

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: January 24, 2005

RICK'S CABARET INTERNATIONAL, INC.

(Exact Name of Registrant As Specified in Its Charter)

Texas
(State Or Other Jurisdiction
of Incorporation)

0-26958
(Commission File Number)

76-0037324
(IRS Employer
Identification No.)

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

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

505 North Belt, Suite 630
Houston, Texas 77060
(281) 820-1181
(Registrant's previous office/phone)

ITEM 2.01 COMPLETION OF ACQUISITION OF ASSETS.

On January 18, 2005, our wholly owned subsidiary, RCI Entertainment (New York) Inc., a New York corporation ("RCI New York") completed the acquisition of Peregrine Enterprises, Inc., a New York corporation ("Peregrine") pursuant to a Stock Purchase Agreement with Peregrine's sole shareholder, Philip Eisenberg (the "Stock Purchase Agreement"). Under the terms of the Stock Purchase Agreement, RCI New York purchased all of the shares of common stock of Peregrine for a total purchase price of \$7,625,000, payable \$2,500,000 in cash at closing and \$5,125,000 payable in a secured convertible promissory note bearing simple interest at the rate of 4.0% per annum (the "Secured Convertible Note"). As part of the transaction, Mr. Eisenberg also entered a five-year covenant not to compete with Peregrine, RCI New York or Rick's Cabaret International, Inc.

After extensive remodeling of the site at 33rd Street and Broadway near Penn Station and Madison Square Garden, we intend to re-open the club in the summer of 2005 as an upscale gentlemen's club. The club will operate on three levels and will utilize approximately the maximum allowable 10,000 square feet, with an additional 4,000 square feet to be used for office space. We are in the process of finalizing building permits and completing other details typical of transactions of this type.

The terms and conditions of the Stock Purchase Agreement were the result of extensive arm's length negotiations between the parties. A copy of the press release related to this transaction is attached hereto as Exhibit 99.1.

ITEM 2.03 CREATION OF A DIRECT FINANCIAL OBLIGATION.

As part of the acquisition of Peregrine, RCI New York executed the Secured Convertible Note in the principal amount of \$5,125,000 bearing simple interest at the rate of 4.0% per annum which is payable commencing 151 days after Closing as follows: (a) the payment of \$58,333.33 per month for twenty-four (24) consecutive months; (b) the payment of \$63,333.33 for twenty-four (24) consecutive months; (c) the payment of \$68,333.33 for twelve (12) consecutive months; and (d) a lump sum payment of the remaining balance to be paid on the sixty-first (61st) month. Pursuant to the terms of the Secured Convertible Note, \$2,000,000 of the principal amount is convertible into shares of our restricted common stock at prices as follows:

- (1) \$200,000 of the Principal Amount shall be convertible at \$4.00 per share;
- (2) \$225,000 of the Principal Amount shall be convertible at \$4.50 per share;
- (3) \$250,000 of the Principal Amount shall be convertible at \$5.00 per share;
- (4) \$275,000 of the Principal Amount shall be convertible at \$5.50 per share;
- (5) \$300,000 of the Principal Amount shall be convertible at \$6.00 per share;
- (6) \$325,000 of the Principal Amount shall be convertible at \$6.50 per share;
- (7) \$350,000 of the Principal Amount shall be convertible at \$7.00 per share;
- (8) \$75,000 of the Principal Amount shall be convertible at \$7.50 per share.

Pursuant to the terms of the Secured Convertible Note, we are obligated to file a registration statement to register the shares underlying the conversion rights.

Additionally, the parties entered a Stock Pledge Agreement and Security Agreement to secure the Secured Convertible Note.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

The financial statements and pro forma financial information required by Items 9.01(a) and 9.01(b) are not available. Such financial statements will be filed no later than April 4, 2005.

(c) Exhibits

Exhibit Number	Description
10.1	Stock Purchase Agreement
10.2	Secured Convertible Promissory Note
99.1	Press release dated January 19, 2005

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: January 24, 2005

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

STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (the "Agreement") is made and entered into this 14th day of September, 2004, by and among Peregrine Enterprises, Inc., a New York corporation (the "Company" or "Peregrine"), Philip Eisenberg, individually ("Eisenberg" or "Seller"), RCI Entertainment (New York) Inc., a New York corporation ("Purchaser" or "RCI New York"), and Rick's Cabaret International, Inc., a Texas corporation ("Rick's").

WHEREAS, Seller owns 100 shares of common stock, no par value (the "Shares") of the Company, which Shares represent all of the shares of capital stock of Peregrine presently outstanding; and

WHEREAS, Eisenberg serves as President to the Company; and

WHEREAS, Peregrine owns and operates an adult entertainment cabaret known as The Paradise Club ("The Paradise Club") located at 50 West 33rd Street, New York, New York (the "Premises").

WHEREAS, Seller desires to sell the Shares of Peregrine to RCI New York on the terms and conditions set forth herein; and

WHEREAS, RCI New York desires to purchase the Shares of Peregrine from Seller on the terms and conditions set forth herein.

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

ARTICLE I PURCHASE AND SALE OF THE SHARES

Section 1.1 Sale of the Shares. Subject to the terms and conditions set forth in this Agreement, at the Closing (as hereinafter defined) Seller hereby agrees to sell, transfer, convey and deliver to RCI New York all of the Shares of common stock of Peregrine, free and clear of all encumbrances, which represents all of the outstanding capital stock of Peregrine, and shall deliver to RCI New York stock certificates representing the Shares, duly endorsed to RCI New York or accompanied by duly executed stock powers in form and substance satisfactory to RCI New York.

Section 1.2 Purchase Price. As consideration for the purchase of the Shares, RCI New York shall pay to Seller total consideration of \$7,625,000 (the "Purchase Price") payable as follows:

(i) \$2,500,000 payable to Seller by cashier's check, certified funds or wire transfer at the Closing (as hereinafter defined); and

(ii) \$5,125,000 as evidenced by a Promissory Note (part of which is convertible as set forth below) bearing simple interest of 4.00% per annum (the "Promissory Note") payable commencing 120 days after the Closing as follows: (a) the payment of \$58,333.33 per month for twenty-four (24) consecutive months; (b) the payment of \$63,333.33 for twenty-four (24) consecutive months; (c) the payment of \$68,333.33 for twelve (12) consecutive months; and (d) a lump sum payment of the remaining balance to be paid on the sixty-first (61st) month. All payments shall be credited first to accrued interest and thereafter to principal on the Promissory Note. \$2,000,000 of the principal amount of the Promissory Note is convertible into shares of restricted common stock of Rick's Cabaret International, Inc. ("Rick's Common Stock") as follows: (1) \$200,000 convertible at \$4.00 per share; (2) \$225,000 convertible at \$4.50 per share; (3) \$250,000 convertible at \$5.00 per share; (4) \$275,000 convertible at \$5.50 per share; (5) \$300,000 convertible at \$6.00 per share; (6) \$325,000 convertible at \$6.50 per share; (7) \$350,000 convertible at \$7.00 per share; and (8) \$75,000 convertible at \$7.50 per share. RCI New York shall not have the right to force conversion of the Promissory Note. The Promissory Note shall be secured by the shares and the assets of RCI New York and Peregrine, including a collateral reassignment of the lease for the business premises at 50 West 33rd Street, New York, New York. A copy of the Form Promissory Note is attached hereto as Exhibit 1.2.

Section 1.3 Payments into Escrow. As of the date of execution of this Agreement, the Purchaser has deposited \$800,000 in an escrow account (the "Escrow") with Prestige Title Agency, Inc., Brooklyn, New York (the "Escrow Agent"). The \$800,000 shall be held in Escrow until the Closing as defined herein.

If the NYS liquor authority for the State of New York denies the addition of a representative of Purchaser to the existing Liquor License which allows for the sale of liquor on the Premises (the "Liquor License") by December 1, 2004, then the Purchaser or Peregrine will have the right at any time thereafter, by written notice to the other party to terminate this Agreement and the Purchaser shall be refunded all funds then held in Escrow except for \$150,000, which shall have been or be paid to Peregrine. The Purchaser and Peregrine will use their best efforts on the date of execution hereof to cause a representative of the Purchaser to be added to the existing Liquor License. If the Closing does occur then the \$800,000 held in Escrow will be paid to Peregrine and credited against the \$2,500,000 due at Closing. If Purchaser, through no fault of Peregrine, fails to close the transaction by December 1, 2004, time being of the essence, Peregrine shall be entitled, as its sole legal or equitable remedy, to terminate this Agreement and receive and retain \$250,000 deposited into Escrow by Purchaser as and for its liquidated damages. The balance of the funds then held in Escrow (\$550,000) shall be refunded to the Purchaser. If Peregrine, through no fault of the Purchaser, fails to close the transaction by December 1, 2004, time being of the essence, Purchaser shall have the right, in

lieu of any other legal or equitable remedy, to either seek specific performance of this Agreement or to terminate this Agreement and receive back all sums deposited into Escrow. In no event shall any party be liable to the other for any consequential, special or punitive damages.

ARTICLE II CLOSING

Section 2.1 The Closing. The closing of the transactions contemplated by this Agreement shall take place on or before December 1, 2004, provided that a representative of the Purchaser has been added to the existing Liquor License by the NYS Liquor Authority of the State of New York that allows Purchaser to sell alcoholic beverages on the Premises (the "Closing Date"), at the law offices of Jaffe & Asher, LLP, 600 Third Avenue, New York, New York 10016, or at such other time and place as agreed upon among the parties hereto (the "Closing").

Section 2.2 Delivery and Execution. At the Closing: (a) Seller shall deliver to RCI New York certificates evidencing the Shares of Peregrine, free and clear of any liens, claims, equities, charges, options, rights of first refusal or encumbrances, duly endorsed to RCI New York or accompanied by duly executed stock powers in form and substance satisfactory to RCI New York against delivery by RCI New York to Seller of payment in an amount equal to the Purchase Price of the Shares being purchased by RCI New York in the manner set forth herein; (b) the Related Transactions (as defined below) shall be consummated concurrently with the Closing; and (c) the Conditions to Closing of Seller and RCI New York as set forth in Article V and VI, respectively, shall have been satisfied or waived in writing by the party authorized to waive such condition.

Section 2.3 Related Transactions. In addition to the purchase and sale of the Shares, the following actions shall take place contemporaneously at the Closing (collectively, the "Related Transactions"):

- (i) Seller will enter into a five (5) year covenant not to compete pursuant to the terms of which Seller will agree not to compete, either directly or indirectly, with Peregrine, the Paradise Club, RCI New York or Rick's by operating an establishment featuring live female nude or semi-nude entertainment within the corporate limits of the city of New York, New York;
- (ii) The Landlord shall consent in writing to the transfer of the Shares to the Purchaser at the time of Closing and to the continuation of the existing lease with the Purchaser as the owner of the Shares. If requested by the Landlord, Rick's or a creditworthy principal of Rick's satisfactory to the Landlord will execute a "good-guy" guaranty similar to that signed by Philip Eisenberg which guaranties the lease payments during the period of actual use and occupancy of the premises by RCI New York;
- (iii) The estoppel certificate to Purchaser from Peregrine shall have been executed and the Landlord shall consent and execute a Non-Disturbance Agreement in a form acceptable to Purchaser; and

(iv) Purchaser, Rick's and Peregrine, as applicable, shall execute and deliver the Promissory Note, Stock Pledge Agreements and Security Agreement securing the Promissory Note and execute and deliver the other documents required thereby. The form of Stock Pledge Agreement and Security Agreement are as annexed hereto as Exhibit 2.3 (i, ii and iii).

ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLER AND PEREGRINE

Seller and Peregrine, jointly and severally, hereby represent and warrant to RCI New York and Rick's as follows:

Section 3.1. Organization, Good Standing and Qualification. Peregrine

(i) is an entity duly organized, validly existing and in good standing under the laws of the New York, (ii) has all requisite power and authority to carry on its business, and (iii) is duly qualified to transact business and is in good standing in all jurisdictions where its ownership, lease or operation of property or the conduct of its business requires such qualification, except where the failure to do so would not have a material adverse effect to Seller or Peregrine, respectively.

At Closing, the authorized capital stock of Peregrine consists of 200 shares of common stock, no par value, of which 100 shares are validly issued and outstanding. There are no shares of preferred stock authorized or issued and there is no other class of capital stock authorized or issued by Peregrine. All of the issued and outstanding shares of common stock of Peregrine are owned by Seller and are fully paid and non-assessable. None of the shares issued are in violation of any preemptive rights. Peregrine has no obligation to repurchase, reacquire, or redeem any of its outstanding capital stock. There are no outstanding securities convertible into or evidencing the right to purchase or subscribe for any shares of capital stock of Peregrine, there are no outstanding or authorized options, warrants, calls, subscriptions, rights, commitments or any other agreements of any character obligating Peregrine 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 Peregrine.

Section 3.2 Subsidiaries. Peregrine has no subsidiaries.

Section 3.3 Ownership of the Shares. Seller owns, beneficially and of record, all of the Shares of Peregrine free and clear of any liens, claims, equities, charges, options, rights of first refusal, or encumbrances. Seller has the unrestricted right and power to transfer, convey and deliver full ownership of the Shares without the consent or agreement of any other person and without any designation, declaration or filing with any governmental authority. Upon the transfer of the Shares to RCI New York as contemplated herein, RCI New York 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 (except those imposed by applicable securities laws).

Section 3.4 Authorization. Seller represents that he is a person of 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. All action on the part of Seller necessary for the authorization, execution, delivery and performance of this Agreement by him has been taken and will be taken prior to Closing. This Agreement, when duly executed and delivered in accordance with its terms, will constitute legal, valid and binding obligations of Seller enforceable against him in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization and other similar laws of general application affecting creditors' rights generally or by general equitable principles.

All corporate action on the part of Peregrine necessary for the authorization, execution, delivery and performance of this Agreement by Peregrine has been taken or will be taken prior to the Closing. As a New York corporation, Peregrine has the requisite corporate power and authority to execute, deliver and perform this Agreement. This Agreement, when duly executed and delivered in accordance with its terms, will constitute a valid and binding obligation of Peregrine, enforceable against Peregrine in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, and other similar laws of general application relating to or affecting creditors' rights and to general equitable principles.

Section 3.5 Seller's Access to Information. Seller hereby confirms and represents that he (a) has received a copy of Rick's Form 10-KSB for the year ended September 30, 2003, as amended, and a copy of Rick's Form 10-QSB for the quarter ended December 31, 2003, March 31, 2004 and June 30, 2004; (b) 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; (c) 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; (d) has had an opportunity to engage and is represented by an attorney of his choice; (e) has had an opportunity to negotiate the terms and conditions of this Agreement; (f) has been given adequate time to evaluate the merits and risks of the transactions contemplated hereby; and (g) has been provided with and given an opportunity to review all current information about Rick's. Seller has asked such questions about Rick's as he desires to ask and all such questions have been answered to the full satisfaction of Seller.

Section 3.6 Acquisition of Stock for Investment. Seller understands that any issuance of Rick's Common Stock upon the conversion of the Promissory Note (as referenced in Section 1.2 herein) will not have been registered under the Securities Act of 1933, as amended (the "Act"), or any state securities acts, and are accordingly, are restricted securities, and Seller represents and warrants to the Purchaser and Rick's that Seller's present intention if Purchaser chooses to convert, is to receive and hold the Rick's Common Stock for investment only and not with a view to the distribution or resale thereof.

Additionally, Seller understands that any sale of any Rick's Common Stock issued, under current law, will require either (a) the registration of the Rick's Common 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. Seller

understands that Rick's intends to file a Registration Statement to register the Rick's Common Stock that may be issued to Seller as contemplated herein within sixty (60) days after the Closing.

To assist in implementing the above provisions, Seller 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 Common Stock acquired hereby until the Rick's Common 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 HAVE BEEN 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."

Section 3.7 No Breaches or Defaults. Except as set forth in Exhibit 3.7, the execution, delivery, and performance of this Agreement by Seller and Peregrine does not: (i) conflict with, violate, or constitute a breach of or a default under, (ii) result in the creation or imposition of any lien, claim, or encumbrance of any kind upon the Shares, or (iii) require any authorization, consent, approval, exemption, or other action by or filing with any third party or Governmental Authority under any provision of: (a) any applicable Legal Requirement, or (b) any credit or loan agreement, promissory note, or any other agreement or instrument to which Seller or Peregrine is a party or by which the Shares may be bound or affected. For purposes of this Agreement, "Governmental Authority" means any foreign governmental authority, the United States of America, any state of the United States, and any political subdivision of any of the foregoing, and any agency, department, commission, board, bureau, court, or similar entity, having jurisdiction over the parties hereto or their respective assets or properties. For purposes of this Agreement, "Legal Requirement" means any law, statute, injunction, decree, order or judgment (or interpretation of any of the foregoing) of, and the terms of any license or permit issued by, any Governmental Authority.

Section 3.8 Consents. Except as set forth in Exhibit 3.8, no permit, consent, approval or authorization of, or designation, declaration or filing with, any Governmental Authority or any other person or entity is required on the part of Seller or Peregrine in connection with the execution and delivery by Seller or Peregrine of this Agreement or the consummation and performance of the transactions contemplated hereby.

Section 3.9 Pending Claims. Except as set forth in Exhibit 3.9, there is no claim, suit, arbitration, investigation, judgment, action or other proceeding, whether judicial, administrative or otherwise, now pending or, to the best of Seller's or Peregrine's knowledge, threatened before any court, arbitration, administrative or regulatory body or any governmental agency which may result in any judgment, order, award, decree, liability or other determination which will or could reasonably be expected to have any effect upon Seller or Peregrine or the transfer by Seller to RCI New York of

the Shares under this Agreement, nor is there any basis known to Seller for any such action. No litigation is pending, or, to Seller's or Peregrine's knowledge, threatened against Seller or Peregrine, or their assets or properties which seeks to restrain or enjoin the execution and delivery of this Agreement or any of the documents referred to herein or the consummation of any of the transactions contemplated thereby or hereby. Neither Seller nor Peregrine is subject to any judicial injunction or mandate or any quasi-judicial or administrative order or restriction directed to or against them or which would affect Peregrine or the Shares to be transferred under this Agreement.

Section 3.10 Taxes. Peregrine has timely and accurately filed all federal, state, foreign and local tax returns and reports required to be filed prior to such dates and have timely paid all taxes shown on such returns as owed for the periods of such returns, including all sales taxes and withholding or other payroll related taxes shown on such returns. Peregrine 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 are not delinquent in the payment of any tax or governmental charge of any nature. No assessments or notices of deficiency or other communications have been received by Peregrine with respect to any tax return which has not been paid, discharged or fully reserved against and no amendments or applications for refund have been filed or are planned with respect to any such return. There are no agreements between Peregrine and any taxing authority, including, without limitation, the Internal Revenue Service, waiving or extending any statute of limitations with respect to any tax return.

Section 3.11 Financial Statements. Seller and Peregrine have delivered to RCI New York the balance sheet of Peregrine as of December 31, 2002 and 2003, together with the related statements of income, changes in shareholder's equity and cash flow for the year then ended, including the related notes, all prepared by its certified public accountants. In addition, Peregrine has delivered to RCI New York the interim unaudited financial statements for Peregrine for the six month period ended June 30, 2004 (the unaudited 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 Peregrine and fairly represent the financial position of Peregrine and the results of operations and changes in financial position of Peregrine 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, Peregrine, 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, Seller and Peregrine represent there have been no adverse changes in the financial condition or other operations, business, properties or assets of Peregrine in excess of \$25,000 from that reflected in the latest financial statements of Peregrine as furnished pursuant to this Agreement.

Section 3.12 Labor Matters. Peregrine is not a party or otherwise subject to any collective bargaining agreement with any labor union or association. There are no discussions, negotiations, demands or proposals that are pending or have been conducted or made with or by any labor union or association, and there are not pending or threatened against Peregrine any labor disputes, strikes or work stoppages. To the best of Seller's and Peregrine's knowledge, Peregrine is in compliance with all federal and state laws respecting employment and employment practices, terms and conditions of employment and wages and hours, and, to its knowledge, is not engaged in any unfair labor practices.

Peregrine is not a party to any written or oral contract, agreement or understanding for the employment of any officer, director or employee of Peregrine.

Section 3.13 Compliance with Laws. Peregrine is, and at all times prior to the date hereof have been, to the best of their knowledge, in compliance with all statutes, orders, rules, ordinances and regulations applicable to it or to the ownership of their assets or the operation of their 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 Peregrine. Seller and Peregrine have no basis to expect, nor have they received, any order or notice of any such violation or claim of violation of any such statute, order, rule, ordinance or regulation by Peregrine. Exhibit 3.13 sets forth all licenses and permits held by Peregrine used in the operation of their businesses. These licenses and permits represent all of the licenses and permits required by Peregrine for the operation of their business.

Section 3.14 Title to Properties; Encumbrances. Peregrine 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 Peregrine, free and clear of all mortgages, claims, liens, security interests, charges, leases, encumbrances and other restrictions of any kind and nature, except (i) as disclosed in the Financial Statements of Peregrine, (ii) statutory liens not yet delinquent, and (iii) 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. At the time of Closing, the assets of Peregrine shall include, but shall not be limited to, those set forth in Exhibit 3.14.

Section 3.15 No Pending Transactions. Except for the transactions contemplated by this Agreement, neither Seller nor Peregrine 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 Peregrine, (ii) the sale of any of the assets of Peregrine except in the ordinary course of business, or (iii) the sale of any outstanding capital stock of Peregrine.

Section 3.16 No Undisclosed Liabilities. To the best of Seller's and Peregrine's knowledge, Peregrine does not have 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 the Peregrine Balance Sheet.

Section 3.17 Contracts and Leases. Except as disclosed in Exhibit 3.17, Peregrine (i) has no leases of personal property relating to the assets of the Company, whether as lessor or lessee; (ii) has no contractual or other obligations relating to the assets of the Company, whether written or oral; and

(iii) has not given any power of attorney to any person or organization for any purpose relating to the assets of the Company. Other than as contemplated by this Agreement, as of the Closing Date, there will not be any lease agreements for the Premises where The Paradise Club is located. Peregrine has furnished Purchaser a copy of each and every contract, lease or other document relating to the assets of the Company to which they are subject or are a party or a beneficiary. To Seller's and Peregrine's knowledge, such contracts, leases or other documents

are valid and in full force and effect according to their terms and constitutes a legal, valid and binding obligation of Peregrine and the other respective parties thereto and are enforceable in accordance with their terms. Seller and Peregrine have no knowledge of any default or breach under such contracts, leases or other documents or of any pending or threatened claims under any such contracts, leases or other documents. Neither the execution of this Agreement, nor the consummation of all or any of the transactions contemplated under this Agreement, will constitute a breach or default under any such contracts, leases or other documents which would have a material adverse effect on the financial condition of Peregrine for the operation of its business after the Closing.

Section 3.18 Material Agreements; Action. Except as listed in Exhibit 3.18 hereto, there are no material contracts, agreements, commitments, understandings or proposed transactions, whether written or oral, to which Seller or Peregrine is a party or by which they are bound that involve or relate to: (i) any of the respective officers, directors, stockholders or partners of Peregrine; (ii) the sale of any of the assets of Peregrine other than in the ordinary course of business; (iii) covenants of Seller and Peregrine 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 Peregrine in any line of business or in any geographical area; (iv) the acquisition by Peregrine of any operating business or the capital stock of any other Person; (v) the borrowing of money; or (vi) the expenditure of more than \$5,000 in the aggregate or the performance by Peregrine extending for a period more than one year from the date hereof, other than in the ordinary course of business.

Section 3.19 No Default. Neither Seller nor Peregrine is in default under any term or condition of any instrument evidencing, creating or securing any indebtedness of Seller or Peregrine, and there has been no default in any material obligation to be performed by Seller or Peregrine under any other contract, lease, agreement, commitment or undertaking to which it is a party or by which it or its assets or properties are bound, nor have Seller or Peregrine waived any material right under any such contract, lease, agreement, commitment or undertaking.

Section 3.20 Books and Records. The books of account, minute books, stock record books and other records of Peregrine, all of which have been made available to RCI New York, are accurate and complete and have been maintained in accordance with sound business practices. Upon Closing, all books and records will be in the possession of Seller or Peregrine.

Section 3.21 Insurance Policies. Copies of all insurance policies maintained by Peregrine relating to the operation of The Paradise Club have been delivered or will be made available to Purchaser. The policies of insurance held by Peregrine are in such amounts, and insure against such losses and risks, as Peregrine and Seller reasonably deem appropriate for its property and business operations. All such insurance policies are in full force and effect, and all premiums due thereon have been paid. Valid policies for such insurance will be outstanding and duly in force at all times prior to the Closing.

Section 3.22 Employee Benefit Plans. Peregrine does not have or contribute to any pension, profit-sharing, option, other incentive plan, or other Employee Benefit Plan (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974), or have any obligation to or customary arrangement with employees for bonuses, incentive compensation, vacations, severance

pay, insurance, or other benefits except as set forth in Schedule 3.22. Schedule 3.22 is a list of each employee and consultant and the compensation paid to each employee and consultant.

Section 3.23 Absence of Certain Changes. Since the date of the **Financial Statements, Peregrine has not:**

- (a) suffered the damage or destruction of any of its properties or assets (whether or not covered by insurance) which is materially adverse to the business or financial condition of Peregrine, taken as a whole, or made any disposition of any of its material properties or assets other than in the ordinary course of business;
- (b) made any change or amendment in each of their respective certificate of incorporation and or formation or Bylaws, or other governing instruments;
- (c) issued or sold any equity securities or other securities, acquired, directly or indirectly, by redemption or otherwise, any such equity securities, reclassified, split-up or otherwise changed any such equity security, or granted or entered into any options, warrants, calls or commitments of any kind with respect thereto;
- (d) paid, discharged or satisfied any material claim, liability or obligation (absolute, accrued, contingent or otherwise), other than in the ordinary course of business except as described on Exhibit 3.23(d);
- (e) prepaid any material obligation having a maturity of more than ninety (90) days from the date such obligation was issued or incurred;
- (f) cancelled any material debts or waived any material claims or rights, except in the ordinary course of business;
- (g) made any capital expenditures or additions to property, plant or equipment or acquired any other property or assets (other than materials and supplies) at a cost in excess of \$5,000 in the aggregate;
- (h) except as described on Exhibit 3.23(h), written off or been required to write off any notes or accounts receivable.

Section 3.23 Disclosure. No representation or warranty of Seller or Peregrine contained in this Agreement (including the exhibits 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 3.24 Brokerage Commission. To the extent a brokerage commission is due in connection with this Agreement or the transactions contemplated hereby, Seller assumes the obligation of paying the total brokerage commission.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF RCI NEW YORK AND RICK'S

RCI New York and Rick's hereby represents and warrants to Seller and Peregrine as follows:

Section 4.1 Authorization. RCI New York is a corporation duly organized in the state of New York and has full power, capacity, and authority to enter into this Agreement and perform the

obligations contemplated hereby. All action on the part of RCI New York necessary for the authorization, execution, delivery and performance of this Agreement by it has been taken and will be taken prior to Closing. This Agreement, when duly executed and delivered in accordance with its terms, will constitute legal, valid, and binding obligations of RCI New York enforceable against RCI New York in accordance with its terms, except as may be limited by bankruptcy, insolvency, and other similar laws affecting creditors' rights generally or by general equitable principles.

Rick's is a corporation duly organized in the state of Texas and has full power, capacity, and authority to enter into this Agreement and perform the obligations contemplated hereby. All action on the part of Rick's necessary for the authorization, execution, delivery and performance of this Agreement by it has been taken and will be taken prior to Closing. This Agreement, when duly executed and delivered in accordance with its terms, will constitute legal, valid, and binding obligations of Rick's enforceable against Rick's in accordance with its terms, except as may be limited by bankruptcy, insolvency, and other similar laws affecting creditors' rights generally or by general equitable principles.

Section 4.2 Valid Issuance. The Rick's Common Stock which may be issued to the Seller pursuant to the terms of the Promissory Note referred to in

Section 1.2 above, when issued in accordance with the provisions of the Promissory Note and this Agreement, will be validly issued, fully paid and non-assessable, and entitled to all of the benefits and rights stated in Rick's Articles of Incorporation and other charter documents.

Section 4.3 Restricted Stock. The shares of Rick's Common Stock to be issued to the Seller pursuant to the terms of the Promissory Note referred to in

Section 1.2 above are restricted securities and may only be sold, under current law, either by (a) the registration of the Rick's Common 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. Rick's will use its best efforts to maintain current information by complying with its reporting requirements under The Securities Act of 1934, as amended. Rick's will undertake to file a Registration Statement with the Securities and Exchange Commission to register the Rick's Common Stock within 60 days following Closing.

Section 4.4 No Breaches or Defaults. Except as set forth in Exhibit 4.4, the execution, delivery, and performance of this Agreement by RCI New York and Rick's does not: (i) conflict with, violate, or constitute a breach of or a default under or (ii) require any authorization, consent, approval, exemption, or other action by or filing with any third party or Governmental Authority under any provision of: (a) any applicable Legal Requirement, or (b) any credit or loan agreement, promissory note, or any other agreement or instrument to which RCI New York or Rick's is a party.

Section 4.5 Consents. Except as set forth in Exhibit 4.5, no permit, consent, approval or authorization of, or designation, declaration or filing with, any Governmental Authority or any other person or entity is required on the part of RCI New York or Rick's in connection with the execution and delivery by RCI New York and Rick's of this Agreement or the consummation and performance of the transactions contemplated hereby other than as required under the federal securities laws.

Section 4.6 Disclosure. No representation or warranty of RCI New York or Rick's contained in this Agreement (including the exhibits 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.

ARTICLE V CONDITIONS TO CLOSING OF SELLER AND PEREGRINE

Each obligation of Seller and Peregrine to be performed on the Closing Date shall be subject to the satisfaction of each of the conditions stated in this Article V, except to the extent that such satisfaction is waived by Seller and Peregrine in writing.

Section 5.1 Representations and Warranties Correct. The representations and warranties made by RCI New York and Rick's contained in this Agreement shall be true and correct as of the Closing Date.

Section 5.2 Covenants. All covenants, agreements and conditions contained in this Agreement to be performed by RCI New York and Rick's on or prior to the Closing Date shall have been performed or complied with in all respects.

Section 5.3 Delivery of Certificate. RCI New York and Rick's shall provide to Seller and Peregrine Certificates, dated the Closing Date and signed by the President of RCI New York and the President of Rick's, respectively, to the effect set forth in Section 5.1 and 5.2 for the purpose of verifying the accuracy of such representations and warranties and the performance and satisfaction of such covenants and conditions.

Section 5.4 Consents. All necessary consents and approvals of governmental bodies, lenders, lessors and other third parties shall have been obtained.

Section 5.5 Payment of Purchase Price. RCI New York shall have tendered the Purchase Price for the Shares as referenced in Section 1.2 to Seller concurrently with the Closing.

Section 5.5 Related Transactions. The Related Transactions as set forth

in Section 2.3 shall be consummated concurrently with the Closing.

Section 5.7 Corporate Resolutions. RCI New York and Rick's shall provide

corporate resolutions of the Board of Directors of RCI New York and Rick's, respectively, which approve the transactions contemplated herein and authorize the execution, delivery and performance of this Agreement and the documents referred to herein to which it is or is to be a party dated as of the Closing Date.

Section 5.8 Absence of Proceedings. No action, suit or proceeding by or before any court or any governmental or regulatory authority shall have been commenced and no investigation by any governmental or regulatory authority shall have been commenced seeking to restrain, prevent or

challenge the transactions contemplated hereby or seeking judgments against RCI New York or Rick's.

**ARTICLE VI
CONDITIONS TO CLOSING OF
RCI NEW YORK AND RICK'S**

Each obligation of RCI New York and Rick's to be performed on the Closing Date shall be subject to the satisfaction of each of the conditions stated in this Article VI, except to the extent that such satisfaction is waived by RCI New York and Rick's in writing.

Section 6.1 Representations and Warranties Correct. The representations and warranties made by Seller and Peregrine hereof shall be true and correct as of the Closing Date.

Section 6.2 Covenants. All covenants, agreements and conditions contained in this Agreement to be performed by Seller and Peregrine on or prior to the Closing Date shall have been performed or complied with in all respects.

Section 6.3 Delivery of Certificate. Seller and Peregrine shall provide to RCI New York and Rick's Certificates, dated the Closing Date and signed by Seller and by the President of Peregrine, respectively, to the effect set forth in Section 6.1 and 6.2 for the purpose of verifying the accuracy of such representations and warranties and the performance and satisfaction of such covenants and conditions.

Section 6.4 Delivery of Shares. Seller shall have delivered certificates evidencing the Shares of Peregrine, duly endorsed to RCI New York or accompanied by duly executed stock powers in form and substance satisfactory to RCI New York and Rick's.

Section 6.5 Corporate Resolutions. Peregrine shall provide to RCI New York and Rick's a corporate resolution of the Board of Directors of Peregrine, which approves the transactions contemplated herein and authorizes the execution, delivery and performance of this Agreement and the documents referred to herein to which it is or is to be a party dated as of the Closing Date.

Section 6.6 Consents; Transfer of Licenses and Leases. All necessary consents and approvals of governmental bodies, lenders, lessors and other third parties, and any transfer of licenses and leases required for the continued operation of the business of The Paradise Club, including, but not limited to:

- (a) the Cabaret License issued by the New York City Department of Consumer Affairs, shall be in full force and effect; and
- (b) Seller shall have obtained the written consent of the landlord for the transfer of the Shares to the Purchaser at the time of Closing and the continuation of the existing lease with the Purchaser as the owner of the Shares.
- (c) A representative of Purchaser shall have been added to the permanent Liquor License duly issued and approved by the NYS Liquor

Authority, which will allow for the sale of liquor by the Purchaser on the Premises.

(d) Purchaser shall have obtained all necessary permits and other

authorizations which may be needed to conduct topless
entertainment on the Premises, which will serve liquor.

Section 6.7 Related Transactions. The Related Transactions as set forth

in Section 2.3 shall be consummated concurrently with the Closing.

Section 6.8 Resignation. The Officers and Directors of Peregrine shall

have provided to RCI New York their written resignations.

Section 6.9 Ability to Audit. The Purchaser and Rick's shall be satisfied that the Seller's financial statements can be audited in compliance with Regulation S-B promulgated under the Securities Act of 1933, as amended.

Section 6.10 Absence of Proceedings. No action, suit or proceeding by or before any court or any governmental or regulatory authority shall have been commenced and no investigation by any governmental or regulatory authority shall have been commenced seeking to restrain, prevent or challenge the transactions contemplated hereby or seeking judgments against Peregrine or any of its assets.

ARTICLE VII COVENANTS OF SELLER AND PURCHASER

Section 7.1 Covenants of Seller

a. Stand Still. To induce RCI New York and Rick's to proceed with this Agreement, Seller and Peregrine agree that until the Closing Date or the termination of this Agreement, neither Seller nor any representative of Peregrine will offer to sell or solicit any offer to purchase or engage in any discussions or activities of any nature whatsoever, directly or indirectly, involving in any manner the actual or potential sale, transfer, encumbrance, pledge, collateralization or hypothecation of any assets of Peregrine. Seller and Peregrine hereby agree to advise RCI New York and Rick's of any contact from any third party regarding the acquisition or other investment in Peregrine or of any contact which would relate to the transactions contemplated by this Agreement.

b. Access; Due Diligence. Between the date of this Agreement and the Closing Date, Seller and Peregrine shall (a) provide RCI New York, Rick's and their authorized representatives reasonable access to all plants, offices, warehouse and other facilities and properties of Peregrine and to the books and records of Peregrine; (b) permit RCI New York and Rick's to make inspections thereof; and (c) cause the officers and advisors of Peregrine to furnish RCI New York and Rick's with such financial and operating data and other information with respect to the business and properties of Peregrine and to discuss with RCI New York, Rick's and their authorized representatives the affairs of Peregrine as RCI New York and Rick's may from time to time reasonably request.

- c. Conduct of Business. From the date of the execution hereof until the Closing Date, Seller and Peregrine shall operate the business of Peregrine in the ordinary course consistent with past practices, and:
- (i) the Company will not authorize, declare, pay or effect any dividend except as is consistent with past practices of the Company or liquidation or other distribution in respect of the stock of the Company or other equity interest or any direct or indirect redemption, purchase or other acquisition of any equity interest of the Company;
 - (ii) the Company will not make any changes in its condition (financial or otherwise), liabilities, assets, or business or in any of its business relationships, including relationships with suppliers or customers, that, when considered individually or in the aggregate, might reasonably be expected to have a material adverse effect on the Company;
 - (iii) the Company will not increase the salary or other compensation payable or to become payable by the Company to any employee, or the declaration, payment, or commitment or obligation of any kind for the payment by the Company of a bonus or other additional salary or compensation to any such person except in the normal course of business, consistent with past practices of the Company;
 - (iv) the Company will not sell, lease, transfer or assign any of their assets, tangible or intangible, other than for a fair consideration in the ordinary course of business;
 - (v) the Company will not accelerate, terminate, modify or cancel any agreement, contract, lease or license (or series of related agreements, contracts, leases and licenses) involving more than \$5,000 to which the Company is a party;
 - (vi) the Company will not make any loans to any person or entity, or guarantee any loan;
 - (vii) the Company will not waive or release any right or claim held by the Company;
 - (viii) the Company will operate its business in the ordinary course and consistent with past practices so as to preserve its business organization intact, to retain the services of its employees and to preserve its goodwill and relationships with suppliers, creditors, customers, and others having business relationships with it;
 - (ix) the Company will not issue any note, bond or other debt security or create, incur or assume, or guarantee any indebtedness for borrowed money or capitalized lease obligations;
 - (x) the Company will not delay or postpone the payment of accounts payable and other liabilities outside the ordinary course of business;
 - (xi) the Company will not make any loan to, or enter into any other transaction with, any of its directors, officers, and employees, outside the ordinary course of business;

- (xii) the Company will not make any change in any method, practice, or principle of accounting involving the business or assets of Peregrine;
- (xiii) the Company will not issue, sell or otherwise dispose of any of its equity securities, or create, sell or dispose of any options, rights, conversion rights or other agreements or commitments of any kind relating to the issuance, sale or disposition of any of its equity securities;
- (xiv) the Company will not reclassify, split up or otherwise change any of its equity securities;
- (xv) the Company will not be a party to any merger, consolidation or other business combination; and
- (xvi) the Company will not agree to take any action described in this Section 7.1(c).

Section 7.2 Covenants of Purchaser. Purchaser hereby agrees to use its best efforts until the Closing Date to obtain a permanent state liquor license duly issued and approved by the NYS Liquor Authority, which will allow for the sale of liquor by the Purchaser on the Premises and as soon as reasonably possible thereafter Purchaser shall arrange for a representative of Purchaser to be added to the aforesaid liquor license.

ARTICLE VIII INDEMNIFICATION

Section 8.1 Indemnification from Seller and Peregrine. Seller and Peregrine, jointly and severally, hereby agree to and shall indemnify, defend (with legal counsel reasonably acceptable to RCI New York and Rick's), and hold RCI New York, Rick's, their officers, directors, employees, affiliates, assigns, agents and legal counsel (collectively, the "RCI New York Group") harmless at all times after the date of this Agreement, from and against any and all actions, suits, claims, demands, debts, liabilities, obligations, losses, damages, costs, expenses, penalties or injury (including reasonable attorneys fees and costs of any suit related thereto) suffered or incurred by any of the RCI New York Group arising from: (a) any material misrepresentation by, or material breach of any covenant or warranty of Seller or Peregrine contained in this Agreement, or any exhibit, certificate, or other instrument furnished or to be furnished by Seller or Peregrine hereunder; (b) any nonfulfillment of any material agreement on the part of Seller or Peregrine under this Agreement; (c) from any material misrepresentation in or material omission from, any certificate or other instrument furnished or to be furnished to RCI New York hereunder and/or any agreement related to or entered into in connection with the transactions contemplated hereby; or (d) any suit, action, proceeding, claim or investigation against RCI New York which arises from or which is based upon or pertaining to Seller's or Peregrine's conduct or the operation or liabilities of the business of Peregrine prior to the Closing Date.

If any action is brought against RCI New York or Rick's (the "Indemnified Party") in respect of which indemnity may be sought against Seller or Peregrine pursuant to the foregoing paragraph,

the Indemnified Party shall promptly notify Seller and Peregrine in writing of the institution of such action (but the omission to so notify Seller or Peregrine shall not relieve it from any liability that it may have to such Indemnified Party except to the extent Seller and Peregrine are materially prejudiced or otherwise forfeits substantive rights or defenses by reason of such failure), and Seller and Peregrine shall assume the defense of such action, including the employment of counsel to be chosen by Seller to be reasonably satisfactory to the Indemnified Party, and payment of expenses. The Indemnified Party shall have the right to employ the counsel chosen by Seller 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 Seller in connection with the defense of such action, or Seller shall not have employed counsel to take charge of the defense of such action, or counsel employed by Seller shall not be diligently defending such action, or the Indemnified Party shall have reasonably concluded that there may be defenses available to it which are different from or additional to those available to Seller, or that representation of such Indemnified Party and Seller and Peregrine 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 Seller shall not have the right to direct the defense of such action on behalf of the Indemnified Party), in any of which event such fees and expenses shall be borne by Seller. Anything in this paragraph to the contrary notwithstanding, Seller shall not be liable for any settlement of, or any expenses incurred with respect to, any such claim or action effected without Seller's written consent, which consent shall not be unreasonably withheld. Neither Seller nor Peregrine shall, without the prior written consent of the Indemnified Party, effect any settlement of any proceeding in respect of which the Indemnified Party is a party and indemnity has been sought hereunder unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such proceeding.

Section 8.2 Indemnification from RCI New York and Rick's. RCI New York and Rick's agree to and shall indemnify, defend (with legal counsel reasonably acceptable to Seller) and hold Seller, Peregrine, its officers, directors, employees, agents, affiliates, legal counsel, successors and assigns (collectively, the "Seller's Group") harmless at all times after the date of the Agreement from and against any and all actions, suits, claims, demands, debts, liabilities, obligations, losses, damages, costs, expenses, penalties or injury (including reasonably attorneys fees and costs of any suit related thereto) suffered or incurred by any of the Seller's Group, arising from (a) any material misrepresentation by, or material breach of any covenant or warranty of RCI New York or Rick's contained in this Agreement or any exhibit, certificate, or other agreement or instrument furnished or to be furnished by RCI New York or Rick's hereunder; (b) any nonfulfillment of any material agreement on the part of RCI New York or Rick's under this Agreement; or (c) from any material misrepresentation in or material omission from, any exhibit, certificate or other agreement or instrument furnished or to be furnished to Seller hereunder and/or any agreement related to or entered into in connection with the transactions contemplated hereby.

Section 8.3 Defense of Claims. If any lawsuit or enforcement action is filed against any party entitled to the benefit of indemnity hereunder, written notice thereof shall be given to the indemnifying party as promptly as practicable (and in any event not less than fifteen (15) days prior to any hearing date or other date by which action must be taken); provided that the failure of any indemnified party to give timely notice shall not affect rights to indemnification hereunder except to the extent that the indemnifying party demonstrates actual damage caused by such failure. After

such notice, the indemnifying party shall be entitled, if it so elects, to take control of the defense and investigation of such lawsuit or action and to employ and engage attorneys of its own choice to handle and defend the same, at the indemnifying party's cost, risk and expense; and such indemnified party shall cooperate in all reasonable respects, at its cost, risk and expense, with the indemnifying party and such attorneys in the investigation, trial and defense of such lawsuit or action and any appeal arising therefrom; provided, however, that the indemnified party may, at its own cost, participate in such investigation, trial and defense of such lawsuit or action and any appeal arising therefrom. The indemnifying party shall not, without the prior written consent of the indemnified party, effect any settlement of any proceeding in respect of which any indemnified party is a party and indemnity has been sought hereunder unless such settlement of a claim, investigation, suit, or other proceeding only involves a remedy for the payment of money by the indemnifying party and includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

Section 8.4 Default of Indemnification Obligation. If an entity or individual having an indemnification, defense and hold harmless obligation, as above provided, shall fail to assume such obligation, then the party or entities or both, as the case may be, to whom such indemnification, defense and hold harmless obligation is due shall have the right, but not the obligation, to assume and maintain such defense (including reasonable counsel fees and costs of any suit related thereto) and to make any settlement or pay any judgment or verdict as the individual or entities deem necessary or appropriate in such individual's or entities' absolute sole discretion and to charge the cost of any such settlement, payment, expense and costs, including reasonable attorneys fees, to the entity or individual that had the obligation to provide such indemnification, defense and hold harmless obligation and same shall constitute an additional obligation of the entity or of the individual or both, as the case may be.

Section 8.5 Right to Offset. In the event that the RCI New York Group is entitled to indemnification in accordance with Section 8.1 hereof, then Purchaser shall have the right to offset any such amount in excess of \$50,000 from any obligations that are then due and payable to the Seller or the Company.

Section 8.6 Termination. Indemnification obligations of Peregrine, Seller, RCI New York and Rick's terminate eighteen (18) months after the date of Closing.

ARTICLE IX TERMINATION

This Agreement shall terminate upon the occurrence of any of the following events:

- (i) the transactions contemplated by this Agreement are not consummated on or before the Closing Date (as defined in Section 2.1 (unless extended by all of the parties hereto in writing)). In the event of termination as a result of this Section 9.1, then the funds held by the Escrow Agent will be disbursed in accordance with Section 1.3;
- (ii) all of the parties mutually agree in writing to terminate this Agreement;

(iii) if the NYS liquor authority for the state of New York denies the addition of a representative of Purchaser to the existing Liquor License to sell alcohol on the Premises by December 1, 2004 then the Purchaser or Peregrine will have the right at any time by written notice to the other party to terminate this Agreement and the Purchaser shall be refunded \$650,000 then held in Escrow and Peregrine will receive \$150,000 then held in Escrow; or

(iv) any state or federal agency having jurisdiction over approval of this transaction shall disapprove of any part of the proposed transaction.

ARTICLE X MISCELLANEOUS

Section 10.1 Amendment; Waiver. Neither this Agreement nor any provision hereof may be amended, modified or supplemented unless in writing, executed by all the parties hereto. Except as otherwise expressly provided herein, no waiver with respect to this Agreement shall be enforceable unless in writing and signed by the party against whom enforcement is sought. Except as otherwise expressly provided herein, no failure to exercise, delay in exercising, or single or partial exercise of any right, power or remedy by any party, and no course of dealing between or among any of the parties, shall constitute a waiver of, or shall preclude any other or further exercise of, any right, power or remedy.

Section 10.2 Notices. Any notices or other communications required or permitted hereunder shall be sufficiently given if in writing and delivered in Person, transmitted by facsimile transmission (fax) or sent by registered or certified mail (return receipt requested) or recognized overnight delivery service, postage pre-paid, addressed as follows, or to such other address as such party may notify to the other parties in writing:

(a) if to the Seller or Peregrine: Philip Eisenberg 38 Evergreen Pl.

Demarest, New Jersey 07627

with a copy to:
Jaffe and Asher
600 Third Avenue
New York, New York 10016

(b) if to RCI New York or Rick's:

Eric Langan
10959 Cutten Road
Houston, Texas 77066

with a copy to:

Robert D. Axelrod
Axelrod, Smith & Kirshbaum
5300 Memorial Drive, Suite 700
Houston, Texas 77007

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.

Section 10.3 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

Section 10.4 Assignment; Successors and Assigns. Except as otherwise provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors and permitted assigns of the parties hereto. No party hereto may assign its rights or delegate its obligations under this Agreement without the prior written consent of the other parties hereto, which consent will not be unreasonably withheld.

Section 10.5 Survival of Representations, Warranties and Covenants. All representations and warranties made in, pursuant to or in connection with this Agreement shall survive the execution and delivery of this Agreement for the maximum period allowed by law.

Section 10.6 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 10.7 Entire Agreement. This Agreement and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subject matter hereof and thereof and supersede and cancel all prior representations, alleged warranties, statements, negotiations, undertakings, letters, acceptances, understandings, contracts and communications, whether verbal or written among the parties hereto and thereto or their respective agents with respect to or in connection with the subject matter hereof.

Section 10.8 Choice of Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to principles of conflict of laws.

Section 10.9 Counterparts and Facsimiles. This Agreement may be executed in multiple counterparts and in any number of counterparts, each of which shall be deemed an original, but all of which taken together shall constitute and be deemed to be one and the same instrument and each of which shall be considered and deemed an original for all purposes. This Agreement shall be effective with the facsimile signature of any of the parties set forth below and the facsimile signature shall be deemed as an original signature for all purposes and the Agreement shall be deemed as an original for all purposes.

Section 10.10 Costs and Expenses. Each party shall pay their own respective fees, costs and disbursements incurred in connection with this Agreement.

Section 10.11 Section Headings. The section and subsection headings in this Agreement are used solely for convenience of reference, do not constitute a part of this Agreement, and shall not affect its interpretation.

Section 10.12 No Third-Party Beneficiaries. Nothing in this Agreement will confer any third party beneficiary or other rights upon any person (specifically including any employees of Peregrine) or any entity that is not a party to this Agreement.

Section 10.13 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 10.14 Further Assurances. Each party covenants that at any time, and from time to time, after the Closing Date, it will execute such additional instruments and take such actions as may be reasonably be requested by the other parties to confirm or perfect or otherwise to carry out the intent and purposes of this Agreement.

Section 10.15 Exhibits Not Attached. Any exhibits not attached hereto on the date of execution of this Agreement shall be deemed to be and shall become a part of this Agreement as if executed on the date hereof upon each of the parties initialing and dating each such exhibit, upon their respective acceptance of its terms, conditions and/or form.

IN WITNESS WHEREOF, the undersigned have executed this Stock Purchase Agreement to become effective as of the date first set forth above.

RCI ENTERTAINMENT (NEW YORK). INC.

/s/ Eric Langan

By: Eric Langan, President

RICK'S CABARET INTERNATIONAL, INC.

/s/ Eric Langan

By: Eric Langan, President

PEREGRINE ENTERPRISES, INC.

/s/ Phillip Eisenberg

By: Philip Eisenberg, President

/s/ Phillip Eisenberg

Philip Eisenberg, Individually

EXHIBITS

Stock Purchase Agreement - Page 23

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

**SECURED CONVERTIBLE NOTE
OF
RCI ENTERTAINMENT (NEW YORK), INC.**

January 18, 2005

FOR VALUE RECEIVED, RCI ENTERTAINMENT (NEW YORK), INC., a New York corporation (the "Company" or "Debtor"), which is a wholly owned subsidiary of RICK'S CABARET INTERNATIONAL, INC., a Texas corporation ("Rick's"), unconditionally promises to pay to Philip Eisenberg whose address is 38 Evergreen Place, Demarest, New Jersey, 07627, or the registered assignee (the "Registered Holder" or "Holder") at the office of the Company, the principal amount of \$5,125,000 (the "Principal Amount"), together with the accrued and unpaid interest thereon and other sums as hereinafter provided, subject to the terms and conditions as set forth below.

1. SCHEDULE FOR PAYMENT OF PRINCIPAL AND INTEREST. The Principal Amount outstanding under this Secured Convertible Note (the "Note") shall accrue interest at the rate of 4% per annum and shall be payable in sixty-one (61) monthly installments of principal and interest, commencing June 18, 2005 (151 days after the Closing of the sale of all of the capital stock of Peregrine Enterprises, Inc. to the Company (the "Closing")) and continuing on the 18th day of each month thereafter as follows:

The initial twenty-four (24) monthly installments shall be in an amount of \$58,333.33; for months twenty-five (25) through forty-eight (48) the monthly installments shall be in an amount of \$63,333.33; for months forty-nine (49) through sixty (60) the monthly installments shall be in an amount of \$68,333.33; and a lump sum payment of the remaining balance shall be paid on or before June 18, 2010 (the 61st month), such date hereafter sometimes referred to as the "Maturity Date".

All payments shall be credited first to accrued interest and thereafter to principal on the Note. Accrual of interest on the outstanding Principal Amount, payable in cash, shall commence on the

Closing and shall continue until payment in full of the outstanding Principal Amount has been made hereunder.

2. **PAYMENT.** Payment of any sums due to the Holder under the terms of this Note shall be made in United States Dollars by check or wire transfer at the option of the Company. Payment shall be made at the address last appearing on the records of the Company for this Note (the "Note Register") as designated in writing by the Holder hereof from time to time. If any payment hereunder would otherwise become due and payable on a day on which commercial banks in New York, New York, are permitted or required to be closed, such payment shall become due and payable on the next succeeding day on which commercial banks in New York, New York, are not permitted or required to be closed ("Business Day"). The receipt of such funds by wire into Holder's account, or the receipt of a good check by Holder shall constitute a payment of outstanding principal and interest hereunder and shall satisfy and discharge the liability for principal and interest on this Note to the extent of the sum represented by such payment. This Note may be prepaid, in whole or in part at any time in accordance with Section 3 hereof.

3. **DEBTOR'S OPTION TO REDEEM NOTE.** This Note will be subject to redemption at the option of the Company, in whole or in part, at a price equal to 100% of the principal amount of that portion of the Note which is then being redeemed (the "Redemption Price"). Notice of redemption shall be sent, as provided for in Section 21 hereof (the "Notice of Redemption"), not less than 20 days before the Redemption Date (as defined below). The Notice of Redemption shall be sent to the Registered Holder at such Registered Holder's last address as such address shall appear on the Company's Note Register. The Notice of Redemption when given in the manner herein provided in Section 21, shall be conclusively presumed to have been duly given, whether or not the Registered Holder received the Notice of Redemption. The Notice of Redemption shall state the portion of the Principal Amount thereof to be redeemed, the date fixed for redemption ("Redemption Date") and the Redemption Price at which the Note is to be redeemed. Upon the Redemption Date, the Company shall pay to the Registered Holder by Company check or wire transfer, at the option of the Company, the Redemption Price for the Note called for redemption. A new note in the principal amount equal to the unredeemed portion thereof, if any, also will be issued in the name of the Registered Holder upon cancellation of the original Note. After the Redemption Date, unless the Company shall default in the payment of the Redemption Price, interest will cease to accrue on the Note or portions thereof called for redemption and the Note or the portion thereof will be deemed to have been redeemed. The Registered Holder shall have the right, but not the obligation, to convert that portion of the Note to purchase shares of common stock of Rick's pursuant to the conversion rights set forth in Section 4 hereof not later than the close of business on the business day prior to the Redemption Date, unless the Company subsequently fails to pay the applicable Redemption Price. Partial redemption of this Note will not reduce the amount, or postpone the due date of, any monthly payment due hereunder.

4. **CONVERSION RIGHTS.**

(a) The Holder will have the right, at the Holder's option, to convert up to \$2,000,000 of the Principal Amount of this Note into shares of common stock, par value \$.01 per share of

Rick's ("Rick's Common Stock") at any time prior to Maturity (unless earlier redeemed or otherwise paid) at the Conversion Prices as set forth below in

Section 4(b) (subject to adjustment as described herein). The right of the Holder to convert the Note, if called for redemption, will terminate at the close of business on the business day prior to the Redemption Date for the Note, unless the Company subsequently fails to pay the applicable Redemption Price.

The Holder of this Note shall be entitled to convert up to \$2,000,000 of the Principal Amount of this Note into shares of Rick's Common Stock by (i) giving written notice to Rick's that such Holder elects to convert into Rick's Common Stock, (ii) stating in such written notice the denominations in which such Holder wishes the certificate or certificates for Rick's Common Stock to be issued and (iii) surrendering this Note to the Company (compliance in full with Sections 4(a)(i),(ii) and (iii) shall collectively be the "Conversion Date"). This Note or the portion thereof, shall be deemed to have been converted immediately prior to the close of business on the Conversion Date. Rick's will, as soon as practicable thereafter, cause to be issued and delivered to the Holder certificates for the number of full shares of Rick's Common Stock to which the Holder shall be entitled and, if necessary, a new Note representing any unconverted portion of this Note. Rick's shall not issue fractional shares of Rick's Common Stock upon conversion, but the number of shares of Rick's Common Stock to be received by the 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 by company check.

(b) The Conversion Prices of the Rick's Common Stock into which this Note is convertible (subject to adjustment as described herein) shall be as follows:

- (1) \$200,000 of the Principal Amount shall be convertible at \$4.00 per share;
- (2) \$225,000 of the Principal Amount shall be convertible at \$4.50 per share;
- (3) \$250,000 of the Principal Amount shall be convertible at \$5.00 per share;
- (4) \$275,000 of the Principal Amount shall be convertible at \$5.50 per share;
- (5) \$300,000 of the Principal Amount shall be convertible at \$6.00 per share;
- (6) \$325,000 of the Principal Amount shall be convertible at \$6.50 per share;
- (7) \$350,000 of the Principal Amount shall be convertible at \$7.00

per share;

(8) \$75,000 of the Principal Amount shall be convertible at \$7.50 per share.

(c) In case of any reclassification, consolidation or merger of Rick's with or into another entity or any merger of another entity with or into Rick's, or in the case of any sale, transfer or conveyance of all or substantially all of the assets of Rick's (computed on a consolidated basis), the Note 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 the Note was convertible immediately prior thereto, after giving effect to any adjustment event.

(d) The Conversion Price will be adjusted as follows:

(i) If the number of shares of Rick's Common Stock outstanding at any time after the date hereof is increased by a subdivision or split of Rick's Common Stock, or by

the declaration of a dividend on the Rick's Common Stock, which dividend is wholly or partially in the form of additional shares of Rick's Common Stock or any other securities of Rick's, then immediately after the effective date of such subdivision or split-up, or the record date with respect to such dividend, as the case may be, the Conversion Price shall be appropriately reduced so that the holder of this Note thereafter exchanged shall be entitled to receive the percentage of shares of Rick's Common Stock which such holder would have owned immediately following such action had this Note been exchanged immediately prior thereto;

(ii) If the number of Rick's Common Stock outstanding at any time after the date hereof is decreased by a combination of the outstanding Rick's Common Stock or reverse split, then, immediately after the effective date of such combination, the Conversion Price shall be appropriately increased so that the holder of this Note thereafter exchanged shall be entitled to receive the percentage of shares of Rick's Common Stock which such holder would have owned immediately following such action had this Note been exchanged immediately prior thereto;

(e) Rick's shall at all times reserve for issuance and maintain available, out of its authorized but unissued Rick's Common Stock, solely for the purpose of effecting the conversion of the Note, the full number of shares of Rick's Common Stock deliverable upon the conversion of the Note 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 Rick's Common Stock if at any time the authorized number of shares of Rick's Common Stock remaining unissued shall not be sufficient to permit the conversion of the Note.

(f) Any shares of Rick's Common Stock to be issued to the Holder pursuant to the terms of this Note are restricted securities and may only be sold, under current law, either by (a) the registration of the Rick's Common 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. Rick's will use its best efforts to maintain current information by complying with its reporting requirements under the Securities Act of 1934, as amended.

5. COLLATERAL.

(a) Grant of Security Interest. As security for the prompt performance, observance and payment in full of the entire indebtedness evidenced by this Note, including the Principal Amount, interest thereon, fees and other charges, undertakings, covenants and duties owing or to be performed or observed by the Company to the Holder, of every kind and description, whether joint or several, direct or indirect, absolute or contingent, due or to become due, now existing or hereinafter arising (collectively, the "Obligations"), the Company (and Rick's, with respect to the grant of a security interest in the shares of the Company) hereby grant to the Holder a security interest and lien for the Note on:

(i) the outstanding shares of capital stock of Peregrine Enterprise, Inc. ("Peregrine"); (ii) the outstanding shares of capital stock of the Company; and

(iii) all of the assets of both the Company and/or Peregrine (including the assets of The Paradise Club or any successor business operating at 50 West 33rd Street or such other location to which such business shall be relocated, whether now owned or hereinafter acquired, including: chattel paper, inventory, equipment, instruments, including promissory notes owed to Debtor, accounts receivable, investment property, documents, furniture, fixtures and general intangibles including, but not limited to, goodwill, tradenames and licenses of either the Company or Peregrine, and payment intangibles, supporting obligations and to the extent not listed above, the proceeds and products of the foregoing and (iv) the lease and tenancy rights of Peregrine for the premises located at 50 West 33rd Street, New York, New York (collectively the "Collateral").

(b) Obligations Secured. The Company will simultaneously herewith execute a Security Agreement in favor of Philip Eisenberg creating a valid and continuing security interest in the Collateral in favor of the Holder and securing the payment and performance of all of the Obligations under this Note, however evidenced, whether now existing or hereafter arising, direct or indirect, absolute or contingent, including all costs and reasonable attorneys' fees incurred by the Holder in enforcing this Note and/or collecting or attempting to collect on this Note.

6. 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 monthly installment payment on this Note 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 this Note when and as the same become due and payable as set forth above, at Maturity, by acceleration or otherwise; (iii) the failure of the Company to perform any conversion required under this Note and the continuance of any such failure for 30 days; (iv) the failure by the Company to observe or perform any other covenant or agreement contained in this Note and the continuance of such failure for a period of 30 days after the written notice is given to the Company; (v) any event of default under the Security Agreements or under the Stock Pledge Agreements delivered to Holder at the Closing or Stock Purchase Agreement between Peregrine, Philip Eisenberg, individually, the Company and Rick's executed of even date herewith (vi) 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; (vii) 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 \$50,000; (viii) the existence of a tax lien exceeding \$25,000 which is not cured, satisfied, bonded or contested in good faith; and (ix) final unsatisfied

judgments not covered by insurance aggregating in excess of \$50,000, at any one time rendered against the Company and not stayed, bonded or discharged within 75 days.

7. HOLDER'S RIGHTS AND REMEDIES UPON THE OCCURRENCE OF AN EVENT OF

DEFAULT. Following the occurrence and during the continuance of an Event of **Default:**

- a. Remedies. The Holder may declare any and all of the Obligations to be immediately due and payable; and, in addition to that right, and in addition to exercising all other rights or remedies, the Holder may proceed to exercise with respect to the Collateral all rights, options and remedies of a secured party upon default as provided for under the Uniform Commercial Code ("UCC").
- b. Exercise of Remedies. The Holder may, by notice to the Company, accelerate the payment of all Obligations (provided that no such notice shall be required if the Event of Default is under Section 6(v); the Holder may proceed to enforce payment of any of the Obligations and shall have and may exercise any and all rights under the UCC or which are afforded to the Holder herein or otherwise; and all Obligations shall bear interest payable on demand at the rate per annum four percent (4%) in excess of the applicable rate of interest provided in Section 1 (the "Default Rate"). Notwithstanding the foregoing, at any time after such a declaration of acceleration has been made and before a judgment and/or decree for payment of the money due has been obtained, the Holder may rescind and annul such declaration and its consequences if all existing Events of Default, have been cured or waived. No such rescission or annulment shall affect any subsequent default or impair any right consequent thereon.
- c. Disposition of Collateral. The Holder may sell, lease or otherwise dispose of and deliver any or all Collateral at public or private sale, for cash, upon credit or otherwise, at such prices and upon such terms as the Holder deems advisable in its sole discretion. Any requirements of reasonable notice shall be met if such notice is mailed postage prepaid to the Company at its address set forth herein at least ten (10) business days before the time of sale or other disposition. The Holder may be the purchaser at any such sale, if it is public, and in such event the Holder shall have all rights of a good faith, bona fide purchaser for value from a secured party after default. The proceeds of any sale may be applied (in whatever order and manner the Holder elects in its sole discretion) to all costs and expenses of sale (including without limitation reasonable attorneys' fees and disbursements) and to the payment of Obligations, and any remaining proceeds shall be applied in accordance with Article 9 of the UCC. The Company shall remain liable for any deficiency.
- d. Cumulative Remedies. The rights and remedies of the Holder shall be deemed to be cumulative, and any exercise of any right or remedy shall not be deemed to be an election of that right or remedy to the exclusion of any other right or remedy.
- e. Waivers. The Company acknowledges that this Agreement involves the grant of a security interest, and the Company hereby waives, to the extent permitted by applicable law, (i) any requirement of marshaling assets or proceeding against persons or assets in any particular order, and (ii) any and all notices of every kind and description that may be

required to be given by any statute or rule of law and any defense of any kind based on any such notice, except any notices required under this Note, including but not limited to all demands for payment, presentation for payment, notices of intention to accelerate maturity, notices of acceleration of maturity, protest, and notices of protest, all to the extent permitted by law.

8. REGISTRATION RIGHTS.

(a) Rick's agrees to file a Registration Statement within sixty (60) days from the date of execution hereof with the Securities and Exchange Commission ("SEC") on Form SB-2 or Form S-3 or other similar form (except for Form S-8 or Form S-4) to register for resale by the Holder the shares underlying the Conversion Rights of this Note. Rick's shall use its best efforts to cause the Registration Statement to become effective under 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) five 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).

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 expressly assumes by supplemental agreement all of the obligations of the Company in connection with this Note.

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 entity 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 Note with the same effect as if such successor entity had been named therein as the

Company, and the Company will be released from its obligations under the Notes, except as to any obligations that arise from or as a result of such transaction.

10. **CORPORATE OBLIGATION.** No recourse shall be had for the payment of the principal or the interest on this Note, or for any claim based thereon, or otherwise in respect thereof, or based on or in respect of any Note supplemental hereto, 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.

11. **LISTING OF REGISTERED HOLDER OF NOTES.** This Note will be registered as to principal amount in the Holder's name in the Company's Note Register, 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.

12. **HOLDER NOT DEEMED A STOCKHOLDER.** Except as provided in any Stock Pledge Agreement executed in connection with the Closing, the Holder shall not be entitled to vote or receive dividends or be deemed the holder of shares of the Company for any purpose, nor shall anything contained in this Note be construed to confer upon the Holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise.

13. **WAIVER OF DEMAND, PRESENTMENT, ETC.** The Company hereby expressly waives demand and presentment for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, notice of acceleration or intent to accelerate, bringing of suit and diligence in taking any action to collect amounts called for hereunder and shall be directly and primarily liable for the payment of all sums owing and to be owing hereunder, regardless of and without any notice, diligence, act or omission as or with respect to the collection of any amount called for hereunder.

14. **ATTORNEY'S FEES.** The Company agrees to pay all costs and expenses, including without limitation reasonable attorney's fees, which may be incurred by the Holder in collecting any amount due under this Note or in enforcing any of Holder's conversion rights as described herein.

15. **ENFORCEABILITY.** In case any provision of this Note is held by a court of competent jurisdiction to be excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, so that it is enforceable to the maximum extent possible, and the validity and enforceability of the remaining provisions of this Note will not in any way be affected or impaired thereby.

16. **INTENT TO COMPLY WITH USURY LAWS.** In no event will the interest to be paid on this Note exceed the maximum rate provided by law. It is the intent of the parties to comply fully with the usury laws of the State of New York; accordingly, it is agreed that notwithstanding

any provisions to the contrary in this Note, in no event shall such Note require the payment or permit the collection of interest (which term, for purposes hereof, shall include any amount which, under New York law, is deemed to be interest, whether or not such amount is characterized by the parties as interest) in excess of the maximum amount permitted by the laws of the State of New York. If any excess of interest is unintentionally contracted for, charged or received under this Note, or in the event the maturity of the indebtedness evidenced by the Note is accelerated in whole or in part, or in the event that all of part of the Principal Amount or interest of this Note shall be prepaid, so that the amount of interest contracted for, charged or received under this Note, on the amount of the Principal Amount actually outstanding from time to time under this Note shall exceed the maximum amount of interest permitted by the applicable usury laws, then in any such event (i) the provisions of this paragraph shall govern and control, (ii) neither the Company nor any other person or entity now or hereafter liable for the payment thereof, shall be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount of interest permitted by such applicable usury laws, (iii) any such excess which may have been collected shall be either applied as a credit against the then unpaid principal amount thereof or refunded to the Company at the Holder's option, and (iv) the effective rate of interest shall be automatically reduced to the maximum lawful rate of interest allowed under the applicable usury laws as now or hereafter construed by the courts having jurisdiction thereof. It is further agreed that without limitation of the foregoing, all calculations of the rate of interest contracted for, charged or received under the Note which are made for the purpose of determining whether such rate exceeds the maximum lawful rate of interest, shall be made, to the extent permitted by applicable laws, by amortizing, prorating, allocating and spreading in equal parts during the period of the full stated term of the Note evidenced thereby, all interest at any time contracted for, charged or received from the Company or otherwise by the Holders in connection with this Note.

17. **GOVERNING LAW; CONSENT TO JURISDICTION.** This Note shall be governed by and construed in accordance with the laws of the State of New York without regard to the conflict of laws provisions thereof. In any action between or among any of the parties, whether arising out of this Note or otherwise, each of the parties irrevocably consents to the exclusive jurisdiction and venue of the federal and/or state courts located in New York County, New York.

18. **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.

19. **RESTRICTIONS AGAINST TRANSFER OR ASSIGNMENT.** This Note 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 Note has been duly and effectively registered for resale under the Securities Act of 1933, as amended, and under any then applicable state securities laws; or (ii) the Registered Holder delivers to the Company a written opinion acceptable to the Company's counsel that an exemption from such registration requirements is then available with respect to any such proposed sale or disposition. Any transfer otherwise

permissible hereunder shall be made only at the principle office of the Company upon surrender of this Note for cancellation and upon the payment of any transfer tax or other government charge connected therewith, and upon any such transfer a new Note or Notes will be issued to the transferee in exchange therefor.

20. ENTIRE AGREEMENT; HEADINGS. This Note 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 Note.

21. NOTICES. Any notices or other communications required or permitted hereunder shall be sufficiently given if in writing and delivered in Person, transmitted by facsimile transmission (fax) or sent by registered or certified mail (return receipt requested) or recognized overnight delivery service, postage pre-paid, addressed as follows, or to such other address as such party may notify to the other parties in writing:

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

RCI Entertainment (New York), Inc. 10959 Cutten Road
Houston, Texas 77066

With a Copy to:

Robert D. Axelrod
Axelrod, Smith & Kirshbaum
5300 Memorial Drive, Ste. 700 Houston, Texas 77007

(b) If to Holder:

Philip Eisenberg
38 Evergreen Pl.
Demarest, NJ 07627

With a Copy to:

Jaffe & Asher
600 Third Avenue
New York, New York 10016

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.

22. EXECUTION BY RICK'S. It is hereby understood and acknowledged by the Holder that Rick's has caused this Note to be executed for the sole purpose of enforceability as to Sections 5 and 8 only and for no other purpose.

IN WITNESS WHEREOF, RCI ENTERPRISES (NEW YORK), INC. has caused this Note to be duly executed in its corporate name by the manual signature of its President and attested by the manual signature of its Secretary.

RCI ENTERTAINMENT (NEW YORK), INC.

By: /s/ Eric Langan

 Eric Langan
Title: President

Attest:

/s/ Travis Reese

Travis Reese, Secretary

**FOR PURPOSES OF ENFORCEABILTY AS TO
THE PROVISIONS OF SECTIONS 5 and 8 ONLY:**

RICK'S CABARET INTERNATIONAL, INC.

By: /s/ Eric Langan

 Eric Langan
Title: President

**RICK'S
CABARET
[LOGO OMITTED]**

RICK'S CABARET INTERNATIONAL, INC. COMPLETES ACQUISITION OF MIDTOWN MANHATTAN GENTLEMEN'S CLUB THAT WILL BECOME ITS FLAGSHIP LOCATION

HOUSTON - (January 19, 2005) - RICK'S CABARET INTERNATIONAL [NASDAQ: RICK], has completed (Jan. 18, 2005) the acquisition of the Paradise Club in Midtown Manhattan (50 West 33rd Street). When renovations are completed, RICK'S CABARET-NYC will become one of the premiere gentlemen's clubs in New York City and will be the company's flagship establishment.

After extensive remodeling of the three-level site near Penn Station and Madison Square Garden, Rick's Cabaret-NYC will open with a gala launch in the summer of 2005. Rick's currently operates or licenses clubs in Texas, Minnesota and Louisiana.

ERIC LANGAN, CEO of Houston-based Rick's Cabaret, said: "Rick's Cabaret NYC will be one of the finest venues in New York for adult entertainment, and we expect to differentiate ourselves in this exciting market by a combination of the most beautiful entertainers, an unprecedented level of friendly customer service, fine food, and a luxurious atmosphere unique to the city."

Mr. Langan said the company expects to begin work next week on a \$2 million remodeling project. The club will utilize the maximum allowable 10,000 square feet, with an additional 4,000 square feet in the building to be used for office space. The company is in the process of finalizing building permits and completing other details typical of transactions of this type.

"Rick's Cabaret NYC will be without peer as a gentlemen's club in New York," Mr. Langan said. "We're known for our beautiful and gracious entertainers and I assure you that customers will be amazed at the welcome they get at the New York Rick's Cabaret. We will have full restaurant service until 2 a.m., making it one of the few places in the city where you can get a great meal after midnight."

Rick's Cabaret paid a total of \$7.625 million for the assets and stock of the former Paradise Club, which had operated on the site for more than a decade. The transaction consisted of \$2.5 million in cash and \$5.125 million in a promissory note bearing simple interest at the rate of 4.0% per annum, part of which is convertible to restricted shares of Rick's Cabaret common stock at prices ranging from \$4.00 to \$7.50 per share (Rick's Cabaret shares closed at \$4.14 on the NASDAQ SmallCap exchange on January 18).

Rick's Cabaret reported income from operations of \$1,065,569 for its 2004 fiscal year ending September 30, 2004, nearly three times the \$357,947 reported in the previous year. The company reported revenue of \$15,959,684 for 2004 compared with \$15,059,569 and net income of \$775,253 compared with \$438,294 in 2003. Earnings were 21 cents per share compared to 12 cents per share in 2003.

Since its launch in the mid-1980s, Rick's Cabaret's upscale nightclubs have enjoyed a reputation for offering high quality entertainment featuring beautiful women and fine restaurant service in Houston, Minneapolis, San Antonio and Austin. ANNA NICOLE SMITH met her wealthy husband while dancing at a Rick's Cabaret and 13 performers from the clubs have become PENTHOUSE PETS (three have been named "Pet of the Year") while three have become PLAYBOY PLAYMATES. The company went public in 1995 and was the first gentlemen's club to be listed on a major U.S. stock exchange.

ABOUT RICK'S CABARET

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

FORWARD-LOOKING STATEMENTS:

This press release may contain forward-looking information within the meaning of Section 21E of the Securities Exchange Act of 1934 that involves significant risks and uncertainties, and is subject to the safe harbors created by this section. Important factors that could cause actual results for Rick's Cabaret to differ materially from those indicated in this press release include the risks and uncertainties as to the future operational and financial results of our Web sites, conditions relevant to real estate transactions, the future operational performance of our partners, the laws governing the operation of adult entertainment businesses, competitive and economic factors, dependence on key personnel and the ability to manage operations. Rick's Cabaret has no obligation to update or revise the forward-looking statements to reflect the occurrence of future events or circumstances. Please refer to the documents Rick's Cabaret files from time to time with the Securities and Exchange Commission, in particular the most recent quarterly reports on Form 10-QSB and annual report on Form 10-KSB.

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