-0037324
(IRS Employer Identification No.)

10959 Cutten Road
Houston, Texas 77066
(Address Of Principal Executive Offices, Including Zip Code)

(281) 397-6730
(Registrant's Telephone Number, Including Area Code)

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

The financial statements and pro forma financial information contained in this Form 8-K Amendment Number 1 are in connection with our acquisition of 100% of the stock of W.K.C., Inc., a Texas corporation, on April 23, 2007, which we reported on Form 8-K dated April 25, 2007.

The financial statements and pro forma financial information required by Items 9.01(a) and 9.01(b) are attached hereto as Exhibits 99.1 and 99.2, respectively.

(c) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
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99.1	Financial Statements of W.K.C., Inc.
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99.2	Unaudited Pro Forma Condensed Combined Financial Statements
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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 8-K/A to be signed on its behalf by the undersigned hereunto duly authorized.

RICK'S CABARET INTERNATIONAL, INC.

/s/ Eric Langan

By: Eric Langan
Chairman, President, Chief Executive Officer and Acting Chief
Accounting Officer

Date: May 11, 2007

W.K.C., INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholder of
W.K.C., Inc.

We have audited the accompanying balance sheets of W.K.C., Inc. as of December 31, 2006 and 2005, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of W.K.C., Inc. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Whitley Penn LLP
Dallas, Texas
May 1, 2007

W.K.C., INC.
BALANCE SHEETS

	December 31,	
	<u>2006</u>	<u>2005</u>
Assets		
Current assets:		
Cash	\$ -	\$ 28,461
Accounts receivable:		
Trade	38,564	32,037
Employees	61,042	40,700
Inventories	<u>36,515</u>	<u>39,429</u>
Total current assets	136,121	140,627
Deferred tax assets	85,870	72,323
Property and equipment, net	<u>512,247</u>	<u>446,675</u>
Total assets	<u><u>\$ 734,238</u></u>	<u><u>\$ 659,625</u></u>
Liabilities and Stockholder's Equity		
Current liabilities:		
Bank overdraft	\$ 23,341	\$ -
Accounts payable and accrued liabilities	416,429	320,187
Line-of-credit	<u>1,096</u>	<u>-</u>
Total current liabilities	440,866	320,187
Deferred rent	<u>110,156</u>	<u>137,630</u>
Total liabilities	551,022	457,817
Commitments and contingencies	-	-
Stockholder's equity:		
Common stock, no par value, 321,000 shares authorized, 251,000 shares issued and outstanding	251,000	251,000
Accumulated deficit	<u>(67,784)</u>	<u>(49,192)</u>
Total stockholder's equity	<u>183,216</u>	<u>201,808</u>
Total liabilities and stockholder's equity	<u><u>\$ 734,238</u></u>	<u><u>\$ 659,625</u></u>

See accompanying notes to financial statements.

W.K.C., INC.
STATEMENTS OF INCOME

	Year Ended December 31,	
	2006	2005
Revenues:		
Sales of alcoholic beverages	\$ 2,616,029	\$ 2,588,033
Sales of food and merchandise	536,567	534,324
Service revenues	812,372	643,831
Other	<u>86,095</u>	<u>61,612</u>
	4,051,063	3,827,800
Operating expenses:		
Cost of goods sold	809,465	766,203
Salaries and wages	974,590	962,907
Other general and administrative:		
Taxes and permits	521,351	529,385
Charge card fees	61,955	56,194
Rent	148,701	147,870
Legal and professional	37,308	32,598
Advertising and marketing	140,348	160,341
Depreciation	95,029	85,134
Other	<u>532,984</u>	<u>557,260</u>
	<u>3,321,731</u>	<u>3,297,892</u>
Income from operations	729,332	529,908
Interest expense	<u>18,750</u>	<u>-</u>
Net income before income taxes	710,582	529,908
Income tax expense	<u>246,890</u>	<u>207,223</u>
Net income	<u><u>\$ 463,692</u></u>	<u><u>\$ 322,685</u></u>

See accompanying notes to financial statements.

W.K.C., INC.

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

YEARS ENDED DECEMBER 31, 2006 AND 2005

	Common Stock		Retained Earnings	Total
	Number of Shares	Amount	(Accumulated Deficit)	Stockholder's Equity
Balance at December 31, 2004	251,000	\$ 251,000	\$ 102,623	\$ 353,623
Net income	-	-	322,685	322,685
Stockholder distributions	-	-	(474,500)	(474,500)
Balance at December 31, 2005	251,000	251,000	(49,192)	201,808
Net income	-	-	463,692	463,692
Stockholder distributions	-	-	(482,284)	(482,284)
Balance at December 31, 2006	<u>251,000</u>	<u>\$ 251,000</u>	<u>\$ (67,784)</u>	<u>\$ 183,216</u>

See accompanying notes to financial statements.

W.K.C., INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2006	2005
Operating Activities		
Net income	\$ 463,692	\$ 322,685
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	95,029	85,134
Deferred rent	(15,939)	(4,944)
Deferred income taxes	(13,547)	(13,268)
Changes in operating assets and liabilities:		
Accounts receivable	(26,869)	(33,861)
Inventories	2,914	(8,239)
Bank overdraft	23,341	-
Accounts payable and accrued liabilities	84,707	134,339
Net cash provided by operating activities	<u>613,328</u>	<u>481,846</u>
Investing Activities		
Purchases of property and equipment	(160,601)	(26,405)
Financing Activities		
Proceeds from line-of-credit, net	1,096	-
Stockholder distributions	(482,284)	(474,500)
Net cash used in financing activities	<u>(481,188)</u>	<u>(474,500)</u>
Net decrease in cash and cash equivalents	(28,461)	(19,059)
Cash and cash equivalents at beginning of year	<u>28,461</u>	<u>47,520</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 28,461</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 18,750</u>	<u>\$ -</u>
Cash paid during the year for income taxes	<u>\$ 150,000</u>	<u>\$ 109,557</u>

See accompanying notes to financial statements.

W.K.C., INC.
Notes to Financial Statements
December 31, 2006 and 2005

A. Nature of Business

W.K.C., Inc. (the "Company") was incorporated in the state of Texas in 1990. The Company currently owns and operates a nightclub that offers live adult entertainment. The nightclub and corporate office are located in Fort Worth, Texas.

B. Summary of Significant Accounting Policies

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

Basis of Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2006 and 2005, the Company had no such investments. The Company maintains deposits primarily in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). There were no uninsured deposits at December 31, 2006 and 2005. The Company has not incurred any losses related to its cash on deposit with financial institutions.

Accounts and 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. The Company recognizes allowances for doubtful accounts when, based on management judgment, circumstances indicate that accounts receivable will not be collected. There was no allowance for doubtful accounts as of December 31, 2006 and 2005.

B. Summary of Significant Accounting Policies - continued

Inventories

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

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets for financial reporting purpose. The estimated useful lives of furniture and equipment range from five to ten years. Leasehold improvements are depreciated using the straight-line method over the shorter of the respective lease term or the estimated useful lives of the assets. 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 recognized in the accompanying statement of income of the respective period.

Revenue Recognition

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

Advertising and Marketing

Advertising and marketing expenses are primarily comprised of costs related to public advertisements and giveaways, which are used for promotional purposes. Advertising and marketing expenses are expensed as incurred and are included in operating expenses in the accompanying statements of income.

Income Taxes

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

B. Summary of Significant Accounting Policies - continued

Fair Value of Financial Instruments

In accordance with the reporting requirements of SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments under this statement and includes this additional information in the notes to financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short maturity of these instruments. The carrying value of the line-of-credit also approximates fair value since this instrument bears market rates of interest. None of these instruments are held for trading purposes.

C. Property and Equipment

Property and equipment consisted of the following:

	December 31, 2006	2005
Leasehold improvements	\$ 905,383	\$ 775,233
Furniture and equipment	537,297	506,845
	<u>1,442,680</u>	<u>1,282,079</u>
Total property and equipment	1,442,680	1,282,079
Less accumulated depreciation	930,433	835,404
Property and equipment, net	<u>\$ 512,247</u>	<u>\$ 446,675</u>

D. Line-of-Credit

The Company has available a \$75,000 unsecured line-of-credit with a financial institution. Principal and interest are payable daily by deducting 10% of credit card proceeds until the entire amount due is paid. The amount outstanding under this agreement at December 31, 2006 was \$1,096. The remainder of the line-of-credit was available for future borrowings at December 31, 2006.

W.K.C., INC.
Notes to Financial Statements (continued)

E. Income Taxes

Income tax expense for the years presented differs from the “expected” federal income tax expense computed by applying the U.S. federal statutory rate of 34% to earnings before income taxes for the years ended December 31, as a result of the following:

	<u>2006</u>	<u>2005</u>
Computed expected tax expense	\$ 241,598	\$ 180,169
Other	5,292	27,054
Total income tax expense	<u>\$ 246,890</u>	<u>\$ 207,223</u>

The significant components of the Company’s deferred tax assets at December 31 are as follows:

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Property and equipment	\$ 34,947	\$ 15,503
Deferred rent	50,923	6,820
	<u>\$ 85,870</u>	<u>\$ 72,323</u>

F. Commitments and Contingencies

Leases

The Company leases a building and corporate office space under operating leases, of which rent expense was approximately \$148,701 and \$147,870 for the years ended December 31, 2006 and 2005, respectively.

The Company’s building lease contains escalating lease payments over the lease term and, as a result, the Company is recording rent expense on a straight-line basis over the term of the lease. The Company has recorded approximately \$138,000 and \$154,000 of deferred rent at December 31, 2006 and 2005, respectively, as reflected in the accompanying balance sheets.

Future minimum annual lease obligations as of December 31, 2006, approximates the following:

2007	\$ 176,000
2008	174,000
2009	181,000
2010	<u>140,000</u>
Total future minimum lease obligations	<u>\$ 671,000</u>

F. Commitments and Contingencies – continued

Litigation

The Company can be subjected to certain routine legal matters in the ordinary course of business. The Company does not believe that the ultimate resolution of the matters will have a material impact on the Company's financial position or results of operations.

G. Subsequent Events

In January 2007, the Company borrowed an additional \$75,000 on the existing line-of-credit.

Effective April 24, 2007, the Company was acquired by Rick's Cabaret International, Inc., which operates live adult entertainment nightclubs. Rick's Cabaret International, Inc. is a publicly traded company.

RICK'S CABARET INTERNATIONAL, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined financial statements have been prepared to give effect to Rick's Cabaret International, Inc.'s ("Rick's") acquisition of W.K.C., Inc., a Texas corporation ("WKC"). On April 23, 2007, we completed a transaction with BLP Holdings, LLC, a Texas limited liability company and Brian Paul for the purchase of 100% of the outstanding common stock of WKC (the "Business"), which owns and operates an adult entertainment cabaret known as New Orleans Nights ("New Orleans Nights") located in Fort Worth, Texas. Pursuant to the Stock Purchase Agreement, we acquired the Business for a total cash purchase price of \$4,900,000. As part of the transaction, Brian Paul entered a five-year covenant not to compete with us or the Business. In addition, RCI Holdings, Inc., our wholly owned subsidiary ("RCI"), entered into an Assignment of that certain Real Estate Sales Contract between Thomas Felsenthal and Conrad Schuberth (the "Sellers") and WKC, for the purchase of the real property located at 7101 Calmont, Fort Worth, Texas 76116 (the "Real Property") where New Orleans Nights is located for a total purchase price of \$2,500,000 which consisted of \$100,000 in cash and \$2,400,000 payable in a six year Promissory Note to the Sellers which will accrue interest at the rate of 7.25% for the first two years, 8.25% for years three and four and 9.25% thereafter (the "Promissory Note"). The Promissory Note is secured by a Deed of Trust and Security Agreement. Further, RCI entered into an Assignment and Assumption of Lease Agreement with Sellers to assume the lease agreement for the Real Property. We intend to change the name of the Business to Rick's Cabaret. The terms and conditions of the transaction were the result of extensive arm's length negotiations between the parties.

In April 2007, Rick's issued 675,000 shares of Rick's common stock for \$5,345,500. The money received from this financing is being used for the acquisition of the club.

The pro forma condensed balance sheet gives effect to the WKC acquisition as if it had occurred on December 31, 2006 combining the balance sheets of Rick's and WKC as of that date. The pro forma condensed statements of operations for the three months ended December 31, 2006 and for the year ended September 30, 2006 give effect to the acquisition as if it had occurred on October 1, 2005 combining the results of Rick's for the three months ended December 31, 2006 and the year ended September 30, 2006 with those of WKC for the three months ended December 31, 2006 and for the year ended December 31, 2006.

The pro forma statements of operations for the three months ended December 31, 2006 and for the year ended September 30, 2006 include appropriate adjustments for amortization, interest and other items related to the transaction. The pro forma adjustments are based on preliminary appraisal results, estimates, available information and certain assumptions that management deems appropriate. The pro forma financial information is unaudited and does not purport to represent the results that would have been obtained had the transactions occurred at October 1, 2005, as assumed, nor does it purport to present the results which may be obtained in the future.

RICK'S CABARET INTERNATIONAL, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
DECEMBER 31, 2006
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	<u>Rick's</u>	<u>WKC</u>	<u>Pro Forma Adjustment (A)</u>	<u>Pro Forma Combined</u>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,463	\$ -	\$ 345	\$ 1,808
Accounts receivable:				
Trade	270	39	(39)	270
Employees	185	61	(61)	185
Marketable securities	7	-	-	7
Inventories	359	36	-	395
Prepaid expense and other current assets	151	-	-	151
Total current assets	2,435	136	245	2,816
Deferred tax assetss	-	86	(86)	-
Property and equipment, net	18,497	512	2,500	21,509
Goodwill and indefinite lived intangibles	11,231	-	4,352	15,583
Definite lived intangibles, net	722	-	100	822
Other	395	-	-	395
Total assets	\$ 33,280	\$ 734	\$ 7,111	\$ 41,125
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Bank overdraft	\$ -	\$ 23	\$ (23)	\$ -
Accounts payable and accrued liabilities	1,826	417	(317)	1,926
Current portion of long-term debt	2,375	-	196	2,571
Line-of-credit	-	1	(1)	-
Total current liabilities	4,201	441	(145)	4,497
Long-term debt less current portion	11,626	-	2,204	13,830
Deferred rent	330	110	(110)	330
Total liabilities	16,157	551	1,949	18,657
COMMITMENTS AND CONTINGENCIES	-	-	-	-
MINORITY INTERESTS	528	-	-	528
TEMPORARY EQUITY - Common stock, subject to put rights (285,000 shares)	1,800	-	-	1,800
STOCKHOLDERS' EQUITY:				
Preferred stock, \$.10 par, 1,000,000 shares authorized; none outstanding	-	-	-	-
Common stock, \$.01 par, 15,000,000 shares authorized; 6,633,045 outstanding	60	251	(245)	66
Additional paid-in capital	16,134	-	5,339	21,473
Accumulated other comprehensive income	(7)	-	-	(7)
Accumulated deficit	(98)	(68)	68	(98)
Less 908,530 shares of common stock held in treasury, at cost	(1,294)	-	-	(1,294)
Total stockholders' equity	14,795	183	5,162	20,140

Total liabilities and stockholders' equity	<u><u>\$ 33,280</u></u>	<u><u>\$ 734</u></u>	<u><u>\$ 7,111</u></u>	<u><u>\$ 41,125</u></u>
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RICK'S CABARET INTERNATIONAL, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
THREE MONTHS ENDED DECEMBER 31, 2006
(IN THOUSANDS, EXCEPT PER SHARE INFORMATION)

	<u>Rick's</u>	<u>WKC</u>	<u>Pro Forma Adjustments</u>		<u>Pro Forma Combined</u>
Total revenue	\$ 7,030	\$ 1,012	\$ -		\$ 8,042
Operating expenses:					
Cost of goods sold	891	200	-		1,091
Salaries and wages	2,071	252	-		2,323
Stock compensation	65	-	-		65
Depreciation & amortization	365	24	18	B	407
Other general and administrative	3,051	359	(95)	C	3,315
Total operating expenses	<u>6,443</u>	<u>835</u>	<u>(77)</u>		<u>7,201</u>
Operating income	587	177	77		841
Interest expense	(326)	-	(41)	D	(367)
Income tax expense	-	(53)	-		(53)
Other	92	3	-		95
Net income	<u>\$ 353</u>	<u>\$ 127</u>	<u>\$ 36</u>		<u>\$ 516</u>
Net income per share:					
Basic	<u>\$ 0.07</u>				<u>\$ 0.09</u>
Diluted	<u>\$ 0.06</u>				<u>\$ 0.08</u>
Weighted average shares outstanding:					
Basic	<u>5,141</u>				<u>5,816</u>
Diluted	<u>5,433</u>				<u>6,108</u>

RICK'S CABARET INTERNATIONAL, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
YEAR ENDED SEPTEMBER 30, 2006 *
(IN THOUSANDS, EXCEPT PER SHARE INFORMATION)

	<u>Rick's</u>	<u>WKC *</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
Total revenue	\$ 24,487	\$ 4,051	\$ -	\$ 28,538
Operating expenses:				
Cost of goods sold	2,915	809	-	3,724
Salaries and wages	7,082	975	-	8,057
Depreciation & amortization	1,049	95	70 B	1,214
Other general and administrative	10,450	1,443	(378) C	11,515
Total operating expenses	<u>21,496</u>	<u>3,322</u>	<u>(308)</u>	<u>24,510</u>
Operating income	2,991	729	308	4,028
Interest expense	(1,057)	(19)	(168) D	(1,244)
Income tax expense	-	(247)	-	(247)
Other	(181)	-	-	(181)
Net income	<u>\$ 1,753</u>	<u>\$ 463</u>	<u>\$ 140</u>	<u>\$ 2,356</u>
Net income per share:				
Basic	<u>\$ 0.38</u>			<u>\$ 0.44</u>
Diluted	<u>\$ 0.35</u>			<u>\$ 0.41</u>
Weighted average shares outstanding:				
Basic	<u>4,641</u>			<u>5,316</u>
Diluted	<u>5,066</u>			<u>5,741</u>

* Amounts for WKC are for the year ended December 31, 2006

RICK'S CABARET, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET ADJUSTMENT

- (A) Records the WKC and Real Property acquisition, including: payment of \$5,000,000 in cash, Promissory Note issued of \$2,400,000, removal of WKC stockholder's equity, and estimated transaction costs of \$100,000.

This acquisition was accounted for as a purchase with the total consideration preliminarily allocated to the assets assumed as follows:

DESCRIPTION	AMOUNT (IN THOUSANDS)
Total consideration:	
Cash	\$ 5,000
Issuance of Promissory Note	2,400
Estimated transaction costs	100
	<u>\$ 7,500</u>
Allocation:	
Current assets	\$ 36
Property and equipment	3,012
Non-compete agreement	100
Sexually oriented business license	4,352
	<u>\$ 7,500</u>

The foregoing allocations are based on estimated fair values and are subject to adjustment. Fair values of assets acquired were determined based on management's valuation.

In January through April 2007, RCI issued 675,000 shares of its common stock for total proceeds of \$5,345,000 to provide funding for the WKC and Real Property acquisition.

RICK'S CABARET, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS ADJUSTMENTS

- (B) Records adjustment to amortization expense to reflect increase for new basis of identifiable intangible assets including non-compete agreement and sexually oriented business license. Non-compete agreement is amortized straight-line over a five-year life. Sexually oriented business license is considered to have an indefinite life and is not amortized. Also, includes straight-line depreciation expense of the acquired building over a forty-year life, excluding \$500,000 allocated to the value of the land.
- (C) Records adjustment to remove rent expense and other personal expenses.
- (D) Records adjustment to interest expense to reflect interest on Rick's \$2,400,000 Promissory Note arising related to the Real Property acquisition.