

RICKS CABARET INTERNATIONAL INC

FORM 8-K (Current report filing)

Filed 8/28/2006 For Period Ending 8/24/2006

Address	10959 CUTTEN ROAD HOUSTON, Texas 77066
Telephone	281-397-6730
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

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

Date of Report: August 24, 2006

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 2.01 COMPLETION OF ACQUISITION OF ASSETS.

On August 24, 2006, our wholly owned subsidiary, RCI Debit Services, Inc., a Texas corporation ("RCI Debit"), completed the acquisition of 100% of the membership interest (the "Membership Interest") in New Spiros, LLC (the "New Spiros"), and 99% of the partnership interest (the "Partnership Interest") in Spiros Partners, Ltd. (the "Partnership"), which owns and operates an adult entertainment cabaret known as "Centerfolds" (the "Business"). New Spiros is the general partner of the Partnership.

Pursuant to a Purchase Agreement and Amended Purchase Agreement, RCI Debit acquired the Membership Interest and Partnership Interest for a total purchase price of \$2,150,000, payable \$450,000 in cash at closing and \$1,700,000 payable in a five year promissory note bearing interest at the rate of 7.5% per annum (the "Long Term Note"). Certain members of the prior ownership structure entered a five-year covenant not to compete with RCI Debit or the Business.

As part of the transaction, our wholly owned subsidiary, RCI Holdings, Inc., a Texas corporation ("RCI Holdings"), acquired the real property where the Business is located at 5418 Brewster, San Antonio, Texas (the "Real Property") from SK&BB Holdings, L.P. ("SK&BB"), an affiliate of New Spiros and the Partnership. RCI Holdings paid a total purchase price of \$750,000, payable \$150,000 in cash at closing and \$600,000 payable by assuming the existing promissory note bearing interest at the rate of 12% per annum (the "Promissory Note") (as further discussed below).

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. A copy of the press release related to this transaction is attached hereto as Exhibit 99.1.

ITEM 2.03 CREATION OF A DIRECT FINANCIAL OBLIGATION.

Business Acquisition:

As part of the acquisition of the Membership Interest and Partnership Interest, RCI Debit executed a Long Term Note in the principal amount of \$1,700,000 bearing simple interest at the rate of 7.5% per annum which is payable:

- (i) in twenty-four (24) monthly installments of principal and interest in the amount of \$40,769.83 each, with the first installment being due and payable thirty (30) days after the closing date, with subsequent installments being due and payable on the same day of each successive month, through August 2008; and
- (ii) thereafter commencing with the 25th month through the 59th month in equal monthly installments of principal and interest in the amount of \$9,270.12 each, with the next such installment being due and payable on the same day of the month in September 2008, and with subsequent installments in like amount being due and payable on the same day of each successive month through July 2011, with a final payment of \$785,321.04 being due and payable thirty (30) days

thereafter being the final maturity of the Long Term Note, when the entire unpaid principal balance, whether the same or different from the above stated balance, and all unpaid accrued interest owing, together with all other charges, if any, will be due and payable in full.

The Long Term Note is secured by a lien on the Real Property inferior only to the existing lien on the Promissory Note and the lien granted to SK&BB under the Bridge Note (discussed below), as well as all of the capital stock of the Buyer, all of the Membership Interest and Partnership Interest, and a security interest in the assets of the Business.

Real Property Acquisition:

RCI Holdings paid a total purchase price of \$750,000 for the acquisition of the Real Property, payable \$150,000 in cash at closing and \$600,000 payable by assuming and modifying the existing Promissory Note bearing interest at the rate of 12% per annum, the obligations of which are payable as follows:

A. As a condition to allowing RCI Holdings to assume the Promissory Note, the holder of the Promissory Note required a pre-payment of \$200,000 by New Spiros, the Partnership, or SK&BB which was paid at closing and which reduced the principal amount of the Promissory Note to \$400,000. In addition, the holder of the Promissory Note required that we guarantee the Promissory Note, which we did.

B. At closing, RCI Holdings entered a Modification and Extension Agreement (the "Modification") with the holder of the Promissory Note for the payment of the remaining balance under the Promissory Note. Under the terms of the Modification, RCI Holdings is obligated to pay monthly interest-only payments. The maturity date of the Promissory Note is March 31, 2007, at which time RCI Holdings is obligated to pay the entire amount of principal and interest remaining unpaid under the Promissory Note. The Promissory Note is secured by a first lien on the Real Property.

C. To fulfill the balance of its obligations for the acquisition of the Real Property, RCI Holdings executed a new promissory note payable to SK&BB in the principal amount of \$200,000 bearing interest at the rate of 12% per annum (the "Bridge Note"). The Bridge Note is payable as follows:

(i) interest only for months one (1) through (5) with the first payment being due thirty (30) days after the Closing Date; and

(ii) A final lump sum payment for the remaining balance of said Bridge Note due one hundred eighty (180) days after the Closing Date.

The Bridge Note is secured by a lien on the Real Property inferior only to the existing lien on the Promissory Note.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

The financial statements and pro forma financial information required by Items 9.01(a) and 9.01(b) are not available. Such financial statements will be filed no later than November 7, 2006.

(c) Exhibits

Exhibit Description

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10.1	Purchase Agreement (filed as Exhibit 10.1 to our Form 8-K filed with the SEC on August 10, 2006)
10.2	Amended Purchase Agreement (filed as Exhibit 10.2 to our Form 8-K filed with the SEC on August 10, 2006)
10.3	Promissory Note dated August 24, 2006 in the principal amount of \$1,700,000 ("Long Term Note")
10.4	Promissory Note dated August 24, 2006 in the principal amount of \$200,000 ("Bridge Note")
10.5	Modification and Extension Agreement dated August 24, 2006
99.1	Press release dated August 24, 2006

SIGNATURES

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

RICK'S CABARET INTERNATIONAL, INC.

Date:	August 28, 2006	/s/ Eric Langan

By:	Eric Langan	
	Chairman, President,	
	Chief Executive Officer and	
	Chief Financial Officer	

PROMISSORY NOTE

DATE: August 24, 2006

BORROWER: RCI Debit Services, Inc., a Texas corporation.

BORROWER'S MAILING ADDRESS: 10959 Cutten Road
Houston, Harris County, Texas 77066

LENDERS: Behzad Bahrami, Shahrzad Bahrami, Spiridon Karamalegos, Antonios A. Petropoulos, Nicolas Karaolis, Jesse G. Candelas and Eleftherios Karamalegos

PLACE FOR PAYMENT: c/o Douglass D. Hearne, Jr., Trustee
700 Lavaca, Suite 910
Austin, Travis County, Texas 78701

or any other place that Lenders may designate in writing

PRINCIPAL AMOUNT: One Million Seven Hundred Thousand and No/100 Dollars (\$1,700,000.00)

ANNUAL INTEREST RATE: Seven and One-Half Percent (7.5%)

FINAL MATURITY DATE: August __, 2011

ANNUAL INTEREST RATE ON
MATURED, UNPAID AMOUNTS: Fourteen Percent (14%)

TERMS OF PAYMENT
(PRINCIPAL AND INTEREST): This Note shall be due and payable to Douglass D. Hearne, Jr., as Trustee for Lenders as follows:

- (1) in twenty-four (24) equal monthly installments of principal and interest in the amount of Forty Thousand Seven Hundred Sixty-Nine and 83/100 Dollars (\$40,769.83 = \$31,499.71 + \$9,270.12) each, with the first such installment being due and payable on September __, 2006, with subsequent installments being due and payable on the same day of each successive month, through August __, 2008; and
- (2) thereafter commencing with the 25th month through the 59th month in equal monthly installments of principal and interest in the amount of Nine Thousand Two Hundred Seventy and 12/100 Dollars (\$9,270.12) each, with the next such installment being

Promissory Note Page 1

Initialed for Identification:

due and payable on September __, 2008, and with subsequent installments in like amount being due and payable on the same day of each successive month through July __, 2011, with a final payment of Seven Hundred Eight-Five Thousand Three Hundred Twenty-One and 04/100 Dollars (\$785,321.04)* being due and payable on August __, 2011, being the final maturity of this Note, when the entire unpaid principal balance, whether the same or difference from the above stated balance, and all unpaid accrued interest owing, together with all other charges, if any, will be due and payable in full.

*A portion of this Note (\$1,000,000.00) is based upon a 15 year amortization, with a 5 year balloon, with payments of \$9,270.12 for 59 months and a final payment of \$785,321.04 due on the 60th month.

PREPAYMENT:

Borrower may prepay this Note in any amount at any time before the Maturity Date without penalty or premium.

SECURITY FOR PAYMENT:

This Note is secured by a security interest evidenced by Security Agreements of even date hereof, covering the following property, to-wit:

- (1) All of the outstanding shares of common stock of RCI Debit Services, Inc., including all dividends (cash or otherwise), right to receive dividends, stock dividends, dividends paid in stock, distributions upon redemption or liquidation, distributions as a result of split-ups, recapitalization or rearrangements, stock rights, rights to subscribe, voting rights, rights to receive securities, and all new securities and other property which debtor may now be or may hereafter become entitled to receive on account of the foregoing (Borrower hereby agreeing that in the event debtor receives any such new securities, Borrower will hold the same in trust for Lenders and will immediately deliver the same to Lenders to be held by Lenders subject to the terms and provisions of the Security Agreement).
- (2) All of the Membership Interest in New Spiros, L.L.C., a Texas limited liability company;
- (3) All of the Partnership Interest in Spiros Partners, Ltd., a Texas limited partnership, except for a 1% limited partner interest retained by Behzad Bahrami.
- (4) All of the assets of Borrower.

and all additions to, replacements of, and substitutions for any of the foregoing; and all proceeds of any of the foregoing

Promissory Note Page 2

Initialed for Identification:

OTHER SECURITY FOR PAYMENT: None

RELATED NOTES:

- (1) One certain promissory note in the original principal amount of Six Hundred Thousand and No/100 Dollars (\$600,000.00), dated as of September 30, 2004, executed by SK & BB Holdings, L.P., payable to the order of The Griffin Family Trust Under the Will of Gordon M. Griffin, Deceased, and The Griffin Family Trust Under the Will of Irma H. Griffin, Deceased, described in and secured by a vendor's lien and deed of trust recorded in Vol. ____, Page ____, of the real property records of Bexar County, Texas (the "600,000.00 Note"), which \$600,000.00 Note has been modified, reduced and extended as of even date hereof, and assumed by RCI Holdings, Inc., a Texas corporation, who is an affiliate of Borrower.
- (2) One certain promissory note in the original principal amount of Two Hundred Thousand and No/100 Dollars (\$200,000.00), dated as of even date hereof, executed by RCI Holdings, Inc., a Texas corporation, payable to the order of SK & BB Holdings, L.P., a Texas limited partnership, described in and secured by a vendor's lien and deed of trust recorded in Vol. ____, Page ____, of the real property records of Bexar County, Texas (the \$200,000.00 Note and the \$600,000.00 Note collectively referred to as the "Related Notes").

CROSS DEFAULT: Notwithstanding any language herein contained to the contrary, the Borrower agrees that in the event of any default in the Related Notes or in any instruments securing same, and such default is not cured within the time period therein provided, if any, that such uncured default shall be a default herein entitling the Lenders to any and all remedies as herein provided or as may be provided by law.

Borrower promises to pay to the order of Lender the Principal Amount plus interest at the Annual Interest Rate. This Note is payable at the Place for Payment and according to the Terms of Payment. All unpaid amounts are due by the Maturity Date. After maturity, Borrower promises to pay any unpaid principal balance plus interest at the Annual Interest Rate on Matured, Unpaid Amounts.

If Borrower defaults in the payment of this Note or in the performance of any obligation in any instrument securing or collateral to this Note, Lender may declare the unpaid principal balance, earned interest, and any other amounts owed on the Note immediately due. Notwithstanding any other provision of this Note, in the event of a default, before exercising any of Lender's remedies under this Note or any deed of trust or warranty deed with vendor's lien securing or collateral to it, Lender will first give Borrower written notice of default and Borrower will have ten days after notice is given in which to cure the default. If the default is not cured ten days after notice, Borrower and each surety, endorser, and guarantor waive all

Promissory Note Page 3

Initialed for Identification:

demand for payment, presentation for payment, notice of intention to accelerate maturity, notice of acceleration of maturity, protest, and notice of protest, to the extent permitted by law.

Borrower also promises to pay reasonable attorney's fees and court and other costs if this Note is placed in the hands of an attorney to collect or enforce the Note. These expenses will bear interest from the date of advance at the Annual Interest Rate on Matured, Unpaid Amounts. Borrower will pay Lender these expenses and interest on demand at the Place for Payment. These expenses and interest will become part of the debt evidenced by the Note and will be secured by any security for payment.

Interest on the debt evidenced by this Note will not exceed the maximum rate or amount of nonusurious interest that may be contracted for, taken, reserved, charged, or received under law. Any interest in excess of that maximum amount will be credited on the Principal Amount or, if the Principal Amount has been paid, refunded. On any acceleration or required or permitted prepayment, any excess interest will be canceled automatically as of the acceleration or prepayment or, if the excess interest has already been paid, credited on the Principal Amount or, if the Principal Amount has been paid, refunded. This provision overrides any conflicting provisions in this Note and all other instruments concerning the debt.

Each Borrower is responsible for all obligations represented by this Note. When the context requires, singular nouns and pronouns include the plural.

A default exists under this Note if (1) (a) Borrower or (b) any other person liable on any part of this Note or who grants a lien or security interest on property as security for any part of this Note (an "Other Obligated Party") fails to timely pay or perform any obligation or covenant in any written agreement between Lender and Borrower or any Other Obligated Party; (2) any warranty, covenant, or representation in this Note or in any other written agreement between Lender and Borrower or any Other Obligated Party is materially false when made; (3) a receiver is appointed for Borrower, any Other Obligated Party, or any property on which a lien or security interest is created as security (the "Collateral Security") for any part of this Note; (4) any Collateral Security is assigned for the benefit of creditors; (5) a bankruptcy or insolvency proceeding is commenced by Borrower, a partnership of which Borrower is a general partner, or an Other Obligated Party; (6) (a) a bankruptcy or insolvency proceeding is commenced against Borrower, a partnership of which Borrower is a general partner, or an Other Obligated Party and (b) the proceeding continues without dismissal for sixty days, the party against whom the proceeding is commenced admits the material allegations of the petition against it, or an order for relief is entered; (7) any of the following parties is dissolved, begins to wind up its affairs, is authorized to dissolve or wind up its affairs by its governing body or persons, or any event occurs or condition exists that permits the dissolution or winding up of the affairs of any of the following parties: Borrower, a partnership of which Borrower is a general partner, or an Other Obligated Party; and (8) any Collateral Security is impaired by loss, theft, damage, levy and execution, issuance of an official writ or order of seizure, or destruction, unless it is promptly replaced with collateral security of like kind and quality or restored to its former condition.

If any provision of this Note conflicts with any provision of a loan agreement, deed of trust, or security agreement of the same transaction between Lender and Borrower, the provisions of the deed of trust will govern to the extent of the conflict.

Promissory Note Page 4

Initialed for Identification:

This Note will be construed under the laws of the state of Texas, without regard to choice-of-law rules of any jurisdiction.

THIS NOTE REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENT OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

RCI DEBIT SERVICES, INC., a Texas corporation

By: /s/ *Eric Langan*

Eric Langan, President

PROMISSORY NOTE

DATE: August 24, 2006

BORROWER: RCI Holdings, Inc., a Texas corporation.

BORROWER'S MAILING ADDRESS: 10959 Cutten Road
Houston, Harris County, Texas 77066

LENDER: SK & BB Holdings, L.P., a Texas limited
partnership.

PLACE FOR PAYMENT: 9010 N. IH 35, Suite 112
Austin, Travis County, Texas 78753

or any other place that Lender may designate in
writing

PRINCIPAL AMOUNT: Two Hundred Thousand and No/100 Dollars
(\$200,000.00)

ANNUAL INTEREST RATE: Twelve Percent (12%)

MATURITY DATE: February __, 2007

ANNUAL INTEREST RATE ON
MATURED, UNPAID AMOUNTS: Highest Rate Permitted by Law

TERMS OF PAYMENT
(PRINCIPAL AND INTEREST): This Note shall be due and payable INTEREST ONLY
monthly, with the first interest payment being due
and payable on September __, 2006, and subsequent
interest only payments being due and payable on
the same day of each successive month, until
February __, 2007, when the entire unpaid
principal balance and all unpaid accrued interest
owing, together with all other fees and charges,
if any, will be due and payable in full.

PREPAYMENT: Borrower may prepay this Note in any amount at any
time before the Maturity Date without penalty or
premium.

SECURITY FOR PAYMENT: This Note is secured by a vendor's lien and
superior title retained in a deed from SK & BB
Holdings, L.P. to Borrower of even date hereof and
by a deed of trust of even date hereof from RCI
Holdings, Inc. to Hector H. Cardenas, trustee,
both of which cover the following real property:

TRACT 1: Lots 12 and 13, New City Block 16112,
WEIDNER ROAD BUSINESS PARK SUBDIVISION, a
subdivision in the City of San Antonio, Bexar
County, Texas, according to the plat thereof
recorded in Volume 6900, Page(s) 214, Deed and
Plat Records of Bexar County, Texas.

Promissory Note Page 1

Initialed for Identification:

TRACT 2: Easement Estate created in that certain Reciprocal Parking Agreement dated February 21, 2003, recorded in Volume 9842, Page 1395 of the Official Public Records of Real Property of Bexar County, Texas, over and across Lot 16, Block 1, New City Block 1645C, locally described as 5351-5355 Brewster.

OTHER SECURITY FOR PAYMENT: None

PRIOR NOTE: The lien securing this Note is subordinate to the lien securing payment of the unpaid balance of a prior note in the original principal amount of Six Hundred Thousand and No/100 Dollars (\$600,000.00), dated as of September 30, 2004, executed by SK & BB Holdings, L.P., payable to the order of The Griffin Family Trust Under the Will of Gordon M. Griffin, Deceased, and The Griffin Family Trust Under the Will of Irma H. Griffin, Deceased, described in and secured by a vendor's lien and deed of trust recorded in Vol. ____, Page ____, of the real property records of Bexar County, Texas (the "Prior Note"), which Prior Note has been modified and extended as of even date hereof.

Borrower has assumed payment of the Prior Note and the instruments securing same, but Lender is still obligated to pay it according to its terms.

CROSS DEFAULT/PRIOR NOTE/
\$1,700,000.00 NOTE:

Contemporaneously herewith in a related transaction, RCI Debit Services, Inc., an affiliate of Borrower ("RCI"), is executing one certain promissory note in the original principal amount of One Million Seven Hundred Thousand and No/100 Dollars (\$1,700,000.00), dated of even date hereof, payable to the order of Behzad Bahrami, Shahrzad Bahrami, Spiridon Karamalegos, Antonios A. Petropoulos, Nicolas Karaolis, Jesse G. Candelas and Eleftherios Karamalegos, described in and secured by a Deed of Trust, a Security Agreement (Stock) and a Security Agreement (Assets) (the "\$1,700,000.00 Note").

If Borrower defaults in payment of the Prior Note or in any instruments securing same and/or RCI defaults in payment of the \$1,700,000.00 Note or in any instruments securing same, and such default is not cured within the time period therein provided, if any, Lender may declare an event of default herein to the same extent as if this Note has become in default.

The subordinate lien securing this Note is also provided for in the special warranty deed with vendor's lien and deed of trust described above, which this Note incorporates and is subject to.

Borrower promises to pay to the order of Lender the Principal Amount plus interest at the Annual Interest Rate. This Note is payable at the Place for Payment and according to the Terms of Payment. All unpaid amounts are due by the Maturity Date. After maturity, Borrower promises to pay any unpaid principal balance plus interest at the Annual Interest Rate on Matured, Unpaid Amounts.

Promissory Note Page 2

Initialed for Identification:

If Borrower defaults in the payment of this Note or in the performance of any obligation in any instrument securing or collateral to this Note, Lender may declare the unpaid principal balance, earned interest, and any other amounts owed on the Note immediately due. Notwithstanding any other provision of this Note, in the event of a default, before exercising any of Lender's remedies under this Note or any deed of trust or warranty deed with vendor's lien securing or collateral to it, Lender will first give Borrower written notice of default and Borrower will have ten days after notice is given in which to cure the default. If the default is not cured ten days after notice, Borrower and each surety, endorser, and guarantor waive all demand for payment, presentation for payment, notice of intention to accelerate maturity, notice of acceleration of maturity, protest, and notice of protest, to the extent permitted by law.

Borrower also promises to pay reasonable attorney's fees and court and other costs if this Note is placed in the hands of an attorney to collect or enforce the Note. These expenses will bear interest from the date of advance at the Annual Interest Rate on Matured, Unpaid Amounts. Borrower will pay Lender these expenses and interest on demand at the Place for Payment. These expenses and interest will become part of the debt evidenced by the Note and will be secured by any security for payment.

Interest on the debt evidenced by this Note will not exceed the maximum rate or amount of nonusurious interest that may be contracted for, taken, reserved, charged, or received under law. Any interest in excess of that maximum amount will be credited on the Principal Amount or, if the Principal Amount has been paid, refunded. On any acceleration or required or permitted prepayment, any excess interest will be canceled automatically as of the acceleration or prepayment or, if the excess interest has already been paid, credited on the Principal Amount or, if the Principal Amount has been paid, refunded. This provision overrides any conflicting provisions in this Note and all other instruments concerning the debt.

Each Borrower is responsible for all obligations represented by this Note. When the context requires, singular nouns and pronouns include the plural.

A default exists under this Note if (1) (a) Borrower or (b) any other person liable on any part of this Note or who grants a lien or security interest on property as security for any part of this Note (an "Other Obligated Party") fails to timely pay or perform any obligation or covenant in any written agreement between Lender and Borrower or any Other Obligated Party; (2) any warranty, covenant, or representation in this Note or in any other written agreement between Lender and Borrower or any Other Obligated Party is materially false when made; (3) a receiver is appointed for Borrower, any Other Obligated Party, or any property on which a lien or security interest is created as security (the "Collateral Security") for any part of this Note; (4) any Collateral Security is assigned for the benefit of creditors; (5) a bankruptcy or insolvency proceeding is commenced by Borrower, a partnership of which Borrower is a general partner, or an Other Obligated Party; (6) (a) a bankruptcy or insolvency proceeding is commenced against Borrower, a partnership of which Borrower is a general partner, or an Other Obligated Party and (b) the proceeding continues without dismissal for sixty days, the party against whom the proceeding is commenced admits the material allegations of the petition against it, or an order for relief is entered; (7) any of the following parties is dissolved, begins to wind up its affairs, is authorized to dissolve or wind up its affairs by its governing body or persons, or any event occurs or condition exists that permits the dissolution or winding up of the affairs of any of the following parties: Borrower, a partnership of which Borrower is a general partner, or an Other Obligated Party; and (8) any Collateral Security is impaired by loss, theft, damage, levy and execution, issuance of an official writ or order of seizure, or destruction, unless it is promptly replaced with collateral security of like kind and quality or restored to its former condition.

Promissory Note Page 3

Initialed for Identification:

If any provision of this Note conflicts with any provision of a loan agreement, deed of trust, or security agreement of the same transaction between Lender and Borrower, the provisions of the deed of trust will govern to the extent of the conflict.

This Note will be construed under the laws of the state of Texas, without regard to choice-of-law rules of any jurisdiction.

THIS NOTE REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENT OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

RCI HOLDINGS, INC., a Texas corporation

By: /s/ *Eric Langan*

Eric Langan, President

MODIFICATION AND EXTENSION AGREEMENT

DATE: August 24, 2006

HOLDER OF NOTE AND LIEN/

LENDER: The Griffin Family Trust Under the Will of Gordon M. Griffin, Deceased, and The Griffin Family Trust Under the Will of Irma H. Griffin, Deceased

HOLDER'S MAILING ADDRESS: c/o Gordon M. Griffin, Jr.
2800 Northwood
Austin, Travis County, Texas 78703

OBLIGOR: RCI Holdings, Inc., a Texas corporation

OBLIGOR'S MAILING ADDRESS: 10959 Cutten Road
Houston, Harris County, Texas 77066

ORIGINAL OBLIGOR: SK & BB Holdings, L.P., a Texas limited partnership

ORIGINAL OBLIGOR'S MAILING ADDRESS: 9010 N. IH 35, Suite 112
Austin, Travis County, Texas 78753

GUARANTOR: Rick's Cabaret International, Inc., a Texas corporation

NOTE

DATE: September 30, 2004

ORIGINAL PRINCIPAL AMOUNT: \$600,000.00

BORROWER: SK & BB Holdings, L.P., a Texas limited partnership

LENDER: The Griffin Family Trust Under the Will of Gordon M. Griffin, Deceased, and The Griffin Family Trust Under the Will of Irma H. Griffin, Deceased

MATURITY DATE: September 30, 2006

The Note is incorporate herein as if written herein verbatim.

UNPAID PRINCIPAL AND

INTEREST ON NOTE: Four Hundred Thousand and No/100 Dollars (\$400,000.00), after a Two Hundred Thousand and No/100 Dollars (\$200,000.00) payment contemporaneously herewith

LIEN DOCUMENTS: Vendor's Lien in Deed, Deed of Trust (Security Agreement, Assignment of Leases, Assignment of Rents and Financing Statement), and third party Security Agreement

PROPERTY (INCLUDING

ANY IMPROVEMENTS): TRACT 1: Lots 12 and 13, New City Block 16112,

WEIDNER ROAD BUSINESS PARK SUBDIVISION, a subdivision in the City of San Antonio, Bexar County, Texas, according to the plat thereof recorded in Volume 6900, Page(s) 214, Deed and Plat Records of Bexar County, Texas.

TRACT 2: Easement Estate created in that certain Reciprocal Parking Agreement dated February 21, 2003, recorded in Volume 9842, Page 1395 of the Official Public Records of Real Property of Bexar County, Texas, over and across Lot 16, Block 1, New City Block 1645C, locally described as 5351-5355 Brewster.

EXTENDED MATURITY DATE

OF NOTE/EXTENDED TERM: March 31, 2007

MODIFIED TERMS:

- (1) Contemporaneously herewith, the Obligor has paid down on the original principal amount so that the current principal amount as of the date hereof is \$400,000.00.
- (2) The Maturity Date of the Note has been extended to on or before March 31, 2007 (the Extended Maturity Date of Note).
- (3) The Obligor has assumed the obligations contained in the Note and the Lien Documents securing the Note.
- (4) During the Extended Term there shall be no prepayment of the Note in whole or in part, except that the Note may be prepaid in full only at any time from March 26, 2007 until the Extended Maturity Date.
- (5) The Obligor's assumed obligations under the Note and the Lien Documents securing the Note is unconditionally guaranteed by Rick's Cabaret International, Inc. by separate guaranty.
- (6) The Lender does hereby allow inferior liens against the Property so long as the Lender's liens are superior to any other liens placed against the Property.

ADDITIONAL TERMS:

- (1) The existing collateral securing the Note shall remain in full force and effect and not affected by this Modification and Extension Agreement (this "Agreement").
- (2) Lender as the Owner and Holder of the Note and Liens does hereby agree and consent to the transfer of assets from the Original Obligor to the Obligor and additionally consents to the assumption of the Note by the Obligor.

(3) Notwithstanding the foregoing contained in item 2 above, the Original Obligor and all original guarantors shall remain fully liable for all of the obligations contained in the Note as modified herein and in the Lien Documents securing the Note.

The Note is secured by liens against the Property. Whether Obligor is primarily liable on the Note or not, Obligor nevertheless agrees to pay the Note and comply with the obligations expressed in the Lien Documents. Original Obligor shall remain liable on the Note and the Lien Documents securing the Note.

For value received, Obligor renews the Note and promises to pay to the order of Lender, according to the Modified Terms, the Unpaid Principal and Interest on Note. All unpaid amounts are due by the Extended Maturity Date of Note. Obligor also extends the liens described in the Lien Documents.

The Note and the Lien Documents continue as written, except as provided in this Agreement.

Obligor warrants to Holder of Note and Lien that the Note and the Lien Documents, as modified, are valid and enforceable and represents that they are not subject to rights of offset, rescission, or other claims.

This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

When the context requires, singular nouns and pronouns include the plural.

OBLIGOR:

RCI HOLDINGS, INC.

By: /s/ Eric Langan

Eric Langan, President

ORIGINAL OBLIGOR:

SK & BB HOLDINGS, L.P.,
a Texas limited partnership

By: SK & BB-GP, LLC,
a Texas limited liability
company, its General Partner

By: /s/ Spiridon E. Karamalegos

Spiridon E. Karamalegos, Manager

By: /s/ Behzad Bahrami

Behzad Bahrami, Manager

LENDER:

**THE GRIFFIN FAMILY TRUST UNDER THE
WILL OF GORDON M. GRIFFIN, DECEASED, AND
THE GRIFFIN FAMILY TRUST UNDER THE WILL
OF IRMA H. GRIFFIN, DECEASED**

By: /s/ Gordon M. Griffin, Jr.

 Gordon M. Griffin, Jr., Trustee

STATE OF TEXAS	Sec.
	Sec.
COUNTY OF	Sec.

This instrument was acknowledged before me on the ____ day of August, 2006, by Gordon M. Griffin, Jr., Trustee of The Griffin Family Trust Under the Will of Gordon M. Griffin, Deceased, and The Griffin Family Trust Under the Will of Irma H. Griffin, Deceased.

NOTARY PUBLIC, STATE OF TEXAS

Modification and Extension Agreement Page 4

STATE OF TEXAS

Sec.

COUNTY OF _____

Sec.

Sec.

This instrument was acknowledged before me on the ____ day of August, 2006, by Eric Langan, President of RCI Holdings, Inc., a Texas corporation, on behalf of said corporation.

NOTARY PUBLIC, STATE OF TEXAS

STATE OF TEXAS

Sec.

COUNTY OF _____

Sec.

Sec.

This instrument was acknowledged before me on the ____ day of August, 2006, by Spiridon E. Karamalegos, Manager of SK & BB-GP, LLC, a Texas limited liability company, General Partner, on behalf of SK & BB Holdings, L.P., a Texas limited partnership.

NOTARY PUBLIC, STATE OF TEXAS

STATE OF TEXAS

Sec.

COUNTY OF _____

Sec.

Sec.

This instrument was acknowledged before me on the ____ day of August, 2006, by Behzad Bahrami, Manager of SK & BB-GP, LLC, a Texas limited liability company, General Partner, on behalf of SK & BB Holdings, L.P., a Texas limited partnership.

NOTARY PUBLIC, STATE OF TEXAS

AFTER RECORDING RETURN TO:

Thomas D. Fritz
Fritz, Byrne, Head & Harrison, LLP
98 San Jacinto Blvd., Suite 2000
Austin, TX 78701-4039

RICK'S CABARET COMPLETES ACQUISITION OF CENTERFOLDS GENTLEMAN'S CLUB IN SAN ANTONIO, ITS THIRD NIGHTCLUB IN GROWING TEXAS MARKET

HOUSTON--(BUSINESS WIRE)--Aug. 24, 2006--Rick's Cabaret International, Inc. (NASDAQ: RICK - News), the publicly traded chain of adult nightclubs, said today

its subsidiary RCI Debit Services, Inc., has completed the acquisition of Centerfolds Gentleman's Club in San Antonio, Texas (5418 Brewster Street). Additionally, its subsidiary RCI Holdings, Inc. has completed the acquisition of the real property where Centerfolds is located.

The former Centerfolds will become an upscale Rick's Cabaret, featuring beautiful and personable entertainers in a luxurious setting, the model the company uses at its existing Rick's Cabaret clubs in New York City, Houston, Charlotte and Minneapolis.

Under terms of the transaction, the Rick's Cabaret subsidiaries are paying a total of \$2.9 million for the club, along with an 18,000 square foot building and accompanying real estate. Of this amount, \$600,000 was paid in cash at the closing and the remaining amount is being financed through promissory notes that are not convertible into Rick's Cabaret stock. Key former owners have entered into non-compete agreements.

"This is an important acquisition for us and we are looking forward to introducing the upscale Rick's Cabaret model into the very dynamic San Antonio market," said Eric Langan, CEO of Rick's Cabaret.

With today's acquisition Rick's Cabaret now operates three clubs in the San Antonio market. The company has operated an XTC Cabaret (2023 Sable Lane) for several years. On July 11th, Rick's Cabaret acquired the former Club Exotica (4102 Naco Perrin Street), which is now operating as an upscale Club Onyx, catering to African-American gentlemen.

The newest club is conveniently located in North San Antonio directly off the busy I-35 artery. San Antonio is one of the fastest growing cities in the United States. The U.S. Census Bureau announced last month that among the 10 largest cities San Antonio has replaced San Diego as the nation's seventh most populous city. Along with population growth, San Antonio has also witnessed strong economic and employment growth primarily attributed to its stable economic sectors.

About Rick's Cabaret

Rick's Cabaret International, Inc. (NASDAQ: RICK - News, ricks.com - News) operates upscale adult nightclubs serving primarily businessmen and professionals that offer live adult entertainment, restaurant and bar operations. The company owns and operates or licenses adult nightclubs in New York City, New Orleans, Charlotte, Houston, Minneapolis and other cities under the names "Rick's Cabaret," "XTC" and "Club Onyx." No sexual contact is permitted at any of these locations. Rick's Cabaret also owns the adult Internet membership Web site, couplestouch.com, and a network of online adult auction sites under the flagship URL naughtybids.com. Rick's Cabaret common stock is traded on NASDAQ under the symbol RICK. For further information contact ir@ricks.com or visit ricks.com.

Forward-looking Statements:

This press release may contain forward-looking statements that involve a number of risks and uncertainties that could cause the company's actual results to differ materially from those indicated in this document, including the risks and uncertainties associated with operating and managing an adult business, the business climates in New York City and elsewhere, the success or lack thereof in launching and building the company's businesses in New York City and elsewhere, risks and uncertainties related to the operational and financial results of our Web sites, conditions relevant to real estate transactions, and numerous other factors such as laws governing the operation of adult entertainment businesses, competition and dependence on key personnel. Rick's has no obligation to update or revise the forward-looking statements to reflect the occurrence of future events or circumstances. For further information go to ricks.com.

Contact:

Rick's Cabaret International, Inc.
Allan Prialux, 212-338-0050
ir@ricks.com