

RICKS CABARET INTERNATIONAL INC

FORM 8-K

(Unscheduled Material Events)

Filed 8/12/1998 For Period Ending 8/11/1998

Address	505 NORTH BELT SUITE 630 HOUSTON, Texas 77060
Telephone	281-820-1181
CIK	0000935419
Industry	Restaurants
Sector	Services
Fiscal Year	09/30

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 11, 1998

RICK'S CABARET INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Texas	0-26958	76-0037324
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)	(Commission File Number)

3113 Bering Drive
Houston, Texas 77057
(Address of principal executive offices, including zip code)

(713) 785-0444
(Registrant's telephone number, including area code)

Item 2. Acquisition or Disposition of Assets.

On August 11, 1998, Rick's Cabaret International, Inc. (the "Company") acquired approximately 93% of the outstanding common stock (the "Shares") of Taurus Entertainment Companies, Inc. ("Taurus") in a private stock exchange transaction (the "Exchange") with the certain principal stockholders of Taurus. The Stock Exchange Agreement provided that the Company exchange one share of its common stock for each three and one-half shares of Taurus common stock owned by certain principal shareholders of Taurus. As a result of the Exchange, the Company exchanged a total of 1,152,587 shares of its common stock for 4,034,071 shares of common stock of Taurus, giving the Company control of Taurus. The terms and conditions of the Exchange were determined by the parties through arms length negotiations. The financial results of Taurus will be consolidated into the Company's financial statements.

Taurus is a publicly owned company in the adult entertainment business trading on the OTCBB under the symbol TAUR. Taurus presently operates four adult entertainment nightclubs in Austin and Houston, Texas, and in New Orleans, Louisiana. Taurus owns the real estate upon which its adult nightclubs in Houston are located. Taurus will continue to operate its nightclubs as adult entertainment businesses.

Item 5. Other Events.

In connection with the Exchange, Eric Langan was appointed as a director and as vice-president-operations of the Company, and the Company entered into a three year employment agreement with Mr. Langan.

Mr. Langan, age 30, has been involved in the adult entertainment business since 1989. He has served as the President and Director of Taurus since November, 1997. From January 1997 through the present, he has held the position of President with XTC Cabaret, Inc., which was subsequently acquired by Taurus. From November 1992 until January 1997, Mr. Langan was the President of Bathing Beauties, Inc. Since 1989, Mr Langan has exercised managerial control over the grand openings and operations of more than twelve adult entertainment businesses. Through these activities, Mr. Langan has acquired the knowledge and skills necessary to successfully operate adult entertainment businesses. Mr. Langan has also been an officer of Citation Land Company which owned commercial income real estate in Houston, Texas, which also was subsequently acquired by Taurus.

Simultaneously with the consummation of the Exchange, the Company acquired certain real estate in San Antonio, Texas from one of the principal stockholders of Taurus. The Company intends to construct an adult cabaret on this property. The Company acquired the property from the principal stockholder of Taurus for the same price that the principal stockholder paid for the property. The Company financed the purchase of the property by the issuance of a six year \$366,000.00 Convertible Debenture, secured by the real estate acquired.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(a) and (b) Financial Statements and Information

As of the date of the filing of this Current Report on Form 8-K, the financial statements and proforma financial information required by Items 7 (a) and 7(b) are not available. Such financial reports will be filed no later than October 26, 1998.

(c) Exhibits

4.1 Convertible Debenture

10.1 Stock Exchange Agreement effective August 11, 1998 between Rick's Cabaret International, Inc. and Certain Stockholders of Taurus Entertainment Companies, Inc.

10.2 Employment Agreement with Eric Langan

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 11, 1998

By: /s/ Robert L. Watters

Robert L. Watters, President

THIS DEBENTURE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, ("ACT"), OR THE SECURITIES LAWS OF ANY STATE. THIS DEBENTURE MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHOUT REGISTRATION UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR DELIVERY TO RICKS CABARET INTERNATIONAL, INC. OF AN OPINION OF LEGAL COUNSEL SATISFACTORY TO RICKS CABARET INTERNATIONAL, INC. THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE ACT OR ANY APPLICABLE STATE SECURITIES LAWS.

CERTIFICATE -RCI-C.D. NO. 100

**CONVERTIBLE DEBENTURE
OF
RICKS CABARET INTERNATIONAL, INC.**

FOR VALUE RECEIVED, RICKS CABARET INTERNATIONAL, INC., a Texas corporation with its principal office located at 3113 Bering, Houston, Texas 77056 (the "Company"), unconditionally promises to pay to Ralph McElroy, whose address is 1211 Choquette, Austin, Texas, 78757, or the registered assignee, upon presentation of this Debenture (the "Debenture") by the registered holder hereof ("Registered Holder") at the office of the Company, the principal sum of \$366,000, together with the accrued and unpaid interest thereon and other sums as hereinafter provided.

1. **INTEREST.** Interest on the principal amount outstanding hereunder shall be paid monthly, in arrears, at the rate of twelve percent (12%) per annum from the date of issuance commencing with the first monthly payment due September 1, 1998 and monthly payments thereafter due on the first day of each successive month ("Interest Payment Date"), to the person in whose name(s) such Debenture is registered at the close of business on the 15th day immediately preceding such Interest Payment Date (the "Record Date").

2. **MATURITY.** The principal amount of this Debenture and all interest accrued thereon but not yet paid shall become immediately due and payable on the date (the "Maturity Date") on which the first event specified below occurs:

a. The Company in its sole discretion chooses to redeem all outstanding Debentures in accordance with Section 4 hereof; or

b. July 31, 2004.

3. **PAYMENT.** Payment of any sums due to the Holder under the terms of this Debenture shall be made in United States Dollars by check or wire transfer at the option of the Company. Payment shall be made to any account or address designated by the Holder any time prior to any payment due hereunder. If any

payment hereunder would otherwise become due and payable on a day on which banks are closed or permitted to be closed in Houston, Texas, such payment shall become due and payable on the next succeeding day on which banks are open and not permitted to be closed in Houston, Texas ("Business Day"). The Company may prepay all or any part of the principal of this Debenture before maturity without penalty, and interest shall immediately cease to accrue on any amount so prepaid.

4. COMPANY'S OPTION TO REDEEM. The Debenture will be subject to redemption at the option of the Company, in whole or in part, at 100% of the principal face amount of the Debenture redeemed plus any accrued and unpaid interest on the redemption date, at any time and from time to time, upon not less than 30 nor more than 60 days notice, if the Closing Price of the common stock of the Company shall have equalled or exceeded \$8.50 per share of common stock for ten (10) consecutive trading days. The Closing Price on a given date shall equal either (i) the average of the high and low bid prices of the Common Stock, as reported by the National Association of Securities Dealers Automated Quotation System on such date; or (ii) if the Common Stock is then listed on a national securities exchange or the national market system of the over-the-counter market, the closing price of the Common Stock on such exchange on such date.

Notice of redemption shall be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of Debentures to be redeemed at the Holder's registered address. If any Debenture is to be redeemed in part only, the notice of redemption that relates to such Debenture shall state the portion of the principal amount thereof to be redeemed, the date fixed for redemption and the redemption price at which the Debentures are to be redeemed. A new Debenture in the principal amount equal to the unredeemed portion thereof will be issued in the name of the Holder upon cancellation of the original Debenture. After the redemption date, unless the Company shall default in the payment of the redemption price, interest will cease to accrue on Debentures or portions thereof called for redemption.

5. SECURITY. This Debenture is secured by a Deed of Trust and Security Agreement on certain real estate as set forth therein, a copy of which is attached hereto as Exhibit "A".

6. CONVERSION RIGHTS.

(a) The Holder of this Debenture will have the right, at the Holder's option, to convert any portion of the principal amount hereof and/or the accrued and unpaid interest hereon, into shares of Common Stock at any time prior to maturity (unless earlier redeemed) at the Conversion Price of \$2.75 per share (subject to adjustment as described below). The right to convert a Debenture and the accrued and unpaid interest thereon called for redemption will terminate at the close of business on the business day prior to the redemption date for such Debenture, unless the Company subsequently fails to pay the applicable redemption price.

The Holder of this Debenture shall be entitled to convert all or any portion of the principal face amount of the Debenture plus the accrued and unpaid interest thereon into shares of Common Stock by (i) giving written notice

to the Company that such Holder elects to convert into Common Stock, (ii) stating in such written notice the denominations in which such Holder wishes the certificate or certificates for Common Stock to be issued and (iii) surrendering this Debenture to the Company. The Company will, as soon as practicable thereafter, cause to be issued and delivered to such Holder certificates for the number of full shares of Common Stock to which such Holder shall be entitled as aforesaid and, if necessary, a new Debenture representing any unconverted portion of this Debenture. The Company shall not issue fractional shares of Common Stock upon conversion, but the number of shares of Common Stock to be received by any Holder upon conversion shall be rounded down to the next whole number and the Holder shall be entitled to payment of the remaining principal amount in cash.

(b) In the case of any Debenture which has been mandatorily or voluntarily converted after any Record Date, but on or before the next Interest Payment Date, the interest due on such Interest Payment Date, shall be payable on such Interest Payment Date notwithstanding such conversion. The interest shall be paid in cash on the Interest Payment Date, unless prior thereto the Holder elects by written notice to the Company to convert such interest into shares of Common Stock at the conversion price of \$2.75 per share.

(c) In case of any reclassification, consolidation or merger of the Company with or into another entity or any merger of another entity with or into the Company, or in the case of any sale, transfer or conveyance of all or substantially all of the assets of the Company (computed on a consolidated basis), each Debenture then outstanding will, without the consent of any Holder, become convertible only into the kind and amount of securities, cash or other property receivable upon such reclassification, consolidation, merger, sale, transfer or conveyance by a Holder of the number of shares of Common Stock into which such Debenture and the accrued and unpaid interest thereon was convertible immediately prior thereto, after giving effect to any adjustment event.

(d) The Company shall at all times reserve for issuance and maintain available, out of its authorized but unissued Common Stock, solely for the purpose of effecting the conversion of the Debenture, the full number of shares of Common Stock deliverable upon the conversion of the Debenture from time to time outstanding. The Company shall from time to time (subject to obtaining necessary director and stockholder action), in accordance with the laws of the State of Texas, increase the authorized number of shares of its Common Stock if at any time the authorized number of shares of its Common Stock remaining unissued shall not be sufficient to permit the conversion of the Debenture.

7. CONVERSION RATE OF THE DEBENTURES. In the event the Company shall

(i) subdivide outstanding shares of the Company's Common Stock into a greater number of shares, (ii) combine outstanding shares of the Company's Common Stock into a smaller number of shares, or (iii) issue by reclassification of shares of the Company's Common Stock, the exchange rate in effect immediately prior thereto shall be proportionately adjusted so that the Holder of any Debenture thereafter surrendered in exchange shall be entitled to receive the number and kind of shares of Common Stock (in addition to any cash or portion thereto) which he would have owned or have been entitled to receive after the happening

of any of the events described above had such Debenture been exchanged immediately prior to the effective date of such event. Such adjustments shall be made whenever any of the events listed above shall occur and shall become effective immediately after the close of business on the effective date in case of the events listed above. No adjustment is to be made on conversion of any Debenture for interest accrued thereon during the period commencing on the date after the last interest payment or for any dividends on the Common Stock issued prior to exercise of the Holder's conversion right.

8. EVENTS OF DEFAULTS AND REMEDIES. The following are deemed to be an event of default ("Event of Default") hereunder: (i) the failure by the Company to pay any installment of interest on the Debenture as and when due and payable and the continuance of any such failure for 10 days, (ii) the failure by the Company to pay all or any part of the principal on the Debenture when and as the same become due and payable at maturity, by acceleration or otherwise, (iii) the failure of the Company to perform any conversion of Debentures required under the Debenture and the continuance of any such failure for 10 days, (iv) the failure by the Company to observe or perform any other covenant or agreement contained in the Debenture and the continuance of such failure for a period of 10 days after the written notice is given to the Company by the Holders, (v) the assignment by the Company for the benefit of creditors, or an application by the Company to any tribunal for the appointment of a trustee or receiver of a substantial part of the assets of the Company, or the commencement of any proceedings relating to the Company under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debts, dissolution or other liquidation law of any jurisdiction; or the filing of such application, or the commencement of any such proceedings against the Company and an indication of consent by the Company to such proceedings, or the appointment of such trustee or receiver, or an adjudication of the Company bankrupt or insolvent, or approval of the petition in any such proceedings, and such order remains in effect for 60 days; or (vi) a default in the payment of principal or interest when due which extends beyond any stated period of grace applicable thereto or an acceleration for any other reason of maturity of any indebtedness for borrowed money of the Company with an aggregate principal amount in excess of \$1,000,000 and (vii) final unsatisfied judgments not covered by insurance aggregating in excess of \$1,000,000, at any one time rendered against the Company and not stayed, bonded or discharged within 75 days.

If an Event of Default occurs and is continuing (other than an Event of Default specified in clause (v) above with respect to the Company), then in every such case, unless the principal or all of the Debentures shall have already become due and payable, the Holders of the Debentures then outstanding, by notice in writing to the Company (an "Acceleration Notice"), may declare all principal and accrued and unpaid interest thereon to be due and payable immediately. If an Event of Default specified in clause (v) above occurs with respect to the Company, all principal and accrued and unpaid interest thereon will be immediately due and payable on all outstanding Debentures without any declaration or other act on the part of the Holder. The Holder is authorized to rescind such acceleration if all existing Events of Default, other than the non-payment of the principal and interest on the Debentures which have become due solely by such acceleration, have been cured or waived.

9. **LIMITATION ON MERGER, SALE OR CONSOLIDATION.** The Company may not, directly or indirectly, consolidate with or merge into another person or sell, lease, convey or transfer all or substantially all of its assets (computed on a consolidated basis), whether in a single transaction or a series of related transactions, to another person or group of affiliated persons, unless either

(a) in the case of a merger or consolidation, the Company is the surviving entity or (b) the resulting, surviving or transferee entity is a corporation or limited liability company organized under the laws of any state of the United States and expressly assumes by supplemental agreement all of the obligations of the Company in connection with the Debentures.

Upon any consolidation or merger or any transfer of all or substantially all of the assets of the Company in accordance with the foregoing, the successor corporation or limited liability company formed by such consolidation or into which the Company is merged or to which such transfer is made, shall succeed to, and be substituted for, and may exercise every right and power of the Company under the Debenture with the same effect as if such successor corporation or limited liability company had been named therein as the Company, and the Company will be released from its obligations under the Debentures, except as to any obligations that arise from or as a result of such transaction.

10. **REGISTRATION RIGHTS.**

(a) In the event that the Company files a Registration Statement to register shares of its Common Stock with the Securities and Exchange Commission ("SEC") on Form S-3 or other similar form (except for Form S-8 or Form S-4) than the Company will undertake to use its best efforts to register for resale from time to time by the Holder all of the shares into which the Debenture may be converted under the same Registration Statement. The Company shall use its best efforts to cause the Registration Statement to become effective under the Securities Act of 1933, as amended (the "Act") as promptly as is practicable and to keep the Registration Statement continuously effective under the Act for a period of the earlier of (i) two years from the effective date or (ii) until all of the shares which were registered for resale have been sold.

(b) From time to time, the Company shall prepare and file with the SEC a post-effective amendment to the Registration Statement or a supplement to the related Prospectus or a supplement or amendment to any document incorporated therein by reference or any other required document, so that such Registration Statement will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and so that, as thereafter delivered to purchasers of the securities being sold thereunder, such Prospectus will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provide the Holder copies of any documents filed in such numbers as the Holder shall reasonably request; and inform the Holder that the Company has complied with its obligations and that the Registration Statement and related Prospectus may be used for the purpose of selling all or any of such securities (or that, if the

Company has filed a post-effective amendment to the Registration Statement which has not yet been declared effective, the Company will notify the Holder to that effect, will use its best efforts to secure promptly the effectiveness of such post-effective amendment and will immediately so notify the Holder when the amendment has become effective).

11. NO PERSONAL LIABILITY OF SHAREHOLDERS, OFFICERS, DIRECTORS. No recourse shall be had for the payment of the principal or the interest on this Debenture, or for any claim based thereon, or otherwise in respect thereof, or based on or in respect of any Debenture supplemental thereto, against any incorporator, stockholder, officer, or director (past, present, or future) of the Company, whether by virtue of any constitution, statute, or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being by the acceptance hereof, and as part of the consideration for the issue hereof, expressly waived and released.

12. LISTING OF REGISTERED HOLDER OF DEBENTURES. This Debenture will be registered as to principal in the Holder's name on the books of the Company at its principal office in Houston, Texas, after which no transfer hereof shall be valid unless made on the Company's books at the office of the Company, by the Holder hereof, in person, or by attorney duly authorized in writing, and similarly noted hereon.

13. GOVERNING LAW; CONSENT TO JURISDICTION. This Debenture shall be governed by and construed in accordance with the laws of the State of Texas without regard to the conflict of laws provisions thereof.

14. AMENDMENT AND WAIVER. Any waiver or amendment hereto shall be in writing signed by the Holder. No failure on the part of the Holder to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Holder of any right hereunder preclude any other or further exercise thereof or the exercise of any other rights. The remedies herein provided are cumulative and not exclusive of any other remedies provided by law.

15. RESTRICTIONS AGAINST TRANSFER OR ASSIGNMENT.

(a) This Debenture may not be sold, transferred, assigned, pledged, hypothecated or otherwise disposed of by the registered Holder hereof, in whole or in part, unless and until either (i) the Debenture has been duly and effectively registered for resale under the Act and under any then applicable state securities laws; or (ii) the registered Holder delivers to the Company a written opinion acceptable to its counsel that an exemption from such registration requirements is then available with respect to any such proposed sale or disposition. The Company has the absolute right, in its sole discretion, to approve or disapprove such transfer. Any transfer otherwise permissible hereunder shall be made only at the principle office of the Company upon surrender of this Debenture for cancellation and upon the payment of any transfer tax or other government charge connected therewith, and upon any such transfer a new Debenture or Debentures will be issued to the transferee in exchange therefor. The transferee of this Debenture shall be bound by the

provisions of this Debenture. The register of the transfer of this Debenture shall occur upon the delivery of this Debenture, endorsed by the registered Holder or his duly authorized attorney, signature guaranteed, to the Company or its transfer agent. Each Debenture instrument issued upon the transfer of this Debenture shall have the restrictive legend contained herein conspicuously imprinted on it.

(b) In the event the Company successfully effects registration of the Common Stock into which this Debenture is convertible, the Company may stop or prevent the transfer of such Common Stock for a period not to exceed 60 days in the event the Company files a registration statement for the sale of its securities, and for an indefinite period of time if the Company, in its sole discretion, believes that such security holder has material non-public information.

16. ENTIRE AGREEMENT; HEADINGS. This Debenture constitutes the entire agreement between the Holder and the Company pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements, representations and understandings, written or oral, of such parties. The headings are for reference purposes only and shall not be used in construing or interpreting this Debenture.

17. NOTICES. All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally, transmitted by facsimile transmission (fax) or sent by registered or certified mail, return receipt requested, postage prepaid, or overnight air courier guaranteeing next day delivery:

(a) If to the Company, to it at the following address:

3113 Bering Houston, Texas 77056 Attn: Robert Watters
(fax) 713-785-2593

(b) If to registered Holder, then to the address listed on the front of this Debenture, unless changed, by notice in writing as provided for herein.

A notice or communication will be effective (i) if delivered in person or by overnight courier, on the business day it is delivered, (ii) if transmitted by telecopier, on the business day of actual confirmed receipt by the addressee thereof, and (iii) if sent by registered or certified mail, three (3) business days after dispatch.

IN WITNESS WHEREOF, Rick's Cabaret International, Inc. has caused this Debenture to be duly executed in its corporate name by the manual signature of its President, and a facsimile of its corporate seal to be impressed, imprinted or engraved hereon, attested by the manual signature of its Secretary. Dated: August 11, 1998.

RICK'S CABARET INTERNATIONAL, INC.

/s/ Robert Watters

*Robert Watters,
President and Chief Executive Officer*

STOCK EXCHANGE AGREEMENT

THIS STOCK EXCHANGE AGREEMENT (the "Agreement"), dated as of _____, 1998, is by and among RICK'S CABARET INTERNATIONAL, INC., a Texas corporation ("Rick's"), and each of the persons or entities whose names appear and who are identified as stockholders on the signature page hereof (individually, a "STOCKHOLDER" and collectively the "STOCKHOLDERS"), such persons or entities being registered holders of capital stock of Taurus Entertainment Companies, Inc., a Colorado corporation ("Taurus").

RECITALS

WHEREAS, each Stockholder is the record and beneficial owner of the number of shares of common stock, \$.001 par value of Taurus indicated in the table set forth as Exhibit A to this Agreement (which shares are hereinafter collectively referred to as the "Taurus Stock");

WHEREAS, Rick's desires to acquire from the Stockholders, and the Stockholders desire to convey to Rick's, all of the issued and outstanding Taurus Stock owned by the Stockholders in exchange for shares of voting common stock, \$.01 par value of Rick's (the "Rick's Stock"), all on the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the premises, the mutual covenants and agreements and the respective representations and warranties herein contained in this Agreement, and on the terms and subject to the conditions set forth in this Agreement, the parties hereto, intending to be legally bound, hereby agree as follows:

ARTICLE I EXCHANGE OF SHARES

Section 1.1 Taurus Stock. At the Closing (as defined below), each Stockholder shall transfer, convey and deliver to Rick's the number of shares of Taurus Stock set forth opposite their name on Exhibit A hereto, and shall deliver to Rick's stock certificates representing the Taurus Stock, duly endorsed to Rick's or accompanied by duly executed stock powers in form and substance satisfactory to Rick's.

Section 1.2 Rick's Stock. At the Closing, in exchange for each share of Taurus Stock transferred to Rick's, Rick's shall issue and deliver to each Stockholder the number of shares of Rick's Stock set forth opposite their name on Exhibit A hereto. The transaction by which the transfer shall take place is referred to in this Agreement as the "Exchange".

ARTICLE II THE CLOSING

The Closing of the transactions contemplated by this Agreement (the "Closing") shall take place at 4:00 p.m. on _____, 1998 (the "Closing Date"), at the offices of Axelrod, Smith & Kirshbaum, 5300 Memorial Drive, Suite 700, Houston, Texas 77007 or at such other time and place as agreed upon among the parties hereto.

ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE STOCKHOLDERS

Each of the Stockholders hereby severally represents and warrants to Rick's as follows:

Section 3.1 Ownership of the Taurus Stock. The Stockholder owns, beneficially and of record, that number of shares of Taurus Stock set forth opposite the Stockholder's name on Exhibit A hereto; except for restrictions imposed by federal and state securities laws, (i) such shares are owned by such Stockholder free and clear of any liens, claims, equities, charges, options, rights of first refusal, or encumbrances; (ii) the Stockholder has the unrestricted right and power to transfer, convey and deliver full ownership of such shares without the consent or agreement of any other person and without any designation, declaration or filing with any governmental authority; and, (iii) upon the transfer of such shares to Rick's as contemplated herein, Rick's will receive good and valid title thereto, free and clear of any liens, claims, equities, charges, options, rights of first refusal, encumbrances or other restrictions.

Section 3.2 Organization. If the Stockholder is either a corporation, limited liability company or partnership, it represents and warrants that it is duly organized, validly existing and in good standing under the laws of the state of its incorporation or formation, with full power and authority and all necessary governmental and regulatory licenses, permits and authorizations to carry on the businesses in which it is engaged, to own the properties that it owns currently and will own at the Closing, and to perform its obligations under this Agreement. If the Stockholder is a corporation, limited liability company or partnership it is qualified as a foreign corporation, foreign limited liability company or foreign partnership (which ever the case may be) and is in good standing in each jurisdiction in which the failure to qualify would have material adverse effect on the business, properties or condition (financial or otherwise) of the corporate, limited liability company or partnership Stockholder.

Section 3.3 Authorization. If the Stockholder is a person, then he or she is of the full age of majority, with full power, capacity and authority to enter into this Agreement and perform the obligations contemplated hereby by and for himself or herself and his or her spouse, if any. If the Stockholder is a corporation, limited liability company or partnership, then all corporate, limited liability company or partnership action on the part of the corporate,

limited liability company or partnership Shareholder necessary for the authorization, execution, delivery and performance of this Agreement and the transactions contemplated hereby has been taken or will be taken prior to the Closing. All action on the part of the Stockholder necessary for the authorization, execution, delivery and performance of this Agreement by the Stockholder has been taken or will be taken prior to the Closing. This Agreement constitutes a valid and binding obligation of the Stockholder, enforceable against the Stockholder in accordance with its terms, subject to bankruptcy, insolvency, reorganization, and other laws of general application relating to or affecting creditors' rights and to general equitable principles.

Section 3.4 Pending Claims. There is no claim, suit, action or proceeding, whether judicial, administrative or otherwise, pending or, to the best of the Stockholder's knowledge, threatened that would preclude or restrict the transfer to Rick's of the Taurus Stock owned by the Stockholder or the performance of this Agreement by the Stockholder.

Section 3.5 No Default. The execution, delivery and performance of this Agreement by the Stockholder does not and will not constitute a violation or default under or conflict with any contract, agreement, understanding or commitment to which such Stockholder is a party or by which such Stockholder is bound.

Section 3.6 Acquisition of Stock for Investment. The Stockholder understands that the issuance of Rick's Stock will not have been registered under the Securities Act of 1933, as amended (the "Act"), or any state securities acts, and, accordingly, are restricted securities, and that he/she represents and warrants to Rick's that his/her present intention is to receive and hold the Rick's Stock for investment only and not with a view to the distribution or resale thereof.

Additionally, the Stockholder understands that any sale by the Stockholder of any of the Rick's Stock received under this Agreement will, under current law, require either (a) the registration of the Rick's Stock under the Act and applicable state securities acts; (b) compliance with Rule 144 of the Act; or

(c) the availability of an exemption from the registration requirements of the Act and applicable state securities acts. The Stockholder understands that Rick's has not undertaken and does not presently intend to file a Registration Statement to register the Rick's Stock to be issued to the Stockholder. The Stockholder hereby agrees to execute, deliver, furnish or otherwise provide to Rick's an opinion of counsel reasonably acceptable to Rick's prior to any subsequent transfer of the Rick's Stock, that such transfer will not violate the registration requirements of the federal or state securities acts. The Stockholder further agrees to execute, deliver, furnish or otherwise provide to Rick's any documents or instruments as may be reasonably necessary or desirable in order to evidence and record the Rick's Stock acquired hereby.

To assist in implementing the above provisions, the Stockholder hereby consents to the placement of the legend, or a substantially similar legend, set forth below, on all certificates representing ownership of the Rick's Stock acquired hereby until the Rick's Stock has been sold, transferred, or otherwise

disposed of, pursuant to the requirements hereof. The legend shall read substantially as follows:

"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES ACTS. THESE SECURITIES MUST BE ACQUIRED FOR INVESTMENT, ARE RESTRICTED AS TO TRANSFERABILITY, AND MAY NOT BE SOLD, , HYPOTHECATED, OR OTHERWISE TRANSFERRED WITHOUT COMPLIANCE WITH THE REGISTRATION AND QUALIFICATION PROVISIONS OF APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR APPLICABLE EXEMPTIONS THEREFROM."

In addition, each Stockholder consents to Rick's placing a "stop transfer notation" in its corporate records concerning the transfer of the Rick's Stock acquired by each Stockholder.

Section 3.7 Subscription Agreement. The Stockholder hereby acknowledges, as a condition to the consummation of the transactions contemplated hereby, that he/she will, simultaneously with the execution of this Agreement execute a Subscription Agreement containing additional representations and warranties relating to the issuance of the Rick's Stock to the Stockholder.

Section 3.8 Stockholder Access to Information. The Stockholder hereby confirms and represents that he/she: (a) has been afforded the opportunity to ask questions of and receive answers from representatives of Rick's concerning the business and financial condition, properties, operations and prospects of Rick's and has asked such questions as he/she desires to ask and all such questions have been answered to the full satisfaction of the Stockholder; (b) has such knowledge and experience in financial and business matters so as to be capable of evaluating the relative merits and risks of the transactions contemplated hereby; (c) has had an opportunity to engage and is represented by an attorney of his/her choice; (d) has had an opportunity to negotiate the terms and conditions of this Agreement; (e) has been given adequate time to evaluate the merits and risks of the transactions contemplated hereby; and (f) has been provided with and given an opportunity to review all current information about Ricks including Ricks (A) Annual Report, which includes its Form 10-KSB for the fiscal year ended September 30, 1997, (B) Form 10-QSB for the quarters ended December 31, 1997 and March 31, 1998 (C) Form S-3 Prospectus dated May 7, 1998 and (D) Proxy Statement dated May 28, 1998.

Section 3.9 Disclosure. To the best of the Stockholder's knowledge, no representation or warranty of the Stockholder contained in this Agreement (including the exhibits and schedules hereto) contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

Section 3.10 Indemnification by Stockholder The Stockholder recognizes that the Exchange being conducted with Rick's is based, to a material degree, upon the representations and warranties of Stockholder as set forth and contained herein and the Stockholder hereby agrees to indemnify and hold harmless Rick's against all damages, costs, or expenses (including reasonable attorney's fees) arising as a result of any breach of representation or warranty or omission made herein by the Stockholder.

If any action is brought against Rick's in respect of which indemnity may be sought against the Stockholder pursuant to the foregoing paragraph, Rick's shall promptly notify the Stockholder in writing of the institution of such action (but the omission to so notify the Stockholder shall not relieve it from any liability that it may have to Rick's except to the extent the Stockholder is materially prejudiced or otherwise forfeit substantive rights or defenses by reason of such failure), and the Stockholder shall assume the defense of such action, including the employment of counsel to be chosen by the Stockholder to be reasonably satisfactory to Rick's, and payment of expenses. Rick's shall have the right to employ the Stockholder's or their own counsel in any such case, but the fees and expenses of such counsel shall be at Rick's expense, unless the employment of such counsel shall have been authorized in writing by the Stockholder in connection with the defense of such action, or the Stockholder shall not have employed counsel to take charge of the defense of such action, or counsel employed by the Stockholder shall not be diligently defending such action, or Rick's shall have reasonably concluded that there may be defenses available to it which are different from or additional to those available to the Stockholder, or that representation of Rick's by the same counsel would be inappropriate under applicable standards of professional conduct due to actual or potential differing interests between them (in which case the Stockholder shall not have the right to direct the defense of such action on behalf of Rick's), in any of which event such fees and expenses shall be borne by the Stockholder. Anything in this paragraph to the contrary notwithstanding, the Stockholder shall not be liable for any settlement of, or any expenses incurred with respect to, any such claim or action effected without the Stockholder's written consent, which consent shall not be unreasonably withheld. The Stockholder shall not, without the prior written consent of Rick's effect any settlement of any proceeding in respect of which Rick's is a party and indemnity has been sought hereunder unless such settlement includes an unconditional release of Rick's from all liability on claims that are the subject matter of such proceeding.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF ERIC LANGAN

In addition to the representations and warranties of the Stockholders as set forth in Article III herein, Eric Langan ("Langan"), one of the Stockholders, as an officer and director of Taurus, additionally represents and warrants to Rick's as follows:

Section 4.1 Organization and Capitalization. Taurus is a corporation duly organized, validly existing and in good standing under the laws of the State of Colorado, with full power and authority and all necessary governmental

and regulatory licenses, permits and authorizations to carry on the businesses in which it is engaged, to own the properties that it owns currently and will own at the Closing. Taurus is qualified as a foreign corporation and is in good standing in each jurisdiction in which the failure to qualify would have a material adverse effect on the business, properties or condition (financial or otherwise) of Taurus. Taurus does not have any subsidiaries or any other investments or ownership interest in any corporation, partnership, joint venture or other business enterprise, except as set forth in Exhibit 4.2. The authorized capital stock of Taurus consists of 20,000,000 shares of common stock, \$.001 par value, of which 4,305,518 shares are validly issued and outstanding; and 10,000,000 shares of preferred stock, none of which are issued. All of such issued and outstanding shares of Taurus Stock have been duly authorized and validly issued and are fully paid and non-assessable. None of the shares were issued in violation of any preemptive rights. Except as set forth in Exhibit 4.2, there are no existing warrants, options, rights of first refusal, conversion rights, calls, commitments or other agreements of any character pursuant to which Taurus is or may become obligated to issue any of its stock or securities. Taurus has no obligation to repurchase, reacquire or redeem any of its outstanding capital stock.

Section 4.2 Subsidiaries. Schedule 4.2 sets forth a complete and accurate list of all Subsidiaries of Taurus, showing (as to each such Subsidiary) the date of its incorporation and the jurisdiction of its incorporation. All of the outstanding capital stock of, or other ownership interests in, each Subsidiary is owned by Taurus, directly or indirectly, free and clear of any lien or any other limitation or restriction (including restrictions on the right to vote). All outstanding shares of the capital stock of each Subsidiary have been duly authorized and validly issued and are fully paid and non-assessable and are free of any preemptive rights. There are no outstanding securities of any Subsidiary convertible into or evidencing the right to purchase or subscribe for any shares of capital stock of any Subsidiary, there are no outstanding or authorized options, warrants, calls, subscriptions, rights, commitments or any other agreements of any character obligating any Subsidiary to issue any shares of its capital stock or any securities convertible into or evidencing the right to purchase or subscribe for any shares of such stock, and there are no agreements or understandings with respect to the voting, sale, transfer or registration of any shares of capital stock of any Subsidiary.

Section 4.3 SEC Reports. Since September 30, 1997, Taurus has filed with the Securities and Exchange Commission (the "SEC") all of the reports required to be filed with the SEC pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended, through the filing of its Form 10-QSB for the quarter ended March 31, 1998. Langan has delivered, and Rick's acknowledges receipt thereof, of Taurus' Form 10-KSB for the fiscal year ended September 30, 1997, its 10-QSB's for the three month periods ended December 31, 1997 and March 31, 1998, and its Form 8-K/A filed with the SEC on May 20, 1998 ("SEC Filings"). To the best of Langan's knowledge, as of their respective dates, the SEC Filings did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Stock Exchange Agreement -- 6

Section 4.4 Financial Information. Taurus has delivered to Rick's the audited balance sheet of Taurus as of September 30, 1997, together with the related statements of income, changes in shareholder's equity and cash flow for the years then ended, including the related notes, all certified by Simonton, Kutac & Barnidge L.L.P., certified public accountants. In addition, Taurus has delivered to Rick's its interim unaudited financial statements as filed with the SEC for the three month periods ending December 31, 1997 and March 31, 1998, together with financial information provided in its Form 8-K/A as filed with the SEC on May 20, 1998. In addition, Taurus has delivered to Ricks its interim unaudited financial statements as filed with the SEC for the three month periods ended December 31, 1997 and March 31, 1998 (the audited balance sheet and interim financial statements are collectively referred to as the "Financial Statements"). Such Financial Statements, including the related notes, are in accordance with the books and records of Taurus and fairly present the financial position of Taurus and the results of operations and changes in financial position of Taurus as of the dates and for the periods indicated, in each case in conformity with generally accepted accounting principles applied on a consistent basis. Except as, and to the extent reflected or reserved against in the Financial Statements, Taurus, as of the date of the Financial Statements, has no material liability or obligation of any nature, whether absolute, accrued, continued or otherwise, not fully reflected or reserved against in the Financial Statements. As of the Closing Date, there will not have been any adverse change in the financial condition or other operations, business, properties or assets of Taurus other than liabilities incurred in the ordinary course of business in which, in the aggregate, are not in excess of \$50,000 from that reflected in the latest Financial Statements of Taurus furnished to Rick's pursuant hereto.

Section 4.5 Litigation. Except as disclosed in Exhibit 4.5, there are no actions, suits or proceedings, formal or informal, pending or, to the best knowledge of Eric Langan, threatened against Taurus, nor is Taurus subject to any order, judgment or decree, except in all cases, whether known or unknown, for matters which, in the aggregate, would not result in a loss to Taurus in excess of \$50,000.

Section 4.6 Taxes. Except as disclosed in Exhibit 4.6, Taurus has filed all federal tax returns and reports due or required to be filed, and has paid all taxes, interest payments and penalties, if any, required to be paid with respect thereto. Taurus has made adequate provision for the payment of all taxes accruable for all periods ending on or before the Closing Date to any taxing authority and is not delinquent in the payment of any material tax or governmental charge of any nature.

Section 4.7 Compliance with Laws. Except as set forth in Exhibit 4.7, Taurus is, and at all times prior to the date hereof has been, to the best of Langan's knowledge, in compliance with all statutes, orders, rules, and regulations applicable to it or to the ownership of its assets or the operation of its business, except for failures to be in compliance that would not have a material adverse effect on the business, properties, condition (financial or otherwise) or prospects of Taurus, and Taurus has no basis to expect to receive, and has not received, any order or notice of any such violation or claim of violation of any such statute, order, rule, ordinance or regulation.

Section 4.8 Books and Records. The books of account, minute books, stock record books and other records of Taurus, all of which have been made available to Rick's, are accurate and complete in all material respects and have been maintained in accordance with sound business practices.

Section 4.9 Title to Properties; Encumbrances. Taurus has good title to all of its properties and assets, real and personal, tangible and intangible, that are material to the condition (financial or otherwise), business, operations or prospects of Taurus, free and clear of all mortgages, claims, liens, security interests, charges, leases, encumbrances and other restrictions of any kind and nature, except (i) as specifically disclosed in Exhibit 4.9, (ii) as disclosed in the financial statements of Taurus, (iii) statutory liens not yet delinquent, and (iv) such liens consisting of zoning or planning restrictions, imperfections of title, easements, pledges, charges and encumbrances, if any, as do not materially detract from the value or materially interfere with the present use of the property or assets subject thereto or affected thereby.

Section 4.10 Disclosure. To the best of Langan's knowledge, no representation or warranty of Langan contained in this Agreement (including the exhibits and schedules hereto) contains any untrue statement or omits to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

Section 4.11 Insurance . Taurus and its Subsidiaries maintain adequate insurance with respect to their respective businesses and are in compliance with all material requirements and provisions thereof.

Section 4.12 Material Agreements; Action . Except as set forth in SEC Filing or on Schedule 4.12, there are no material contracts, agreements, commitments, understandings or proposed transactions, whether written or oral, to which Taurus or any of its Subsidiaries is a party or by which it is bound that involve or relate to: (i) any of their respective officers, directors, stockholders or partners or any Affiliate thereof; (ii) the sale of any of the assets of Taurus or any of its Subsidiaries other than in the ordinary course of business; (iii) covenants of Taurus or any of its Subsidiaries not to compete in any line of business or with any person in any geographical area or covenants of any other person not to compete with Taurus or any of its Subsidiaries in any line of business or in any geographical area; (iv) the acquisition by Taurus or any of its Subsidiaries of any operating business or the capital stock of any other Person; (v) the borrowing of money or (vi) the expenditure of more than \$50,000 in the aggregate or the performance by Taurus or any Subsidiary extending for a period more than one year from the date hereof, other than in the ordinary course of business. There have been made available to Rick's and its representatives true and complete copies of all such agreements. All such agreements are in full force and effect. Neither the Company nor any of its Subsidiaries is in default under any such agreements nor is any other party to any such agreements in default thereunder in any respect.

Section 4.13 Employee Benefit Plans . Taurus is not a party to any employee benefit plan.

Section 4.14 No Pending Transactions . Except for the transactions contemplated by this Agreement, neither Taurus nor any Subsidiary is a party to or bound by or the subject of any agreement, undertaking, commitment or discussions or negotiations with any person that could result in (i) the sale, merger, consolidation or recapitalization of Taurus or any Subsidiary, (ii) the sale of all or substantially all of the assets of Taurus or any Subsidiary, or (iii) a change of control of more than five percent of the outstanding capital stock of Taurus or any Subsidiary.

Section 4.15 No Undisclosed Liabilities . To the best of Langan's knowledge, neither Taurus nor any Subsidiary has any obligation or liability (contingent or otherwise) that would be required to be reflected in the financial statements of the Company in accordance with GAAP except as reflected in Taurus's Balance Sheet.

Section 4.16 Indemnification by Langan. Langan recognizes that the Exchange being conducted with Rick's is based, to a material degree, upon the representations and warranties of Langan as set forth and contained herein and Langan hereby agrees to indemnify and hold harmless Rick's against all damages, costs, or expenses (including reasonable attorney's fees) arising as a result of any breach of representation or warranty or omission made herein by Langan.

If any action is brought against Rick's in respect of which indemnity may be sought against Langan pursuant to the foregoing paragraph, Rick's shall promptly notify Langan in writing of the institution of such action (but the omission to so notify Langan shall not relieve it from any liability that it may have to Rick's except to the extent Langan is materially prejudiced or otherwise forfeit substantive rights or defenses by reason of such failure), and Langan shall assume the defense of such action, including the employment of counsel to be chosen by Langan to be reasonably satisfactory to Rick's, and payment of expenses. Rick's shall have the right to employ Langan's or their own counsel in any such case, but the fees and expenses of such counsel shall be at Rick's expense, unless the employment of such counsel shall have been authorized in writing by Langan in connection with the defense of such action, or Langan shall not have employed counsel to take charge of the defense of such action, or counsel employed by Langan shall not be diligently defending such action, or Rick's shall have reasonably concluded that there may be defenses available to it which are different from or additional to those available to Langan, or that representation of Rick's by the same counsel would be inappropriate under applicable standards of professional conduct due to actual or potential differing interests between them (in which case Langan shall not have the right to direct the defense of such action on behalf of Rick's), in any of which event such fees and expenses shall be borne by Langan. Anything in this paragraph to the contrary notwithstanding, Langan shall not be liable for any settlement of, or any expenses incurred with respect to, any such claim or action effected without Langan's written consent, which consent shall not be unreasonably withheld. Langan shall not, without the prior written consent of Rick's effect any settlement of any proceeding in respect of which Rick's is a party and indemnity has been sought hereunder unless such settlement includes an unconditional release of Rick's from all liability on claims that are the subject matter of such proceeding.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF RICK'S

Rick's hereby represents and warrant to the Stockholders as follows:

Section 5.1 Organization and Capitalization. Rick's is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas, with full power and authority and all necessary governmental and regulatory licenses, permits and authorizations to carry on the businesses in which it is engaged, to own the properties that it owns currently and will own at the Closing, and to perform its obligations under this Agreement. Rick's is qualified as a foreign corporation and is in good standing in each jurisdiction in which the failure to qualify would have a material adverse effect on the business, properties or condition (financial or otherwise) of Rick's. Rick's does not have any subsidiaries or any other investments or ownership interest in any corporation, partnership, joint venture or other business enterprise, except as set forth in Exhibit 5.2. Immediately prior to the Closing Date the authorized capital stock of Rick's consists of (i) 15,000,000 shares of common stock, \$.01 par value of which 4,831,054 shares are validly issued and outstanding, and (ii) 1,000,000 shares of preferred stock \$.10 par value, none of which are issued and outstanding. All of such issued and outstanding shares of Rick's Stock have been and all of the shares of Rick's Stock to be issued hereby will be, at the Closing, duly authorized and validly issued and are and will be at the Closing fully paid and non-assessable. None of the shares that were issued and none of the shares to be issued hereby will be in violation of any preemptive rights. Rick's has no obligation to repurchase, reacquire or redeem any of its outstanding capital stock. Rick's also has outstanding 1,160,000 warrants which are exercisable at prices ranging from \$3.00 to \$4.35 per share.

Section 5.2 Subsidiaries. Schedule 5.2 sets forth a complete and accurate list of all Subsidiaries of Rick's, showing (as to each such Subsidiary) the date of its incorporation and the jurisdiction of its incorporation. All of the outstanding capital stock of, or other ownership interests in, each Subsidiary is owned by Rick's, directly or indirectly, free and clear of any lien or any other limitation or restriction (including restrictions on the right to vote). All outstanding shares of the capital stock of any Subsidiary have been duly authorized and validly issued and are fully paid and non-assessable and are free of any preemptive rights. There are no outstanding securities of any Subsidiary convertible into or evidencing the right to purchase or subscribe for any shares of capital stock of any Subsidiary, there are no outstanding or authorized options, warrants, calls, subscriptions, rights, commitments or any other agreements of any character obligating any Subsidiary to issue any shares of its capital stock or any securities convertible into or evidencing the right to purchase or subscribe for any shares of such stock, and there are no agreements or understandings with respect to the voting, sale, transfer or registration of any shares of capital stock of any Subsidiary.

Section 5.3 Authorization. All corporate action on the part of Rick's necessary for the authorization, execution, delivery and performance of this

Agreement by Rick's has been taken or will be taken prior to the Closing. Rick's has the requisite corporate power and authority to execute, deliver and perform this Agreement. This Agreement has been duly executed and delivered by Rick's, and constitutes a valid and binding obligation of Rick's, enforceable against Rick's in accordance with its terms, subject to bankruptcy, insolvency, reorganization, and other laws of general application relating to or affecting creditors' rights and to general equitable principles.

Section 5.4 Litigation. Except as set forth in Exhibit 5.4, there are no claims, actions, suits or proceedings, formal or informal, pending or, to the best knowledge of Rick's, threatened against Rick's, nor is Rick's subject to any order, judgment or decree, except in either case for matters which, in the aggregate, would not result in a loss to Rick's in excess of \$100,000.

Section 5.5 SEC Reports. During the last twelve months, Rick's has filed with the SEC all of the reports required to be filed with the SEC pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended, through the filing of its Form 10-QSB for the quarter ended March 31, 1998. Rick's has delivered, and the Stockholders acknowledge receipt thereof, of Rick's Form 10-KSB for the fiscal year ended September 30, 1997, its 10-QSB's for the three month periods ended December 31, 1997 and March 31, 1998 ("SEC Filings"). To the best of Rick's knowledge, as of their respective dates, the SEC Filings did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Section 5.6 Taxes. Rick's has filed all federal, state or local tax returns and reports due or required to be filed and has paid all taxes, interest payments and penalties, if any, required to be paid with respect thereto, and has made adequate provision for the payment of all taxes accruable for all periods ending on or before the Closing Date to any taxing authority and is not delinquent in the payment of any material tax or governmental charge of any nature.

Section 5.7 Financial Information. Rick's has delivered to the Stockholders the audited balance sheet of Rick's as of September 30, 1997, together with the related statements of income, changes in shareholder's equity and cash flow for the years then ended, including the related notes, all certified by Jackson & Rhodes, P.C., certified public accountants. In addition, Rick's has delivered to the Stockholders its interim unaudited financial statements as filed with the SEC for the three month periods ended December 31, 1997 and March 31, 1998 (the audited balance sheet and interim financial statements are collectively referred to as the "Financial Statements"). Such Financial Statements, including the related notes, are in accordance with the books and records of Rick's and fairly present the financial position of Rick's and the results of operations and changes in financial position of Rick's as of the dates and for the periods indicated, in each case in conformity with generally accepted accounting principles applied on a consistent basis. Except as, and to the extent reflected or reserved against in the Financial Statements, Rick's as of the date of the financial statements has no material liability or obligation of any nature, whether absolute, accrued, continued or otherwise, not fully reflected or reserved against in the Financial Statements. As of the Closing Date, there will not have been any adverse change in the financial

condition or other operations, business, properties or assets of Rick's in excess of \$100,000 from that reflected in the latest financial statements of Rick's furnished to the Stockholders pursuant hereto.

Section 5.8 Compliance with Laws. Except as set forth in Exhibit 5.8, Rick's is, and at all times prior to the date hereof has been, to the best of its knowledge, in compliance with all statutes, orders, rules, ordinances and regulations applicable to it or to the ownership of its assets or the operation of its businesses, except for failures to be in compliance that would not have a material adverse effect on the business, properties, condition (financial or otherwise) or prospects of Rick's and Rick's has no basis to expect, nor has received, any order or notice of any such violation or claim of violation of any such statute, order, rule, ordinance or regulation.

Section 5.9 Title to Properties; Encumbrances. Rick's has good and marketable title to all of its properties and assets, real and personal, tangible and intangible, that are material to the condition (financial or otherwise), business, operations or prospects of Rick's, free and clear of all mortgages, claims, liens, security interests, charges, leases, encumbrances and other restrictions of any kind and nature, except (i) as specifically disclosed in Exhibit 5.9, (ii) as disclosed in the Financial Statements of Rick's, (iii) statutory liens not yet delinquent, and (iv) such liens consisting of zoning or planning restrictions, imperfections of title, easements, pledges, charges and encumbrances, if any, as do not materially detract from the value or materially interfere with the present use of the property or assets subject thereto or affected thereby.

Section 5.10 Disclosure. Except as set forth in Exhibit 5.10, to the best of Rick's knowledge, no representation or warranty of Rick's contained in this Agreement (including the exhibits and schedules hereto) contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

Section 5.11 No Default. The execution, delivery and performance of this Agreement by Rick's does not and will not constitute a violation or default under or conflict with any contract, agreement, understanding or commitment to which it is a party or by which it is bound or the Certificate of Incorporation or By-Laws of Rick's or any statute, regulation, law, ordinance, judgment, decree, writ, injunction, order or ruling of any government entity.

Section 5.12 Pending Claims. There is no claim, suit, action or proceeding, whether judicial, administrative or otherwise, pending or, to the best of Rick's knowledge, threatened that would preclude or restrict the transfer to the Stockholders of the Rick's Stock or the performance of this Agreement by Rick's.

Section 5.13 Insurance . Rick's and its Subsidiaries maintain adequate insurance with respect to their respective businesses and are in compliance with all material requirements and provisions thereof.

Section 5.14 Employee Benefit Plans . Rick's is not a party to any employee benefit plan.

Section 5.15 No Pending Transactions . Except for the transactions contemplated by this Agreement, neither Rick's nor any Subsidiary is a party to or bound by or the subject of any agreement, undertaking, commitment or discussions or negotiations with any person that could result in (i) the sale, merger, consolidation or recapitalization of Rick's or any Subsidiary, (ii) the sale of all or substantially all of the assets of Rick's or any Subsidiary, or (iii) a change of control of more than five percent of the outstanding capital stock of Rick's or any Subsidiary.

Section 5.16 No Undisclosed Liabilities . to the best of its knowledge, neither Rick's nor or any Subsidiary has any obligation or liability (contingent or otherwise) that would be required to be reflected in the financial statements of the Company in accordance with GAAP except as reflected in Rick's Balance Sheet.

Section 5.17 Indemnification by Rick's Rick's recognizes that the Exchange being conducted with the Stockholders is based, to a material degree, upon the representations and warranties of Rick's as set forth and contained herein and Rick's hereby agrees to indemnify and hold harmless the Stockholders against all damages, costs, or expenses (including reasonable attorney's fees) arising as a result of any breach of representation or warranty or omission made herein by Rick's.

If any action is brought against Rick's, the Stockholders (collectively the "Indemnified Parties") in respect of which indemnity may be sought against Rick's pursuant to the foregoing paragraph, the Indemnified Parties shall promptly notify Rick's in writing of the institution of such action (but the omission to so notify Rick's shall not relieve it from any liability that it may have to such Indemnified Parties except to the extent Rick's is materially prejudiced or otherwise forfeits substantive rights or defenses by reason of such failure), and Rick's shall assume the defense of such action, including the employment of counsel to be chosen by Rick's to be reasonably satisfactory to the Indemnified Parties, and payment of expenses. The Indemnified Parties shall have the right to employ Rick's or their own counsel in any such case, but the fees and expenses of such counsel shall be at the Indemnified Party's expense, unless the employment of such counsel shall have been authorized in writing by Rick's in connection with the defense of such action, or Rick's shall not have employed counsel to take charge of the defense of such action, or counsel employed by Rick's shall not be diligently defending such action, or the Indemnified Parties shall have reasonably concluded that there may be defenses available to it which are different from or additional to those available to Rick's, or that representation of such Indemnified Party and Rick's by the same counsel would be inappropriate under applicable standards of professional conduct due to actual or potential differing interests between them (in which case Rick's shall not have the right to direct the defense of such action on behalf of the Indemnified Parties), in any of which event such fees and expenses shall be borne by Rick's. Anything in this paragraph to the contrary notwithstanding, Rick's shall not be liable for any settlement of, or any expenses incurred with respect to, any such claim or action effected without Rick's written consent, which consent shall not be unreasonably withheld. Rick's shall not, without the prior written consent of the Indemnified Parties effect any settlement of any proceeding in respect of which any Indemnified Parties is a party and indemnity has been sought hereunder unless such settlement includes an unconditional release of such Indemnified Parties from all liability on claims that are the subject matter of such proceeding.

**ARTICLE VI
CLOSING; DELIVERY**

Section 6.1(a) Closing Documents of the Stockholders. The obligations of Rick's to effect the transactions contemplated hereby are subject to the delivery by the Stockholders at Closing of each of the following documents:

- (i) The Stockholders shall have delivered certificates evidencing their Taurus Common Stock duly endorsed for transfer by the Stockholders to Rick's as contemplated by this Agreement, in form and substance satisfactory to counsel for Ricks.
- (ii) The Stockholders shall have executed and delivered to Ricks the Subscription Agreement as contemplated by Section 3.7 hereof.

Section 6.1(b) Closing Documents of Ricks. The obligations of the Stockholders to effect the transactions contemplated hereby are subject to each of the following conditions:

- (i) Rick's shall have delivered either (i) certificates evidencing Rick's Common Stock, duly executed for issuance by Rick's to the Stockholders as contemplated by this Agreement or (ii) letter of instructions from a duly authorized officer of Rick's to American Securities Transfer, Inc. (Rick's's transfer agent), instructing the transfer agent to duly issue stock certificates evidencing the shares of Common Stock of Rick's to the Stockholders, all as contemplated by this Agreement, in form and substance satisfactory to counsel for the Stockholders.
- (ii) Ricks shall agree to undertake to file with the Nasdaq Stock Market, Inc., within 10 days of Closing, a Listing for Additional Shares which will list the Ricks Stock to be issued to the Stockholders at Closing.

Section 6.1 (c) Conditions to the Obligations of Ricks and the Stockholders. The obligations of Ricks and the Stockholders to effect the transactions contemplated hereby are further subject to the following condition:

(i) The Board of Directors of Ricks shall have approved and authorized the transactions contemplated herein.

(ii) No action, suit or proceeding by or before any court or any governmental or regulatory authority shall have been commenced or threatened, and no investigation by any governmental or regulatory authority shall have been commenced or threatened, seeking to restrain, prevent or challenge the transactions contemplated hereby or seeking judgments against Rick's or the Stockholders.

ARTICLE VII MISCELLANEOUS

Section 7.1 Notices. All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid, or overnight air courier guaranteeing next day delivery:

(a) If to Rick's:

Rick's Cabaret International, Inc.

Mr. Robert L. Watters
3113 Bering Drive
Houston, Texas 77057
Fax: (713) 785-0444

With a copy to:

Robert D. Axelrod
Axelrod, Smith & Kirshbaum
5300 Memorial Drive, Suite 700
Houston, Texas 77007
Fax: (713) 552-0202

(b) If to the Stockholders, to:

The addresses listed on Exhibit A, attached hereto.

With a copy to:

Thomas Pritchard
Brewer & Pritchard
Texas Heritage Building
1111 Bagby, 24th Floor
Houston, Texas 77002
Fax: (713) 659-2430

All notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; three days after being deposited in the mail, postage prepaid, sent certified mail, return receipt requested, if mailed; and the next day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery.

If a notice or communication is mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

Section 7.2 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties without the prior written consent of the other parties, which consent will not be unreasonably withheld. This Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective heirs, personal representatives, successors and assigns.

Section 7.3 Counterparts. This Agreement may be executed in any number of counterparts, which taken together shall constitute one and the same instrument and each of which shall be considered an original for all purposes.

Section 7.4 Section Headings. The section headings contained in this Agreement are for convenient reference only and shall not in any way affect the meaning or interpretation of this Agreement.

Section 7.5 Entire Agreement. This Agreement, the documents to be executed hereunder and the exhibits and schedules attached hereto constitute the entire agreement among the parties hereto pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties pertaining to the subject matter hereof, and there are no warranties, representations or other agreements among the parties in connection with the subject matter hereof except as specifically set forth herein or in documents delivered pursuant hereto. No supplement, amendment, alteration, modification, waiver or termination of this Agreement shall be binding unless executed in writing by the parties hereto. All of the exhibits and schedules referred to in this Agreement are hereby incorporated into this Agreement by reference and constitute a part of this Agreement.

Section 7.6 Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect.

Section 7.7 Survival. The respective representations, warranties, covenants and agreements set forth in this Agreement shall survive the Closing for a period of one year from the execution hereof.

Section 7.8 Public Announcements. The parties hereto agree that prior to making any public announcement or statement with respect to the transactions contemplated by this Agreement, the party desiring to make such public announcement or statement shall consult with the other parties hereto and exercise their best efforts to (i) agree upon the text of a joint public announcement or statement to be made by all of such parties or (ii) obtain approval of the other parties hereto to the text of a public announcement or statement to be made solely by the party desiring to make such public announcement; provided, however, that if any party hereto is required by law to make such public announcement or statement, then such announcement or statement may be made without the approval of the other parties.

Section 7.9 Gender. All personal pronouns used in this Agreement shall include the other genders, whether used in the masculine, feminine or neuter gender, and the singular shall include the plural, and vice versa, whenever appropriate.

Section 7.10 Choice of Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas, without regard to principles of conflict of laws.

Section 7.11 Costs and Expenses. Rick's and the Stockholders shall each pay their own respective fees and disbursements incurred in connection with this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed or caused this Agreement to be executed effective as of the day and year first above written.

RICK'S CABARET INTERNATIONAL, INC.

By: /s/ Robert L. Watters

Robert L. Watters, President

STOCKHOLDER(S):

(Signature)
(Printed Name)

Address: _____

Stock Exchange Agreement -- 18

STOCKHOLDER(S):

(Signature)
(Printed Name)

Address: _____

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement"), entered into as of the ____ day of August, 1998, by and between RICK'S CABARET INTERNATIONAL, INC., a Texas corporation (the "Company"), and ERIC LANGAN ("Executive").

W I T N E S S E T H:

WHEREAS, Company desires to employ Executive as provided herein; and

WHEREAS, Executive desires to accept such employment.

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Employment. Company hereby employs Executive and Executive hereby accepts employment with Company upon the terms and conditions hereinafter set forth.

2. Duties. Subject to the power of the Board of Directors of Company to elect and remove officers, Executive will serve the Company as its vice president-operations and will faithfully and diligently perform the services and functions relating to such office or otherwise reasonably incident to such office, provided that all such services and functions will be reasonable and within Executive's area of expertise. Executive will, during the term of this Agreement (or any extension thereof), devote his full business time, attention and skills and best efforts to the promotion of the business of Company. The foregoing will not be construed as preventing Executive from making investments in other businesses or enterprises provided that (a) Executive agrees not to become engaged in any other business activity that interferes with his ability to discharge his duties and responsibilities to Company and (b) Executive does not violate any other provision of this Agreement.

3. Term. Subject to the terms and conditions hereof, the term of

employment of Executive will commence as of the date hereof (the "Commencement Date") and will end on that date in the year, 2001, unless earlier terminated by either party pursuant to the terms hereof. The term of this Agreement is referred to herein as the "Term."

4. Compensation and Benefits During the Employment Term.

(a) Salary. Commencing upon the date of this Agreement, Executive will be paid an annual base salary of \$171,600, payable bi-weekly (the "Salary"). At any time and from time to time the Salary may be increased for the remaining portion of the term if so determined by the Board of Directors of Company after a review of Executive's performance of his duties hereunder.

(b) Stock Options. On the Commencement Date, the Company and the Executive shall enter into a Stock Option Agreement pursuant to which the

Company grants Executive options (the "Options") to purchase (i) 100,000 shares of common stock ("Common Stock") exercisable at \$1.875 per share and

(ii) 150,000 shares of Common Stock exercisable at \$__ per share to be issued to Executive upon the increase of the Company's stock option plan, all vesting one year from the date of execution hereof.

(c) Expenses. Upon submission of a detailed statement and reasonable documentation, Company will reimburse Executive in the same manner as other executive officers for all reasonable and necessary or appropriate out-of-pocket travel and other expenses incurred by Executive in rendering services required under this Agreement.

(d) Benefits; Insurance.

(i) Medical, Dental and Vision Benefits. During this Agreement, Executive and his dependents will be entitled to receive such group medical, dental and vision benefits as Company may provide to its other executives, provided such coverage is reasonably available, or be reimbursed if Executive is carrying his own similar insurance.

(ii) Benefit Plans. The Executive will be entitled to

participate in any benefit plan or program of the Company which may
currently be in place or implemented in the future.

(iii) Other Benefits. During the Term, Executive will be

entitled to receive, in addition to and not in lieu of base salary, bonus or
other compensation, such other benefits and normal perquisites as Company
currently provides or such additional benefits as Company may provide for
its executive officers in the future.

(e) Vacation. Executive will be entitled to two weeks paid
vacation each year of this Agreement.

5. Confidentiality. In the course of the performance of Executive's duties hereunder, Executive recognizes and acknowledges that Executive may have access to certain confidential and proprietary information of Company or any of its affiliates. Without the prior written consent of Company, Executive shall not disclose any such confidential or proprietary information to any person or firm, corporation, association, or other entity for any reason or purpose whatsoever, and shall not use such information, directly or indirectly, for Executive's own behalf or on behalf of any other party. Executive agrees and affirms that all such information is the sole property of Company and that at the termination and/or expiration of this Agreement, at Company's written request, Executive shall promptly return to Company any and all such information so requested by Company.

The provisions of this Section 5 shall not, however, prohibit Executive from disclosing to others or using in any manner information that:

- (a) has been published or has become part of the public domain other than by acts, omissions or fault of Executive;
- (b) has been furnished or made known to Executive by third parties
(other than those acting directly or indirectly for or on behalf of Executive) as a matter of legal right without restriction on its use or disclosure;
- (c) was in the possession of Executive prior to obtaining such information from Company in connection with the performance of this Agreement; or
- (d) is required to be disclosed by law.

6. Indemnification. The Corporation shall to the full extent permitted by law or as set forth in the Articles of Incorporation and the Bylaws of the Company, indemnify, defend and hold harmless Executive from and against any and all claims, demands, liabilities, damages, losses and expenses (including reasonable attorney's fees, court costs and disbursements) arising out of the performance by him of his duties hereunder except in the case of his willful misconduct.

7. Termination. This Agreement and the employment relationship created hereby will terminate (i) upon the death or disability of Executive under section 7 (a) or 7 (b); (ii) with cause under Section 7 (c); (iii) for good reason under Section 7 (d); (iv) upon the voluntary termination of employment by Executive under Section 7 (e); or (v) without cause under Section 7 (f).

(a) Disability. The Company shall have the right to terminate the employment of the Executive under this Agreement for disability in the event Executive suffers an injury, illness, or incapacity of such character as to substantially disable him from performing his duties without reasonable accommodation by the Company hereunder for a period of more than one hundred eighty (180) consecutive days upon the Company giving at least thirty (30) days written notice of termination.

(b) Death. This Agreement will terminate on the Death of the Executive.

(c) With Cause. The Company may terminate this Agreement at any time because of (i) Executive's material breach of any term of the Agreement,

(ii) the determination by the Board of Directors in the exercise of its reasonable judgment that Executive has committed an act or acts constituting a felony or other crime involving moral turpitude, dishonesty or theft or fraud; or (iii) Executive's gross negligence in the performance of his duties hereunder, provided, in each case, however, that the Company shall not terminate this Agreement pursuant to this Section 7(c) unless the Company shall first have delivered to the Executive, a notice which specifically identifies such breach or misconduct and the executive shall not have cured the same within fifteen (15) days after receipt of such notice.

(d) Good Reason. The Executive may terminate his employment for "Good Reason" if:

(i) he is assigned, without his express written consent, any duties materially inconsistent with his positions, duties, responsibilities, or status with the Company as of the date hereof, or a change in his reporting responsibilities or titles as in effect as of the date hereof;

(ii) his compensation is reduced;

(iii) the Company does not pay any material amount of compensation due hereunder and then fails either to pay such amount within the ten (10) day notice period required for termination hereunder or to contest in good faith such notice. Further, if such contest is not resolved within thirty (30) days, the Company shall submit such dispute to arbitration under Section 14.

(e) Voluntary Termination. The Executive may terminate his employment voluntarily.

(f) Without Cause. The Company may terminate this Agreement without cause.

8. Obligations of Company Upon Termination,

(a) In the event of the termination of Executive's employment pursuant to Section 7 (c) or (e), Executive will be entitled only to the compensation earned by him hereunder as of the date of such termination (plus life insurance or disability benefits), plus the rights to those Options that have vested as of the termination date.

(b) In the event of the termination of Executive's employment pursuant to Section 7 (a) or (b), Executive will be entitled only to the compensation earned by him hereunder as of the date of such termination (plus life insurance or disability benefits), plus the rights to all Options, vested or not vested, under the same terms as if this Agreement was not terminated.

(c) In the event of the termination of Executive's employment pursuant to Section 7 (d) or (f), Executive will be entitled to receive \$250,000 cash at such time as this Agreement is terminated, all payments of salary earned through the date of termination in one lump sum, and Executive shall have the rights to all Options, vested or not vested, under the same terms as if this Agreement had not terminated.

9. Waiver of Breach. The waiver by any party hereto of a breach of any provision of this Agreement will not operate or be construed as a waiver of any subsequent breach by any party.

10. Costs. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party will be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which he or it may be entitled.

11. Notices. Any notices, consents, demands, requests, approvals and other communications to be given under this Agreement by either party to the other will be deemed to have been duly given if given in writing and personally delivered or within two days if sent by mail, registered or certified, postage prepaid with return receipt requested, as follows:

If to Company: Rick's Cabaret International, Inc.
3113 Bering Drive
Houston, Texas 77057
Attention: Robert L. Watters

If to Executive: Eric Langan
14514 Kingshead Drive
Houston, Texas 77044

Notices delivered personally will be deemed communicated as of actual receipt.

12. Entire Agreement. This Agreement and the agreements contemplated hereby constitute the entire agreement of the parties regarding the subject matter hereof, and supersede all prior agreements and understanding, both written and oral, among the parties, or any of them, with respect to the subject matter hereof.

13. Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during this Agreement, such provision will be fully severable and this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision never comprised a part hereof; and the remaining provisions hereof will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom. Furthermore, in lieu of such illegal, invalid or unenforceable provision there will be added automatically as part of this Agreement a provision as similar in its terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

14. Arbitration. If a dispute should arise regarding this Agreement, the parties agree that all claims, disputes, controversies, differences or other matters in question arising out of this relationship shall be settled finally, completely and conclusively by arbitration in Houston, Texas in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "Rules"). The governing law of this Agreement shall be the substantive law of the State of Texas, without giving effect to conflict of laws. A decision of the arbitrator shall be final, conclusive and binding on the Company and Executive. Any arbitration held in accordance with this paragraph shall be private and confidential and no person shall be entitled to attend the hearings except the arbitrator, Executive, Executive's attorneys, a representative of the Company, the Company's attorneys, and advisors to or witnesses for any party. The matters submitted to arbitration, the hearings and proceedings and the arbitration award shall be kept and maintained in the strictest confidence by Executive and the Company and shall not be discussed, disclosed or communicated to any persons except as may be required for the preparation of expert testimony. On request of any party, the record of the proceeding shall be sealed and may not be disclosed except insofar, and only insofar, as may be necessary to enforce the award of the arbitrator and any judgement enforcing an award. The prevailing party shall be entitled to recover reasonable and necessary attorneys' fees and costs from the non-prevailing party and the determination of such fees and costs and the award thereof shall be included in the claims to be resolved by the arbitrator hereunder.

15. Captions. The captions in this Agreement are for convenience of reference only and will not limit or otherwise affect any of the terms or provisions hereof.

16. Gender and Number. When the context requires, the gender of all words used herein will include the masculine, feminine and neuter and the number of all words will include the singular and plural.

17. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original and all of which will constitute one and the same instrument, but only one of which need be produced.

18. Company Authorization. The Company represents that the Board of Directors has approved this Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

COMPANY:

RICK'S CABARET INTERNATIONAL, INC.

By: /s/ Robert L. Watters

Robert L. Watters, President

EXECUTIVE:

By: /s/ Eric Langan

Eric Langan

-7-

End of Filing

Powered By **EDGAR**
Online

© 2005 | EDGAR Online, Inc.