

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

RICKS CABARET INTERNATIONAL INC

CIK: **935419** | IRS No.: **760037324** | State of Incorporation: **TX** | Fiscal Year End: **0930**
Type: **10KSB** | Act: **34** | File No.: **000-26958** | Film No.: **96687795**
SIC: **5810** Eating & drinking places

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934; For the Fiscal Year Ended: September 30, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission File Number: 0-26958

RICK'S CABARET INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Texas 76-0458229
(State or other jurisdiction (IRS Employer
of incorporation or organization) Identification No.)

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

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

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class -----	Name of Each Exchange on which Registered -----
N/A	N/A

Securities registered pursuant to 12(g) of the Exchange Act:

Title of Each Class -----
Common Stock, \$.01 par value
Common Stock Purchase Warrants

Indicate by check mark whether the registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Issuer's revenues for the year ended September 30, 1996 were \$4,630,298. The aggregate market value of Common Stock held by non-affiliates of the registrant at December 20, 1996, based upon the last reported sales prices on Nasdaq, was \$9,781,082. As of December 20, 1996, there were 4,068,077 shares of Common Stock outstanding.

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PART I

ITEM 1. BUSINESS

The Company currently owns and operates Rick's Cabaret, a premiere adult nightclub offering topless entertainment and restaurant and bar operations in Houston, Texas. Rick's Cabaret, which caters primarily to businessmen, has developed a clientele base which includes professionals, business executives and other individuals who tend to entertain more frequently than the average person and who tend to have greater disposable income. From its inception, the Company's objective was to provide a first-class entertainment environment for the business consumer. To achieve this goal and reach its target market, Rick's created an attractive, yet discreet environment, complimented by a first-class bar and restaurant operation conducive to attracting businessmen and out-of-town convention clientele. The Company also currently owns and operates Tantra, a non-sexually oriented discotheque and billiard club in Houston, Texas.

HISTORY

The Company was organized as a Texas corporation in 1994 to acquire all of the outstanding capital stock of Trumps, Inc., a Texas corporation ("Trumps") from Robert L. Watters, its sole stockholder. As a result of this transaction, Trumps became a wholly owned subsidiary of the Company.

Trumps was incorporated in 1982 and has operated Rick's Cabaret since 1983. Mr. Watters initially became a 10% stockholder of Trumps in November, 1987, becoming one of three stockholders in Trumps. Mr. Watters' ownership interest in Trumps increased to 50% of the outstanding stock in 1989. Mr. Watters became the sole stockholder of Trumps in 1993 through a series of business transactions with the only other then remaining stockholder.

In September, 1995, the Company acquired all of the capital stock of Tantric Enterprises, Inc., Tantra Dance, Inc., and Tantra Parking, Inc. (collectively "Tantra") from Mr. Watters. The Tantra companies own and operate Tantra, a non-sexually oriented discotheque and billiard club in Houston, Texas.

In February, 1996, the Company formed RCI Entertainment, Louisiana, Inc., a Louisiana corporation, for the purpose of administering, operating, managing and leasing its new location in New Orleans, Louisiana. The Company presently anticipates that it will open its new facility in New Orleans in

December, 1996. In addition, the Company formed RCI Entertainment (Texas), Inc. in June, 1996, for the purpose of acquiring 1.13 acres of land in Houston, Texas. The Company is presently evaluating the plans to build a new adult oriented nightclub at this location within the next twelve to eighteen months.

BUSINESS STRATEGY

Prior to Rick's opening in 1983, the topless nightclub business was characterized by small establishments generally managed by their owner. Such establishments were often dimly lit and the standards for performers' personal appearance and personality were not maintained. It was customary for performers to alternate between dancing and waitressing. The quantity and quality of bar service was low and food was not frequently offered. Music was usually "hard" rock and roll, played at a loud level by a disc jockey who frequently interrupted the music to make general announcements. Usually, only cash

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was accepted and businessmen felt uncomfortable in such an environment. Recognizing a void in the market for a first-class adult cabaret, the Company designed Rick's and targeted the businessmen's segment of the market by providing a unique quality entertainment environment. The following summarize the areas of operation of Rick's which management believe distinguish it from its competitors.

Female Entertainment. Management of the Company has followed a policy of maintaining high standards in the areas of both personal appearance and personality of its topless entertainers and waitresses. Though a performer's physical appearance is very important, of equal importance is her ability to present herself attractively and to converse intelligently with customers. Management insists that the performers it hires are experienced dancers. Prospective performers are initially interviewed by the Company's management personnel. Management makes a determination as to whether a particular applicant is suitable based on such factors of appearance, attitude, dress, communication skills and demeanor. If an applicant is found to be suitable, she is given an identification card and a computer number. New performers are given a brief orientation to the club and the applicable rules and regulations which govern each performer's conduct. The Company charges each performer a facility fee ranging from \$17.00 per shift for day shifts, to \$27.00 per shift for evening and night shifts. Each entertainer retains 100% of all cash payments made to her by customers for any dance performed. If a customer desires to pay by credit card, the Company processes the credit card charge and pays the entertainer 80% of any performance charged to a credit card. All credit card charges made by customers while at Rick's must be approved, in writing, by management before any charge is accepted.

The performers dance on the main stage or on smaller stages throughout the club. While their performances include topless dancing, management insists that they be elegantly attired when not performing, as opposed to being scantily dressed as in many other adult cabarets. Full nudity is never permitted in the club. Management will not hire any performers who have tattoos and the performers who are hired are provided guidelines as to the manner of dress, hairstyle, makeup and general demeanor, in an effort to maintain a high standard of professionalism amongst the performers and to ensure that they maintain a pleasant, congenial demeanor at all times. Further, management evaluates each performer's appearance and performance on a nightly basis and advises performers if their dress, makeup, hairstyle, general appearance or demeanor do not meet the standards which Rick's sets forth. Rick's has had 18 entertainers who have performed at Rick's featured as centerfolds in the country's leading men's entertainment magazines. Though these policies have the effect of limiting the number of performers who are permitted to dance or serve as waitresses at Rick's Cabaret, the Company believes that its policy of maintaining these high standards is in its best interest of long-term market position.

Management. It is common practice in the adult cabaret industry to allow its day-to-day operational management to receive the bulk of their income directly from the performers in the form of cash tips. Rick's, however, was the first cabaret, to its knowledge, to place managers on a salary and to prohibit managers from receiving cash tips. The Company has recruited its management staff exclusively from outside of the topless industry, in the belief that management which has not been exposed to operating practices prevalent in the topless industry and with diverse management backgrounds will produce a management team that operates with a high level of integrity. This practice of training management without adult nightclub experience may cause the Company to experience a shortage of qualified management necessary to fulfill its anticipated growth plans due to the additional time required to train such personnel.

Compliance Policies. The management of Rick's Cabaret has a policy of ensuring that its business is carried on in conformity with local, state and federal laws. In particular, the Company's management

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has a "no tolerance" policy as to illegal drug use in or around the premises. Posters placed throughout the nightclub reinforce this policy as do periodic unannounced searches of the entertainer's lockers. Entertainers and waitresses who arrive for work are not allowed to leave the premises without the permission of management. Once an entertainer does leave the premises, she is not allowed to return to work until the next day. Management continually monitors the behavior of entertainers, waitresses and customers to ensure that proper standards of behavior are observed. The Company's management has the power to levy fines on entertainers for breaches of the Company's rules. In the event an entertainer is fined three times by management, the entertainer is barred from future performances at Rick's Cabaret.

Management also reviews all credit card charges made by customers while at Rick's. Specifically, management has in place a formal policy which provides that all credit card charges must be approved, in writing, by management before any charges are accepted. Management is particularly trained to review credit card charges to ensure that the only credit card charges approved for payment are for food, drink and entertainment at Rick's Cabaret.

Food and Drink. The Company believes a key to the success of a premiere adult nightclub is a quality, first-class bar and restaurant operation to compliment its adult entertainment. The Company employs a full-time Service Manager who is in charge of recruiting and training a professional waitress staff and ensuring that each customer receives prompt and courteous service. Rick's employs a Chef with 20 years experience and a Bar Manager, who is in charge of ordering inventory and scheduling of bar staff, with four years experience. The Company believes that the operation of a first class restaurant is a necessary component to the operation of a premiere adult cabaret, as is the provision of premium wine, liquor and beer in order to ensure that the customer perceives and obtains good value. The Company's restaurant operation is a full service operation which provides business lunch buffets and a full-scale lunch and dinner menu service offering hot and cold appetizers, salads, seafood, steak and lobster. An extensive selection of premiere wines are offered to compliment any customer's lunch or dinner selection. Drinks are provided to customers in large glasses with a generous measure of alcohol.

Controls. Operational and accounting controls are essential to the successful operation of a cash intensive nightclub and bar business. The Company has implemented internal procedures and controls designed to ensure the integrity of its operational and accounting records. The Company separates management personnel from all cash handling to ensure that management is isolated from and does not handle any cash. The Company uses a combination of accounting and physical inventory control mechanisms to ensure a high level of integrity in its accounting practices. Computers play a significant role in capturing and analyzing a variety of information to provide management with the information necessary to efficiently manage and control the nightclub. Deposits of cash and credit card receipts are reconciled each day to a daily income report. In addition, management reviews on a daily basis (i) cash and credit card summaries which tie together all cash and credit card transactions occurring at the front door, the bars in the club and the cashier station, (ii) a summary of the daily bartenders' check-out reports, and (iii) a daily cash requirements analysis which reconciles the previous day's cash on hand to the requirements for the next day's operations. These daily computer reports alert management of any variances from expected financial results based on historical norms. Further, the Company conducts, on a monthly basis, an independent overview of its financial condition and has engaged independent accountants to conduct an annual audit and to review and advise the Company relating to its internal controls.

Atmosphere. Rick's maintains a high standard in its facility and in its decor. The furniture and furnishings in the club area were designed to create the feeling of an upscale restaurant. The sound system

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was designed to provide quality sound at levels where conversations could still take place. This environment is carefully monitored, in terms of maintenance, music selection, entertainer and waitress appearance and all aspects of

customer service on a continuous basis.

VIP Room. In keeping with Rick's emphasis on serving the upper-end of the business market, Rick's opened its VIP room in 1987, which is open only to individuals who purchase memberships. This room is approximately 3,000 square feet in size and memberships are sold which give access to the room and discounts on food and drinks. The VIP room provides a higher level of luxury in its decor and services. Membership in Rick's VIP room requires a joining membership fee which ranges from \$250 for a non-resident individual membership to \$550 for an individual resident membership and \$1,200 for a corporate membership. Additionally, a non-member may use the VIP room for a one-night admission fee of \$100. Membership in Rick's VIP room will also entitle members to access to other VIP rooms at all other locations opened by the Company. Rick's is the only adult cabaret in Houston, Texas, which features a "members only" room.

Advertising and Promotion. Rick's marketing philosophy towards customers is to portray Rick's as a premiere cabaret providing topless entertainment in a fun, yet discreet, environment. Hotel publications, local radio, cable television, newspapers, billboards, taxi-cab reader boards as well as a variety of promotional campaigns ensure that Rick's name is kept before the public.

Rick's has received a significant amount of media exposure over the years. Mr. Watters has appeared twice on the talk show "Geraldo" talking about Rick's and was featured in an episode of "Lifestyles of the Rich and Famous" focusing on the topless industry. In addition, Penthouse magazine produced a nine page article on the club and Playboy magazine covered Rick's spring 1993 golf tournament in a recent article. For the past 12 years, Rick's has sponsored a semi-annual golf tournament and outing which has generated significant interest and tradition. Articles covering the nightclub have appeared in Glamour magazine as well as Ladies Home Journal. The nightclub has been mentioned in an inside cover story in Time magazine as well as being mentioned on numerous occasions in both the Houston Chronicle and the Houston Post and in a recent 1995 article published in Texas Monthly. In 1993 Rick's produced the Girls of Rick's, a 90 minute video feature, which was aired as a Pay-per-View feature on Warner cable. The video was reviewed in several local newspapers as well as the Hollywood Variety magazine. In December, 1994, Rick's provided entertainers for a Pay- Per-View feature produced by a local radio station.

Rick's received extensive national coverage of its IPO and articles appeared in The Wall Street Journal, Los Angeles Times, Houston Business Journal, and numerous other regional newspapers. The television program "Extra" ran a short feature on Rick's as did the program "Inside Edition."

TANTRA

The Company owns and operates Tantra, a non-sexually oriented discotheque and billiard club in Houston, Texas. Tantra is located in a 6,500 square foot building and incorporates separate areas for bar service, dancing and playing billiards. The billiard area of the club is also designed to accommodate occasional live performances by local and national acts. Tantra is designed to appeal to an audience of people between the ages of 21 through 40 who wish to dance to music which may be categorized as modern dance music. Tantra is designed to appeal to both couples and single men and women. The Company intends to open additional Tantra nightclubs in each city in which it expands its adult nightclub

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operations. Tantra is seen as a separate, but complimentary, business activity to Rick's Cabaret and is part of the Company's business philosophy to diversify into a broader based entertainment company.

FUTURE EXPANSION

It is the Company's intention to open adult cabarets in the format and bearing the name "Rick's Cabaret" in other cities. Construction has commenced on its newly acquired location in New Orleans, Louisiana, which is located at 315 Bourbon Street in the New Orleans celebrated French Quarter. The Company anticipates the opening of the New Orleans' location in late December, 1996. The Company's lease for the New Orleans' location commenced on June 1, 1996, and has a term of 40 years. The lease is a triple net lease with tenant paying taxes, maintenance and insurance. The club will occupy 16,200 square feet in a three story building. The club will be comprised of two entertainment venues, the first being a cabaret in the format of Rick's Cabaret in Houston, Texas, which will occupy the bottom floor. The second venue and format will occupy the second floor of the building and will be a theater, seating 250 patrons. Live choreographed shows will take place twice a night with a cast separate from the

cabaret facilities. Rent is based on a fixed minimum payment with a percentage supplement in the event that gross sales exceed certain numbers.

Additionally, a one acre tract of land has been purchased on U.S. Highway 59 in Houston, Texas, to serve as a new location for Rick's Cabaret in Houston, Texas. Management believes that the new site is superior in many respects to its existing location. There are over 250,000 cars per day which will view the new facility and the location is convenient to the three main business districts in Houston, Texas, including the downtown business district. It is also in close proximity to Houston's main sports facilities. The Company is presently evaluating plans to build the new club at this location within the next 12 to 18 months.

The Company also will consider the acquisition of adult cabarets in other cities. In determining which cities will be prime locations for a "Rick's Cabaret" a variety of factors will be considered. The current regulatory environment will be one of such factors. The city must presently permit alcoholic beverages to be sold in a topless cabaret and must permit table dancing in the table-side style similar to Rick's present location in Houston, Texas. Another factor which will be considered is the availability of sites. The city must have available a number of sites suitable for conversion to a Rick's style cabaret, located in high traffic commercial areas. The Company also will review potential competition in the area and will attempt to analyze the current market conditions and profitability of other adult cabarets in the city. The proximity to Houston of a particular city will also be considered. In the early years of expansion the city must be within easy commuting distance by air of Houston. This will facilitate the training of management in Houston and enable the participation of Houston-based management in the construction and opening of the new enterprise. It is anticipated that a significant number of personnel from the Houston operation will be used to ensure that the same operational systems and controls used at its location in Houston will be implemented and maintained at its new locations. The existing business climate will also be of critical importance. The city must have a significant population of indigenous businessmen, be a recognized tourist destination and have a well developed convention business.

COMPETITION

The adult topless club entertainment business is highly competitive with respect to price, service and location, as well as the professionalism of its entertainment. Rick's Cabaret in Houston competes with a number of locally-owned adult cabarets, some of whose names may enjoy recognition that equals that of Rick's. While there are restrictions on the location of a so-called "sexually oriented business" there are no barriers to entry into the adult cabaret entertainment market and only the name "Rick's" and "Rick's Cabaret" are proprietary. There are approximately 50 adult cabarets located in the Houston area of which

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approximately 10 are in direct competition with the Company. The Company believes that the combination of its existing name recognition and the entertainment environment that it has created which is distinctive and unique will allow the Company to effectively compete within the industry. In the past year, Rick's has been the fourth highest adult nightclub in the Houston area in alcoholic beverage sales, according to the information made available by the Texas Alcoholic Beverage Commission. In the two years prior thereto, Rick's was either the second or third highest adult nightclub in alcoholic beverage sales in the Houston area. Although the Company believes that it is well-positioned to compete successfully, there can be no assurance that Rick's will be able to maintain its high level of name recognition and prestige within the marketplace.

GOVERNMENTAL REGULATIONS

The Company is subject to various federal, state and local laws affecting its business activities. In particular, in Texas the authority to issue a permit to sell alcoholic beverages is governed by the Texas Alcoholic Beverage Commission (the "TABC"), which has the authority, in its discretion, to issue the appropriate permits. Rick's presently holds a Mixed Beverage Permit and a Late Hours Permit (the "Permits"). These Permits are subject to annual renewal, provided Rick's has complied with all rules and regulations governing the permits. Renewal of a permit is subject to protest, which may be made by a law enforcement agency or by a member of the general public. In the event of a protest, the TABC may hold a hearing at which time the views of interested parties are expressed. The TABC has the authority after such hearing not to issue a renewal of the protested alcoholic beverage permit. Rick's has never been the subject of a protest hearing against the renewal of its Permits. Other states may have similar laws which may limit the availability of a permit to sell alcoholic beverages or which may provide for suspension or revocation

of a permit to sell alcoholic beverages in certain circumstances. Prior to expanding into any new market, the Company will take all steps necessary to ensure compliance with all licensing and regulatory requirements for the sale of alcoholic beverages as well as the sale of food.

Various groups have increasingly advocated certain restrictions on "happy hour" and other promotions involving alcoholic beverages. The Company feels its entertainment value, admittance charge beginning after normal "happy hours" and its policy of not discounting drink prices are effective tools in promoting its business. The Company cannot predict whether additional restrictions on the promotion of sales of alcoholic beverages will be adopted, or if adopted, the effect of such restrictions on its business.

In addition to various regulatory requirements affecting the sale of alcoholic beverages, in Houston, and in many other cities, location of a topless cabaret is subject to restriction by city ordinance. Rick's is subject to "The Sexually Oriented Business Ordinance" (the "Ordinance") which contains prohibitions on the location of an adult cabaret. The prohibitions deal generally with distance from schools, churches, and other sexually oriented businesses and contain restrictions based on the percentage of residences within the immediate vicinity of the sexually oriented business. The granting of a Sexually Oriented Business Permit ("Business Permit") is not subject to discretion; the Business Permit must be granted if the proposed operation satisfies the requirements of the Ordinance. Rick's has held a Business Permit since passage of the city ordinance in 1986. The Business Permit, which is transferable, is valid for a period of one year and is renewable by application of the permit holder. The permit holder for Rick's Cabaret is Robert Watters who, prior to the Company's recent public offering, was the sole stockholder of the Company. In the event of the failure by Mr. Watters to renew the Business Permit it is likely that a new Business Permit would not be granted for the location of Rick's Cabaret, because of the location of another sexually oriented business enterprise within the prohibited distance to Rick's Cabaret.

The Company is also required to have a dancehall permit for the operation of a discotheque in the city of Houston. The dancehall permit is not a discretionary permit, but must be granted by the city if the provisions of the applicable ordinance are satisfied. A dancehall permit may be revoked or renewal may

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be refused if certain criminal activities occur on the premises or the person listed as the applicant has committed certain named offenses. Tantra's dancehall permit is presently held by Mr. Watters. The Company believes that it could obtain a new dancehall permit if for any reason Mr. Watters failed to renew or was refused the renewal of the dancehall permit. Prior to expanding into any new market, the Company will take all steps necessary to obtain any required dancehall permits and to comply with any other related regulatory requirements within that market.

TRADEMARKS

Rights of the Company to the trademarks "Rick's" and "Rick's Cabaret" are established under common law, based upon the Company's substantial and continuous use of these trademarks in interstate commerce since at least as early as 1987.

"RICK'S AND STARS DESIGN" logo was registered by the United States Patent and Trademark Office ("PTO") in 1989. Due to an oversight, these registrations were canceled by the PTO for failure of the Company to file a required affidavit with the PTO setting forth that the service mark was still in use in commerce. Applications for service mark registrations for this mark were refiled, and the PTO has issued new registrations for the service mark "RICK'S AND STARS DESIGN".

The Company has also obtained service mark registrations from the PTO for the Company's RICK'S CABARET service mark.

There can be no assurance that the steps taken by the Company to protect its service marks will be adequate to deter misappropriation of its protected intellectual property rights. Litigation may be necessary in the future to protect the Company's rights from infringement, which may be costly and time consuming.

EMPLOYEES AND INDEPENDENT CONTRACTORS

As of September 30, 1996, the Company had approximately 135 full-time employees, of which 10 are in management positions, including corporate and administrative operations and approximately 125 are engaged in food and beverage service, including bartenders and waitresses. None of the Company's

employees are represented by a union and the Company considers its employee relations to be good.

Additionally, the Company has independent contractor relationships with over 400 entertainers, who are self-employed and work with the Company on a non-exclusive basis as independent contractors.

ITEM 2. PROPERTIES

The Company leases the premises where Rick's Cabaret is located in Houston, Texas. The cabaret contains an aggregate 12,300 square feet, divided into two separate club areas and executive and administrative offices. The Company has the right to acquire the premises from the owner. See, Legal Proceedings. The main club area and the VIP club area together contain 10,500 square feet and seat approximately 300 people. The executive and administrative offices comprise 1,800 square feet. In addition, a woman's apparel boutique leases approximately 300 square feet at the same location. SRD Vending Company, Inc. ("SRD"), a Texas Corporation wholly-owned by Mr. Watters also occupies 120 square feet at the same location. SRD provides and maintains the cigarette vending machines located at Rick's Cabaret.

The Company presently owns a 6,500 square foot building in which Tantra is located. The building incorporates separate areas for bar service, dancing and playing billiards. The building is

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currently leased to Tantra, pursuant to a ten year lease agreement which expires on August 1, 2004. The lease agreement provides for lease payments of the greater of (i) \$1,500 per month or (ii) 5% of Tantra's gross receipts per month until such time as the Company has received \$250,000 of rental income.

The Company also owns a one acre tract of land on US Highway 59 in Houston, Texas. The Company is presently evaluating whether to build a new club on this property.

ITEM 3. LEGAL PROCEEDINGS

On October 9, 1996, Rick's Cabaret International, Inc., Trumps, Inc. (its wholly owned subsidiary) and Robert L. Watters (Rick's Cabaret International, Inc. and Trumps, Inc., collectively referred to as the "Company") entered into a Settlement Agreement and Release (the "Settlement Agreement") with Casa El Sol -- Acapulco, S.A., Zu Corporation and 3113 Bering Corporation (collectively "Casa El Sol") pursuant to which the Company settled its longstanding lawsuit with Casa El Sol styled Dallas Fontenot, Robert Watters and Trumps, Inc. v. Casa El Sol -- Acapulco, S.A. and Zu Corporation, et al.; Cause No. 91-09194 (the "Litigation") and entered into an agreement to acquire the real property and improvements thereon where Rick's Cabaret is presently located in Houston, Texas (the "Property").

Pursuant to the terms of the Settlement Agreement, the Company has the right to acquire the Property from Casa El Sol for \$2,000,000, payable \$500,000 into escrow upon the execution of the Settlement Agreement and \$1,500,000 million payable on or before January 6, 1997, at the discretion of the Company. The purchase price was determined as a result of arms-length negotiations by the parties and was part of the overall settlement of the outstanding Litigation.

The Litigation was originally filed in 1991 by Mr. Watters and a former stockholder of the Company (the "Plaintiffs") against another former stockholder of the Company (the "Defendant"). The lawsuit sought to compel the Defendant to convey to the Plaintiffs all of its ownership interest in two entities, one of which, Zu Corporation, owns the building where Rick's is located and which is leased by the Company. The Defendant joined the Company as a party to the lawsuit, claiming that the Company had breached its lease agreement due to the alleged late payment of rent for one month. The case was tried in August, 1992, and judgment was rendered in favor of the Plaintiffs and the Company. The Defendant appealed this decision and, in an opinion rendered in August, 1995, the Texas Court of Appeals for the 14th Judicial District reversed and remanded the case for a new trial in the District Court. After rehearing, the Court of Appeals reversed and rendered judgment against Mr. Watters and the Company. Thereafter, the Company filed an application for writ of error with the Texas Supreme Court.

The Settlement Agreement provided that the Company withdraw and dismiss its application for writ of error that was pending before the Supreme Court of Texas and that Casa El Sol execute a Release of Judgment and Related Rights which released the Company and Mr. Watters from any and all rights or claims of Casa El Sol related to the Litigation.

In Vernon Young, Jr. v. Dallas J. Fontenot, Jr., Trumps, Inc. and Robert Lewis Watters, Cause No. 87-33344 in the 11th District Court of Harris County, Texas (the "Young Lawsuit"), filed in 1987, Dallas Fontenot, one of the former stockholders of the Company was sued over his ownership interest in the Company. Mr. Watters and the Company were joined in the litigation based on allegations that they had improperly transferred certain assets to the Company from another corporation that had previously operated Rick's. In June, 1993, Summary Judgment was rendered in favor of the Company and Mr. Watters by the District Court. Subsequent to an appeal by the party suing the former stockholder, the Texas Court of Appeals, 8th Judicial District reversed the summary judgment and remanded the case to the trial court. The Company filed an application for Writ of Error with the Texas Supreme Court. This

Writ was denied and the case was remanded to the district court for trial. The Company and Mr. Watters recently mediated this matter and pursuant to such mediation, entered into a settlement agreement with the Plaintiff, Mr. Young. The settlement agreement provided that the litigation would be dismissed, with prejudice, as to the Company, Mr. Watters and all other entities with which Mr. Watters is or was associated. Subsequently, the remaining Defendants and the Intervenor agreed to a settlement of the litigation. In consequence, the action was satisfactorily settled as to all parties, and all Defendants have now been dismissed with prejudice. The Young Lawsuit is therefore terminated, and the judgment dismissing same is now final.

In Dallas J. Fontenot v. Trumps, Inc. and Robert L. Watters, Cause No. 94-057144 in the 127th District Court of Harris County, Texas (the "Fontenot Lawsuit"), Mr. Fontenot sued the Company and Mr. Watters for alleged breaches of an Agreement entered into in April, 1993 among Mr. Fontenot, the Company and Mr. Watters. Mr. Fontenot alleges that Mr. Watters and the Company have breached this Agreement, but does not indicate the manner in which the breach has occurred. The Company believes that it has fully complied with its obligations under this Agreement. The litigation is in its initial stages and no trial date has been set. The Company believes, after consultation with counsel, that it has substantial defenses to the claims being asserted against it and that the risk of material financial exposure to the Company is remote.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 1996, there were no matters submitted to a vote of the Security Holders, through solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

The Company's Common Stock is traded on The NASDAQ SmallCap Market under the symbol "RICK." The following table sets forth the quarterly high and low last sales prices per share for the Common Stock, as reported by NASDAQ.

<TABLE>
<CAPTION>

		Common Stock Price Range	
		High	Low
		----	---
<S>	<C>	<C>	<C>
1995	Fourth Quarter	\$ 5	\$ 3 7/8
1996	First Quarter	\$ 5	\$ 3 15/16
	Second Quarter	\$ 5 3/4	\$ 4 1/2
	Third Quarter	\$ 5 9/16	\$ 4 3/4
	Fourth Quarter	\$ 5 3/8	\$ 4.00

</TABLE>

On December 20, 1996, the last sales price for the Common Stock as reported by The NASDAQ SmallCap Market was \$4.3125 per share. On December 20, 1996, there were approximately 300 stockholders of record of the Common Stock.

The Company has not paid, and the Company does not currently intend to pay cash dividends on its common stock in the foreseeable future. The current policy of the Company's Board of Directors is to retain all earnings, if any, to provide funds for operation and expansion of the Company's business. The declaration of dividends, if any, will be subject to the discretion of the Board of Directors, which may consider such factors as the Company's results of operations, financial condition, capital needs and acquisition strategy, among others.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements and notes thereto for the fiscal years ended September 30, 1996 and 1995.

GENERAL

The Company was formed in December 1994 to acquire all of the outstanding capital stock of Trumps, Inc., a Texas corporation ("Trumps") formed in 1982. Since 1983, Trumps has operated Rick's Cabaret, a premier adult nightclub offering topless entertainment in Houston, Texas. In 1995, the Company acquired Tantra, a non-sexually oriented discotheque and billiard club also located in Houston, Texas from Robert L. Watters, the principal shareholder. Tantra became operational during the second quarter of fiscal 1995. In February, 1996, the Company formed RCI Entertainment (Louisiana) Inc., a Louisiana corporation for the purpose of administering, operating, managing and leasing its new location in New Orleans, Louisiana. The Company presently anticipates that it will open its new facility in New Orleans in December, 1996. In addition, the Company formed RCI Entertainment (Texas) Inc. in June 1996, for the purpose of acquiring 1.13 acres of land in Houston, Texas. The Company plans to build a new adult oriented nightclub at this location within the next twelve to eighteen months. The Company's fiscal year end is September 30.

Revenues are derived from the sale of liquor, beer, wine and food, which comprises approximately 55% of total revenues, and charges to the entertainers and cover charges which comprise approximately 21% and 17% respectively of total fiscal 1996 revenues. For fiscal 1995, these percentages were 50%, 21% and 13%, respectively. Cover charges, as a percentage of total revenues, increased during fiscal 1996 due to the acquisition of Tantra, which derives a greater portion of its overall revenue from this source than does Rick's Cabaret. The remaining revenues are derived from the sale of memberships, merchandise, and miscellaneous other revenue sources. Membership sales are for access to Rick's VIP Room, and range in price from \$550 to \$1,200 for a lifetime membership. Additional benefits include waiver of cover charges, 10% to 15% discount on drink prices, complimentary drink tickets and miscellaneous other benefits depending on the type of membership purchased. Membership sales were \$18,550 and \$67,889, which represented sales of 25 and 90 memberships for the fiscal years 1996 and 1995.

RESULTS OF OPERATIONS

Year Ended September 30, 1996 compared to Year Ended September 30, 1995. For the 1996 fiscal year, the Company had consolidated total revenues of \$4,630,298, an increase of \$95,592 from fiscal 1995 revenues of \$4,534,706. Single location revenues for Rick's Cabaret - Houston declined 11% from fiscal 1995 to fiscal 1996 or approximately \$463,000. The decline at Rick's Cabaret is offset by the addition and opening of Tantra which provided revenues of \$845,000. The overall decline in single location revenues in Houston, Texas is attributable to the increased level of competition in the area. Management intends to offset this revenue decline with the opening of an additional location in New Orleans, Louisiana during December 1996. During December 1996, the Company also signed a letter of intent for the acquisition of a club in Minneapolis, Minnesota. Currently, management is also studying additional potential acquisitions which would additionally serve to offset the current revenue declines.

Costs of good sold were 29% and 28% of sales of alcoholic beverages and food for fiscal 1996 and 1995, respectively. This slight increase is due to the increase in food sales which carries a higher cost than beverage sales. The Company has currently embarked on a program to improve margins from food sales

and food service efficiency.

Salaries and wages increased 18% or \$226,527 from fiscal 1995 due to the addition of management personnel and staff in the kitchen and administrative areas of the Company. Management staffing is currently increased in order to have adequately trained personnel to assist with the planning and preopening activities of the New Orleans location and other locations which are currently being studied.

Other general and administrative expenses increased 33% or \$1,306,394 from fiscal 1995 to fiscal 1996. Charge card fees decreased \$67,803 largely due to increased cash sales during fiscal 1996 and more favorable discount terms from 1995. Legal and accounting increased \$225,566 as a result of additional fees incurred as two of the Companies lawsuits approached the final settlement phases. Advertising and promotion increased by \$235,378 as the Company continued an outdoor advertising campaign started in fiscal 1995 in order to capitalize on the extensive media attention the Company attracted as a result of the public offering completion. In addition during the fourth quarter of fiscal 1996, the Company started an extensive radio advertising campaign on several stations in the Houston, Texas area. Management believes the positive effects of advertising for the Company are often deferred for a period of several months. Other costs increased during fiscal 1996 as a result of (i) expenses of \$132,000 to recognize refunds due to wait staff employees in Houston for shift charges and tip processing fees, (ii) expense of \$250,000 to reflect the cost of a financial marketing company advising the Company in financial matters, (iii) an additional accrual of \$50,000 to reflect costs of a legal settlement and (iv) increased travel and lodging costs incurred by staff involved with the opening of the New Orleans locations and the review of other potential acquisitions. During the fourth quarter of fiscal 1996, the Company capitalized preopening costs of \$170,000 relating to the New Orleans location which is currently undergoing renovation and is not expected to produce revenues until December 1996.

Interest income increased to \$162,688 during fiscal 1996 as a result of investing the proceeds of the Company's public offering.

This Company experienced a net loss of (\$708,614) for fiscal 1996 compared to net income of \$359,427 for fiscal 1995. Management anticipates that the Company will continue to experience losses in early fiscal 1997 until revenue growth from acquisitions and the opening of new locations is realized.

Year Ended September 30, 1995 compared to Year Ended September 30, 1994. For the 1995 fiscal year, the Company had consolidated total revenues of \$4,534,706, a decrease of \$32,587 from fiscal 1994 revenues of \$4,567,293. Single location revenues for Rick's Cabaret declined 11% from fiscal 1994 or

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approximately \$489,000. The decline at Rick's Cabaret is offset by the addition and opening of Tantra during the second quarter of fiscal 1995 which provided revenues of \$490,000. The overall decline in revenues is attributable to the increased level of competition in the Houston, Texas area and a decline in advertising expenditures during early fiscal 1995. Additionally, management time and working capital which otherwise would have been invested by the Company in advertising was committed to the successful completion in October 1995 of the Company's initial public offering. During the later quarters of fiscal 1995 and after completing the initial public offering, management has increased advertising expenditures and has retained the services of an advertising and public relations firm.

Cost of goods sold were 28% and 27% of sales of alcoholic beverages and food for fiscal 1995 and 1994, respectively. This increase is believed to be attributable to a slight increase in food sales which carries a higher cost than beverage sales.

Salaries and wages decreased 3% or \$39,891 from fiscal 1994 due to a reduction in the bonus accrued to the Chief Executive Officer and a reduction in management staffing, offset by \$122,281 in Tantra salaries for fiscal 1995.

Other general and administrative expenses decreased 23% or \$251,035 from fiscal 1994 to fiscal 1995. Decreases occurred in all general and administrative expense categories except Taxes and Permits which increased 4% from 1994 due to the acquisition and opening of Tantra. Charge card fees decreased \$25,746 due to the decrease in sales noted above. Legal and accounting decreased \$29,047 due to a lower level of activity relating to the defense of lawsuits. Advertising and promotion was lower by \$109,746 at Rick's Cabaret as the Company reduced advertising during the early quarters of fiscal 1995 due to increased working capital needs in preparation for its initial public offering, offset by \$96,627 in Tantra advertising. Additionally, the amortization of a non-compete agreement (\$48,000) was completed in 1994 with no

corresponding expense in 1995. Management believes that the reductions in all categories, in addition to the reasons stated above, are attributable to additional management controls instituted at the beginning of fiscal year 1995.

Interest expense was reduced to \$55,976 from \$129,377 due to a reduction in the average amount of bank and lease financing debt outstanding during the year.

Net income increased for fiscal 1995 by \$168,386 or 88% as compared to fiscal 1994.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1996 the Company had working capital of \$2,755,893, compared to a working capital deficit of \$741,220 at the end of fiscal 1995. The increase in working capital is primarily due to the Company's completion of its initial public offering by selling 1,840,000 common shares to the public market. Funds available to the Company (after deducting underwriting commissions and expenses associated with the offering) of approximately \$4,270,000 will be used for capital improvements to the original Houston location, opening two additional locations, and for general corporate working capital purposes. Additionally, the Company sold 328,077 additional shares resulting in additional capital of \$1,066,250.

In the opinion of management, working capital is not a true indicator of the status of the Company due to the short cycle to liquidity, which results in the realization of cash within no more than five (5) days after the culmination of a transaction.

Net cash used by operating activities in fiscal 1996 was (\$1,004,848). The increase in cash used by operating activities as due primarily to the net loss of (\$708,614), an increase in accounts receivable of

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\$73,531, an increase in inventories of \$16,008, an increase in prepaid expenses and other assets of \$185,375, a decrease in accounts payable and accrued liabilities of \$17,248 and a decrease in income taxes payable/receivable of \$399,693. Net cash used in investing activities was \$1,861,681 in 1996 and was due to investments in land, property and equipment. Cash provided by financing activities was \$5,776,420 due primarily to the sale of common stock less offering costs.

Although the Company has not established lines of credit other than the existing debt, there can be no assurance that the Company will be able to obtain additional financing on reasonable terms, if at all.

Because of the large volume of cash handled by the company, stringent cash controls have been implemented by the Company. These procedures have been improved over the life of the Company, to take advantage of improvements in technology. Management believes that it will be able to duplicate the financial controls that exist at its current location at future locations, and that these controls will provide sufficient safeguards to protect the interests of the Company. In the event the topless club industry is required to convert the entertainers who perform from independent contractor to employee status, the Company has prepared alternative plans that Management believes will protect the profitability of the Company. In addition, Management believes that the industry standard of treating the entertainers as independent contractors provides sufficient safe harbor protection to preclude any tax assessment for prior years payroll taxes.

The adult topless club entertainment business is highly competitive with respect to price, service and location, as well as the professionalism of the entertainment. Rick's Cabaret in Houston competes with a number of locally-owned adult cabarets, some of whose names enjoy recognition that equals that of Rick's. Although the Company believes that it is well-positioned to compete successfully in the future, there can be no assurance that Rick's will be able to maintain its high level of name recognition and prestige within the marketplace.

SEASONALITY

The Company is significantly affected by seasonal factors. Typically, Rick's has experienced reduced revenues from May through September. The Company has historically experienced its strongest operating results during October through April.

ITEM 7. FINANCIAL STATEMENTS

The information required hereunder is included in this report as set forth

in the "Index to Financial Statements" on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in accountants since the Registrant's incorporation in 1994, nor have there been any disagreements with accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

AUDITED FINANCIAL INFORMATION

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Consolidated Statements of Operations for the years ended	
September 30, 1996 and 1995	F-4
Consolidated Statements of Changes in Stockholders' Equity	
for the years ended September 30, 1996 and 1995	F-5
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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Rick's Cabaret International, Inc.

We have audited the accompanying consolidated balance sheets of Rick's Cabaret International, Inc. and subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rick's Cabaret International, Inc. and subsidiaries as of September 30, 1996 and 1995, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Jackson & Rhodes P.C.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 1996 AND 1995

<TABLE>
<CAPTION>

ASSETS

	1996	1995
	-----	-----
<S>	<C>	<C>
Current assets:		
Cash	\$ 3,150,003	\$ 195,112
Accounts receivable	73,531	--
Inventories	47,620	31,612
Prepaid expenses	172,198	51,455
Income taxes receivable	47,735	--
	-----	-----
Total current assets	3,491,087	278,179
	-----	-----
Property and equipment:		
Buildings, land and leasehold improvements	2,225,710	664,902
Furniture and equipment	742,320	486,447
	-----	-----
	2,968,030	1,151,349
Less accumulated depreciation	(554,338)	(408,717)
	-----	-----
	2,413,692	742,632
	-----	-----
Other assets:		
Deferred offering costs (Note 1)	--	389,680
Other	228,062	38,967
	-----	-----
	\$ 6,132,841	\$ 1,449,458
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt (Note 3)	\$ 153,677	\$ 193,139
Accounts payable - trade (Note 5)	336,253	501,012
Accrued expenses	245,264	97,753
Income taxes payable	--	227,495
	-----	-----
Total current liabilities	735,194	1,019,399
Long-term debt, less current portion (Note 3)	77,826	212,833
	-----	-----
Total liabilities	813,020	1,232,232
	-----	-----
Commitments and contingencies (Note 6)	--	--
Stockholders' equity (Note 1):		
Preferred stock - \$.10 par, authorized 1,000,000 shares; none issued	--	--
Common stock - \$.01 par, authorized 15,000,000 shares; issued 4,068,077 and 1,800,000	40,681	18,000
Additional paid-in capital	5,788,528	
Retained earnings (deficit)	(509,388)	199,226
	-----	-----
Total stockholders' equity	5,319,821	217,226
	-----	-----
	\$ 6,132,841	\$ 1,449,458
	=====	=====

</TABLE>

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

<TABLE>
 <CAPTION>

	1996	1995
	-----	-----
<S>	<C>	<C>
Revenues:		
Sales of alcoholic beverages	\$ 2,252,714	\$ 2,286,157
Sales of food	274,577	213,537
Service revenues	1,742,890	1,700,133
Other	360,117	334,879
	-----	-----
	4,630,298	4,534,706
	-----	-----
Operating expenses:		
Cost of goods sold	753,216	699,630
Salaries and wages	1,497,731	1,271,204
Other general and administrative:		
Taxes and permits	514,799	541,214
Charge card fees	81,373	149,176
Rent	305,761	294,592
Legal and accounting	332,137	106,571
Advertising	533,418	298,040
Other	1,509,108	580,609
	-----	-----
	5,527,543	3,941,036
	-----	-----
Income (loss) from operations	(897,245)	593,670
Interest expense	41,369	40,243
	-----	-----
Income (loss) before income taxes	(938,614)	553,427
Income taxes (benefit) (Note 4)	(230,000)	194,000
	-----	-----
Net income (loss)	\$ (708,614)	\$ 359,427
	=====	=====
Net income (loss) per common share	\$ (0.20)	\$ 0.20
	=====	=====
Weighted average shares outstanding	3,535,081	1,800,000
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

<TABLE>
 <CAPTION>

	Common Stock				

	Number of	Amount	Additional	Retained	Total
	Shares		Paid-in	Earnings	
			Capital	(Deficit)	

<S>	<C>	<C>	<C>	<C>	<C>
Balance, September 30, 1993	1,750,000	\$17,500	\$ --	\$(351,242)	\$(333,742)
Acquisition of Tantra (Note 1)	50,000	500	--	--	500
Net income	--	--	--	191,041	191,041
Balance, September 30, 1994	1,800,000	18,000	--	(160,201)	(142,201)
Net income	--	--	--	359,427	359,427
Balance, September 30, 1995	1,800,000	18,000	--	199,226	217,226
Sale of common stock for cash, net of offering costs of \$1,365,041	2,218,077	22,181	5,539,028	--	5,561,209
Common stock issued for services	50,000	500	249,500	--	250,000
Net income (loss)	--	--	--	(708,614)	(708,614)
Balance, September 30, 1996	4,068,077	\$40,681	\$ 5,788,528	\$(509,388)	\$ 5,319,821

</TABLE>

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Net income (loss)	\$ (708,614)	\$ 359,427
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	145,621	110,258
Common stock issued for services	250,000	-
Changes in assets and liabilities:		
Accounts receivable	(73,531)	15,947
Inventories	(16,008)	(6,321)
Prepaid expenses and other assets	(185,375)	(51,455)
Accounts payable and accrued liabilities	(17,248)	188,652
Income taxes payable/receivable	(399,693)	140,319
Net cash provided (used) by operating activities	(1,004,848)	756,827
Cash flows from investing activities:		
Additions to property and equipment	(1,816,681)	(439,609)
Retirements of fully depreciated assets	-	25,394
Increase in other assets	-	(1,867)
Net cash used in investing activities	(1,816,681)	(416,082)
Cash flows from financing activities:		
Common stock issued, less offering costs	5,561,209	-
Increase in long-term debt	-	133,526
Payments on long-term debt	(174,469)	(3,109)
(Increase) decrease in deferred financing costs	389,680	(389,680)
Net cash provided (used) by financing activities	5,776,420	(259,263)
Net increase in cash	2,954,891	81,482
Cash at beginning of year	195,112	113,630
Cash at end of year	\$3,150,003	\$ 195,112

Cash paid during the period for:

Interest	\$ 35,301	\$ 34,083
	=====	=====
Income taxes	\$ 186,857	\$ 53,681
	=====	=====

</TABLE>

Non-cash transaction:

On December 29, 1994, the Company acquired certain land with a \$95,000 note (see Note 3).

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996 AND 1995

1. ORGANIZATION

Rick's Cabaret International, Inc. (the "Company") was formed in December 1994, to acquire all the outstanding common stock of Trumps Inc. ("Trumps"), a company owned 100% by the Company's sole stockholder. The Company owns a premiere adult nightclub offering topless entertainment in Houston, Texas. The Company also is presently constructing another premier adult nightclub in leased facilities on Bourbon Street in New Orleans, Louisiana.

Effective August 1, 1995, the Company acquired Tantric Enterprises, Inc. and two related companies, Tantra Dance, Inc. and Tantra Parking, Inc. (collectively, "Tantra") from Mr. Robert Watters (the "Combination") for 50,000 shares of the Company's common stock. The Tantra companies were incorporated on August 1, 1994 but had no operations until December 1994. The acquisition has been accounted for in a manner similar to the pooling-of-interests method due to Mr. Watter's control of the respective companies. Accordingly, the Company has presented, in the accompanying financial statements, the combination of the companies as if the acquisition had occurred upon the inception of Tantra. Outstanding common shares at September 30, 1996 and 1995 are represented by the Company's outstanding shares plus the 50,000 shares issued for Tantra.

On October 13, 1995, the Company completed its public offering of 1,840,000 shares of common stock. The proceeds from the sale of stock amounted to approximately \$4,270,000 net of underwriting discounts, commissions and expenses of the offering.

A portion of the proceeds of the Company's public offering has been used for capital improvements at the existing Houston, Texas location, payments on the Company's existing borrowings, and for working capital. The balance is primarily being invested temporarily in cash equivalents and short term investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries and Tantra, as explained in Note 1. All significant intercompany balances and transactions are eliminated in consolidation.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Income (Loss) Per Common Share

Net income (loss) per common share is computed by dividing net income by the weighted average number of shares outstanding during the years, after giving retroactive effect to the reorganization transaction and the

Combination (Note 1).

Use of Estimates and Assumptions

Preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventories

Inventories, consisting principally of liquor and food products, are stated at the lower of cost or market (first-in, first-out method).

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Cost of property renewals and betterments are capitalized; costs of property maintenance and repairs are charged against operations as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the individual assets, as follows:

<TABLE>	<S>	<C>
	Building and improvements	31 years
	Equipment	5-7 years
	Leasehold improvements	5-7 years
</TABLE>		

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Company recognizes all revenues at point-of-sale upon receipt of cash, check or charge sale. This includes VIP Room Memberships, since the memberships are non-refundable and the Company has no material obligation for future performance.

Income Taxes

The Company accounts for its income taxes in accordance with Statement of Financial Accounting Standards No. 109, which reflects an asset and liability approach in accounting for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

Preopening Costs

Costs incurred in advance of opening a new nightclub are deferred and amortized against subsequent operations on a straight-line basis over eighteen months. Preopening costs are included in other assets.

3. LONG-TERM DEBT

Following is a summary of long-term debt at September 30:

<TABLE>		1996	1995
<CAPTION>		----	----
	<S>	<C>	<C>

Note payable to a bank, due in monthly installments of \$1,800, including interest at 10%, matures October 1996, secured by the Company's land and building.

\$ 90,045 \$ 94,372

Notes payable to affiliated companies owned by the Company's sole stockholder, interest at 9% and principal due November 30, 1996.

21,294 46,279

Note payable to a bank, payable \$10,000 per month plus interest at the prime rate plus 1%, matures August 24, 1996, collateralized by accounts receivable, inventory, furniture and fixtures of the Company.

- 110,000

</TABLE>

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. LONG-TERM DEBT

<TABLE>
<CAPTION>

	1996 ----	1995 ----
	<C>	<C>
<S> Note payable to a bank, payable \$1,000 per month plus interest at the prime rate plus 1%, matures December 29, 1996, collateralized by the Company's accounts receivable, inventory, furniture, fixtures and equipment and a second lien on real estate.	\$ 20,000	\$ 31,000
Note payable to a bank, payable \$1,500 per month plus interest at the prime rate plus 1%, matures October 28, 1996, collateralized by the Company's accounts receivable, inventory, furniture, fixtures and equipment and a second lien on real estate.	15,252	32,930
9% note payable to individuals, payable \$1,203 per month, including interest, until maturity on January 15, 2000, collateralized by a first lien on real estate.	84,912	91,391
	-----	-----
Less current portion	231,503 (153,677)	405,972 (193,139)
	-----	-----
Long-term debt	\$ 77,826 =====	\$212,833 =====

</TABLE>

Substantially all the Company's assets are pledged to secure the above debt.

Following are the maturities of long-term debt for the years ending September 30:

<TABLE>	<S>	<C>
	1997	\$153,677
	1998	7,751
	1999	8,478
</TABLE>	2000	61,597

4. INCOME TAXES

Income tax expense (benefit) consisted of current taxes for 1996 and 1995.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. INCOME TAXES (CONTINUED)

Following is a reconciliation of income taxes (benefit) at the U.S. Federal tax rate to the amounts recorded by the Company for the years ended September 30:

	1996	1995
	----	----
<S>	<C>	<C>
Taxes on income (loss) before income taxes at the statutory rate	\$ (319,000)	\$188,200
Separate return limitation - unavailable loss carrybacks	89,000	-
Other differences	-	5,800
	-----	-----
	\$ (230,000)	\$194,000
	=====	=====

</TABLE>

The components of the net deferred tax liability are as follows at September 30, 1996 and 1995:

	1996	1995
	----	----
<S>	<C>	<C>
Operating loss carryforwards	\$ (107,000)	\$ -
Deductible preopening costs	65,000	-
Deferred tax asset valuation allowance	42,000	-
	-----	-----
	\$ -	\$ -
	=====	=====

</TABLE>

For tax purposes, the Company has a net operating loss carryforward amounting to approximately \$300,000 which will expire, if not utilized in 2011.

5. RELATED PARTY TRANSACTIONS

As of September 30, 1994, SRD Vending Company, Inc. ("SRD"), a company wholly-owned by Mr. Watters, had advanced the Company \$69,722. During November 1994, the Company converted these advances, which were demand obligations of the Company, to promissory notes in favor of SRD in the amount of \$69,722. The promissory note, which bears interest at the rate of 9% per annum, is due in full on November 30, 1995. The balance outstanding at September 30, 1995 was \$46,279.

SRD has provided and maintained the cigarette vending machines at Rick's Cabaret since 1986. During 1994, SRD received less than \$25,000 from the vending machines. The Company agreed with SRD that any revenues received from the vending machines after December 31, 1994 would be split equally between the Company and SRD.

During 1996 and 1995, the Company paid \$ 7,775 and \$16,550, respectively, for accounting services to an accounting firm in which a director of the Company was a principal.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. COMMITMENTS AND CONTINGENCIES

Leases

Included in accounts payable at September 30, 1996 and 1995 is a \$150,000 and \$100,000 liability, respectively, to a former stockholder for the purchase of treasury stock under terms of a settlement agreement with the former stockholder.

The Company leases its Houston nightclub space from a company whose ownership was subject to litigation. Ownership was claimed by the Company's sole stockholder, Mr. Robert Watters, and by a former Company stockholder (Note 6). Lease payments are equal to the larger of \$10,000 per month or 5% of gross receipts per month. The lease expired in February 1996, and the Company has been leasing the space on a month-to-month basis. The lease provides that the Company is obligated to pay for any maintenance to the premises, to maintain adequate insurance on the building and to pay all utilities and taxes. Rental expense amounted to \$173,776 and \$175,652 for the years ended September 30, 1996 and 1995, respectively. The lawsuit was settled in 1996, resulting in the former stockholder owning the building. The Company has agreed to buy the property from the former stockholder (see below).

The Company presently has a three year employment agreement with Robert L. Watters (the "Agreement") to serve as its President and Chief Executive Officer. The Agreement, which extends through December 31, 1997, provides for an annual base salary of \$300,000. The Agreement also allows for an annual bonus, at the discretion of the Board of Directors (excluding Mr. Watters), based upon the financial performance, including evaluation of the income and earnings of the Company during the year. The Agreement also provides for participation in all benefit plans maintained by the Company for salaried employees. The Agreement contains a confidentiality provision and an agreement by Mr. Watters not to compete with the Company upon the expiration of the Agreement.

Rent expense amounted to approximately \$306,000 and \$295,000 for the years ended September 30, 1996 and 1995, respectively.

The Company has entered into an operating lease for a nightclub in New Orleans, Louisiana. The 40 year lease commenced in June 1996 and is a triple net lease with the tenant paying taxes, maintenance and insurance. The lease also requires certain contingent rentals based on revenues at the nightclub. Following is a schedule of minimum lease payments for the years ending September 30:

<TABLE>	<S>	<C>
	1997	\$ 260,000
	1998	300,000
	1999	300,000
	2000	300,000
	2001	300,000
	Thereafter	8,575,000

</TABLE>

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concentration of Credit Risk

The Company invests its cash and certificates of deposit primarily in deposits with major banks. Certain deposits are in excess of federally insured limits. The Company has not incurred losses related to its cash on deposit with banks.

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, Disclosures about Fair Value of Financial Instruments. The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies.

The fair value of financial instruments classified as current assets or liabilities including cash and cash equivalents, receivables and accounts

payable approximate carrying value due to the short-term maturity of the instruments. The fair value of short-term and long-term debt approximate carrying value based on their effective interest rates compared to current market rates.

Litigation

In 1991, Mr. Watters and a former stockholder of the Company (the "Plaintiffs") filed suit against another former stockholder of the Company (the "Defendant"). The suit sought to compel the Defendant to convey to the Plaintiffs all of its ownership interest in two entities, one of which, Zu Corporation, owns the land where Rick's is located and which is leased by the Company. In October 1996, after years of trials and appeals, the Defendant and the Company settled the case and the Company agreed to buy the property for \$2,000,000. The closing on the property is expected to occur in December 1996.

In 1989, one of the former stockholders of the Company was sued over his ownership interest in the Company. Mr. Watters and the Company were joined in the litigation based on allegations that they had improperly transferred certain assets to the Company from another corporation that had previously operated Rick's. In 1992, Summary Judgment was rendered in favor of the Company and Mr. Watters. Subsequent to an appeal, the Texas Court of Appeals remanded the case to the trial court. The Company and Mr. Watters recently mediated this matter and entered into a settlement agreement with the plaintiff. The settlement agreement provided that the litigation would be dismissed, with prejudice, as to the Company, Mr. Watters and all other entities with which Mr. Watters is or was associated.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In consequence, the action was satisfactorily settled as to all parties, and all defendants have now been dismissed with prejudice. The lawsuit is therefore terminated, and all judgment dismissing same is now final.

6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation (Continued)

A former Company stockholder has sued the Company and Mr. Watters for alleged breaches of an Agreement entered into in April 1993 among the stockholder, the Company and Mr. Watters. The stockholder alleges that Mr. Watters and the Company have breached this Agreement, but does not indicate the manner in which this breach has occurred. The Company believes that it has fully complied with its obligations under this Agreement. The litigation is in its initial stages and no trial date has been set. The Company believes, after consultation with counsel, that it has substantial defenses to the claims being asserted against it and that the risk of material financial exposure is remote.

The Company is also the subject of other routine legal matters in the ordinary course of business.

The Company does not believe that the ultimate resolution of the above matters will have a material impact on the Company's financial position or results of operations.

7. EMPLOYEE STOCK OPTION PLAN

The Company has adopted a Stock Option Plan (the "Plan") for employees and directors. The options granted under this Plan maybe either Incentive Stock Options, as that term is defined in Section 422A of the Internal Revenue Code of 1986, as amended, or nonstatutory options taxed under Section 83 of the Internal Revenue Code of 1986, as amended. The Plan is administered by the Board of Directors or by a Compensation Committee of the Board of Directors. The Board of Directors has the exclusive power to select the participants in the Plan, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price equal to at least 85% of the fair market value of the Common Stock covered by the option on the grant date and to make all determinations necessary or advisable under the Plan. A total of 300,000 shares may be

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. EMPLOYEE STOCK OPTION PLAN (CONTINUED)

optioned and sold under the Company's Stock Option Plan. During the year ended September 30, 1996, options were granted as follows:

<S>	<C>
Granted	105,000
Exercised	-

Outstanding at end of year	105,000

Exercisable at end of year	-

Exercise price per share	\$3.00 to \$4.75

8. STOCKHOLDERS' EQUITY

During the year ended September 30, 1996, the Company issued 50,000 shares valued at \$250,000 to an advertising and public relations firm for services rendered.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;
COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

DIRECTORS AND EXECUTIVE OFFICERS.

Directors are elected annually and hold office until the next annual meeting of the stockholders of the Company or until their successors are elected and qualified. Officers are elected annually and serve at the discretion of the Board of Directors. There is no family relationship between or among any of the directors and executive officers of the Company. Under the terms of the Underwriting Agreement in connection with the Company's initial public offering, the Company agreed that, for a period of three years ending October, 1998, the Company's Board of Directors will consist of a minimum of five persons, two of whom shall not be affiliated with the Company. To date, the Company's Board of Directors consists of four persons.

Robert Watters, age 45, has been a director of the Company since 1986, and has been the sole stockholder of the Company since March 1993. Mr. Watters has been president and chief executive officer of the Company since 1991 and presently serves also as its chief financial officer. He was also a founder in 1989 and operator until 1993 of the Colorado Bar & Grill, an adult cabaret located in Houston, Texas and in 1988 performed site selection, negotiated the property purchase and oversaw the design and permitting for the cabaret that became the Cabaret Royale, in Dallas, Texas. Mr. Watters practiced law as a solicitor in London, England and is qualified to practice law in New York state. Mr. Watters worked in the international tax group of the accounting firm of Touche, Ross & Co. (now succeeded by Deloitte & Touche) from 1979 to 1983 and was engaged in the private practice of law in Houston, Texas from 1983 to 1986, when he became involved in the full-time management of the Company. Mr. Watters graduated from the London School of Economics and Political Science, University of London, in 1973 with a Bachelor of Laws (Honours) degree and in 1975 with a Master of Laws degree from Osgoode Hall Law School, York University.

Erich Norton White, age 26, vice president, secretary and general manager has served as a Director of the Company since July, 1995. Mr. White joined the Company in January, 1993 as a night manager and since May, 1995 has been its General Manager. From October, 1989, until joining the Company in 1993, Mr. White worked in the hospitality industry for the Bennigan's restaurant chain. Mr. White completed the Bennigan's Restaurant Management Training Program in 1992.

Scott C. Mitchell, age 43, has served as a director of the Company since December, 1994. Mr. Mitchell has been a certified public accountant in private practice since 1976 and has been a principal of his own firm since 1981. Mr. Mitchell's current firm Mitchell & Cavallo, P.C. serves a wide range of business and individual clients. Mr. Mitchell has been licensed since 1980 to practice law in the State of Texas and since 1986 has been admitted to practice before the Tax Court of the United States. Further, Mr. Mitchell has been appointed by various District Courts as a receiver and special master of business entities under court jurisdiction. Mr. Mitchell was appointed a Receiver of the Company in September, 1989 with limited authority to oversee and review the receipt and disbursement of revenues of the Company. Mr. Mitchell, however, had no authority over the management of the Company. The receivership was terminated in March, 1993. Mr. Mitchell graduated from the University of Texas with an honors degree in Business Administration.

Martin Sage, age 45 has served as a Director of the Company since July, 1995. Mr. Sage is the founder and director of Sage Productions, Inc., which is involved in the development of applying

advanced learning theory to business. The Sage Learning Method enables individuals to build innovative approaches to management, leadership and team building. The Sage Learning Method works to create dynamic relationships which motivate and create synergy between individuals and the businesses where they work. For the past 16 years, Mr. Sage has served as a consultant to businesses throughout the United States bringing his innovative approach to business to many organizations and corporations.

Robert Gary White, age 41, Chief Financial Officer, has been with the Company since February, 1996. A CPA in the state of Texas since 1979, Mr. White was previously an audit manager with Jackson & Rhodes, P.C., an accounting firm located in Dallas, Texas, from 1994 to 1996, where he was responsible for the Rick's Cabaret International, Inc. engagement. He has additional experience in managing his own accounting practice and consulting with entertainment companies, which he did from 1992 to 1994. Additionally, from 1989 through 1991, Mr. White was an officer of International Broadcast Systems, Ltd., a NASDAQ listed entertainment company, becoming a director in 1990. Prior thereto, he was with Deloitte Touche L.L.P. (formerly Touche Ross & Co.) for twelve and one half years. He is a 1977 graduate of the University of Texas at Austin with a B.B.A. in accounting.

CERTAIN SECURITIES FILINGS

Robert Watters, Scott Mitchell, Martin Sage, and Erich Norton White, all directors of the Company, each failed to timely file one report on Form 3 as required by Section 16(a) of the Exchange Act. The reports were of their respective beneficial holdings owned at the time they each became subject to reporting on Form 3. Messrs. Mitchell and Sage each subsequently filed one amendment to Form 3. Mr. White subsequently filed two amendments to Form 3.

ITEM 10. EXECUTIVE COMPENSATION

The following table reflects all forms of compensation for services to the Company for the fiscal years ended September 30, 1996, 1995 and 1994 of the chief executive officer of the Company. No executive officer (other than the chief executive officer) of the Company received compensation which exceeded \$100,000 during 1996.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

NAME & PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION		ALL OTHER COMPENSATION
		SALARY	BONUS	OTHER (1)	RESTRICTED STOCK AWARDS	STOCK OPTIONS (SHARES)	
<S> Robert L. Watters	<C> 1996	<C> \$325,000	<C> -0-	<C> -0-	<C> -0-	<C> -0-	<C> -0-

Chief Executive Officer	1995	\$298,000	-0-	-0-	-0-	-0-	-0-
	1994	\$382,970	-0-	-0-	-0-	-0-	-0-

(1) The Company provides Mr. Watters certain personal benefits. Since the value of such benefits does not exceed the lesser of \$50,000 or 10% of annual compensation, the amounts are omitted.

DIRECTOR COMPENSATION

The Company does not currently pay any cash directors' fees, but it pays the expenses of its directors in attending board meetings. Scott C. Mitchell, Martin Sage and Erich N. White, directors of the Company were granted stock options on October 12, 1995 for services provided to the Company as directors. Messrs. Mitchell, Sage and White were each granted 5,000 stock options, all at an exercise price of \$3.00 per share until January, 2005. The options are exercisable only as to-

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one-fourth of the total number of shares covered by each grant of options during each 12-month period commencing 12 months after the grant date.

EMPLOYEE STOCK OPTION PLAN

While the Company has been successful in attracting and retaining qualified personnel, the Company believes that its future success will depend in part on its continued ability to attract and retain highly qualified personnel. The Company pays wages and salaries which it believes are competitive. The Company also believes that equity ownership is an important factor in its ability to attract and retain skilled personnel, and in 1995 adopted a Stock Option Plan (the "Plan") for employees and directors.

The purpose of the Plan is to further the interest of the Company, its subsidiaries and its stockholders by providing incentives in the form of stock options to key employees and directors who contribute materially to the success and profitability of the Company. The grants will recognize and reward outstanding individual performances and contributions and will give such persons a proprietary interest in the Company, thus enhancing their personal interest in the Company's continued success and progress. This Plan will also assist the Company and its subsidiaries in attracting and retaining key employees and directors. The options granted under this Plan may be either Incentive Stock Options, as that term is defined in Section 422A of the Internal Revenue Code of 1986, as amended, or nonstatutory options taxed under Section 83 of the Internal Revenue Code of 1986, as amended. The Plan is administered by the Board of Directors or by a Compensation Committee of the Board of Directors. The Board of Directors has the exclusive power to select the participants in the Plan, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price equal to at least 85% of the fair market value of the Common Stock covered by the option on the grant date and to make all determinations necessary or advisable under the Plan. A total of 300,000 shares may be optioned and sold under the Company's Stock Option Plan. As of September 30, 1996, 105,000 stock options had been granted under the Plan, none of which have been exercised.

EMPLOYMENT AGREEMENT

The Company presently has a three year employment agreement with Robert L. Watters (the "Agreement") to serve as its President and Chief Executive Officer. The Agreement, which extends through December 31, 1997, provides for an annual base salary of \$300,000. The Agreement also allows for an annual bonus, in the discretion of the Board of Directors (excluding Mr. Watters), based upon the financial performance, including evaluation of the income and earnings of the Company during the year. The Agreement also provides for participation in all benefit plans maintained by the Company for salaried employees. Mr. Watters' Agreement contains a confidentiality provision and an agreement by Mr. Watters not to compete with the Company upon the expiration of the Agreement. The Company has not established, nor does it provide for, long-term incentive plans or defined benefit or actuarial plans.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information at December 20, 1996, with respect to the beneficial ownership of shares of Common Stock by (i) each person who owns beneficially more than 5% of the outstanding shares of Common Stock, (ii) each director of the Company, (iii) each executive officer of the Company and (iv) all executive officers and directors of the Company as a group.

<TABLE>

<CAPTION>

Name and Address of Beneficial Owner (1) -----	Shares Beneficially Owned	
	Number -----	Percent -----
<S>	<C>	<C>
Robert L. Watters 3113 Bering Houston, Texas 77057	1,800,000	36.86%
Erich Norton White 3113 Bering Houston, Texas 77057	14,675 (2)	.30%
Scott C. Mitchell 820 Gessner, Suite 1380 Houston, Texas 77024	11,250 (3)	.29%
Martin Sage 100 Congress Ave., Ste. 2100 Austin, Texas 78701	1,250 (3)	.01%
Robert Gary White 3113 Bering Houston, Texas 77057	-0- (4)	.00%
Rock Fund 3601 West Commercial Blvd. Fort Lauderdale, Florida, 33309.	244,600	5.0%
All directors and executive officers as a group (5 persons)	1,827,175	37.46%

</TABLE>

- (1) Messrs. Watters, White and Mitchell have sole voting and investment power with respect to the shares shown as beneficially owned by them.
- (2) Includes options to purchase 13,750 shares at an exercise price of \$3.00 per share, which are presently exercisable; and does not include options to purchase 16,250 shares at an exercise price of \$3.00 per share which will not become exercisable within the next 60 days.
- (3) Includes options to purchase 1,250 shares at an exercise price of \$3.00 per share, which are presently exercisable; and does not include options to purchase 3,750 shares at an exercise price of \$3.00 per share which will not become exercisable within the next 60 days.
- (4) Does not include options to purchase 25,000 shares at an exercise price of \$4 3/4 per share, none of which are exercisable within the next 60 days.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Prior to the Company's reorganization, the Company, as a privately-held company engaged in certain business transactions with Mr. Watters, its sole stockholder. These transactions are described below. The Board of Directors of the Company has adopted a policy that Company affairs will be conducted in all respects by standards applicable to publicly-held corporations and that the Company will not enter into any future transactions and/or loans between the Company and its officers, directors and 5% shareholders unless the terms are no less favorable than could be obtained from independent, third parties and will be approved by a majority of the independent, disinterested directors of the Company. In the Company's view, all of the transactions described below involving the Company meet this standard.

The Company was organized in 1994 to acquire all of the outstanding

common stock of Trumps, Inc. ("Trumps"), a Texas corporation formed in 1982, from Robert L. Watters, its sole stockholder. The Company issued to Mr. Watters 1,750,000 shares of its common stock in exchange for the common stock of Trumps. This exchange, which resulted in Trumps becoming a wholly owned subsidiary of the Company, was consummated in February 1995. The transaction was entered as part of a corporate reorganization, the result of which was to create the Company as a holding company for Trumps.

In August, 1995, the Board of Directors of the Company authorized the acquisition from Mr. Watters of all of the capital stock of Tantric Enterprises, Inc., Tantra Dance, Inc., and Tantra Parking, Inc. (collectively "Tantra"). The Company issued to Mr. Watters 50,000 shares of its common stock in exchange for the stock of Tantra. The exchange was consummated in September, 1995. The Tantra companies own and operate Tantra, a non-sexually oriented discotheque and billiard club in Houston, Texas. The Board of Directors determined that the combination of the business operations of Tantra and the Company will create a synergy which will enhance the profitability of both businesses. Moreover, the diversification of the Company's operations into the business of Tantra is anticipated to enhance the public image of the Company. The Board of Directors has received an opinion of an independent third-party appraiser that the terms of the transaction are fair and reasonable to the Company and are at least as favorable to the Company as would be the case between unrelated parties. Mr. Watters had no cost basis in the stock of Tantra.

In 1986, the Company entered into a lease agreement with Zu Corporation, a Texas corporation ("Zu"), for the land and building where Rick's Cabaret is located (the "Zu Lease Agreement"). In 1991, Mr. Watters exercised an option to purchase all of the outstanding shares of capital stock of Zu. The seller, however, contested the validity of the exercise of this option and Mr. Watters initiated litigation. The litigation has been settled. See "Legal Proceedings."

As of September 30, 1993, SRD Vending Company, Inc. ("SRD"), a company wholly-owned by Robert L. Watters, had advanced the Company \$60,501. This amount was increased during the Company's 1994 fiscal year to \$69,722. During November, 1994, the Company converted these advances, which were demand obligations of the Company, to a promissory note in favor of SRD in the amount of \$69,722. The promissory note, which bears interest at the rate of 9% per annum, was due in full on November 30, 1995, at which time it was paid.

SRD has provided and maintained the cigarette vending machines at Rick's Cabaret since 1986. SRD's revenues are generated from the sale of cigarettes from vending machines located at Rick's Cabaret. SRD is responsible (i) to service the vending machines to ensure that they are in good working order and (ii) to maintain an adequate supply of cigarettes in the vending machines. The Company has agreed with SRD that the revenues received from the vending machines after

December 31, 1994 will be split equally between the Company and SRD. During the Company's fiscal years ending 1996 and 1995, SRD received less than \$25,000 per year from the vending machines.

During the Company's fiscal years ending 1996 and 1995, the Company paid \$7,775 and \$16,560, respectively, for accounting services to accounting firms in which Mr. Mitchell, a director of the Company, was a principal.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	Identification of Exhibit
3.1(1)-	Certificate of Incorporation of the Registrant
3.2(1)-	Bylaws of the Registrant
4.1(1)-	Common Stock specimen
4.2(1)-	See Exhibits 3.1 and 3.2. for provisions of the Articles of Incorporation and Bylaws of the Registrant defining rights of holders of common stock of the Registrant
4.3(1)-	Form of Representative's Warrant Agreement and Form of Warrant Certificate
4.4(1)-	Warrant Agreement and Warrant Specimen

- 5.1(1)- Opinion of Axelrod, Smith & Kirshbaum, including Consent
- 10.1 - Lease of premises located at 315-21 Bourbon Street, New Orleans, Louisiana, dated February 13, 1996
- 10.2(1)- Lease Agreement between Zu Corporation as Lessor and Trump's, Inc., as Lessee, dated February 28, 1986
- 10.3(1)- Amendment to Lease Agreement between Zu Corporation, Lessor and Trump's, Inc., Lessee, dated September 10, 1989
- 10.4(1)- Lease Agreement between Trump's, Inc., as Lessor and Tantric Enterprises, Inc., as Lessee dated December 1, 1994
- 10.5(1)- Agreement between Trump's, Inc., and SRD Vending Company, Inc.
- 10.6(1)- Form of Financial Advisory Agreement between Barron Chase Securities, Inc. and Registrant
- 10.7(1)- Form of Merger and Acquisition Agreement between Barron Chase Securities, Inc. and the Registrant
- 10.8(1)- Employee Stock Option Plan
- 10.9(1)- Employment Agreement between the Registrant and Robert L. Watters
- 21.1- Subsidiaries of Registrant
- 27.1- Financial Data Schedule

(1) Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (No. 33-88372), as amended, and incorporated herein by reference thereto.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the three months ended September 30, 1996.

SIGNATURES

In accordance with the requirements of Section 13 of 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 27th day of December, 1996.

RICK'S CABARET INTERNATIONAL, INC.

By: /s/ Robert L. Watters

 Robert L. Watters, Chairman
 of the Board and Chief
 Executive Officer

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
-----	-----	----
<S> /s/ Robert L. Watters	<C> Chairman of the Board, Chief Executive Officer, and Director	<C> December 27, 1996
----- Robert L. Watters		
/s/ Erich Norton White	Director and Executive Vice President	December 27, 1996
----- Erich Norton White		
/s/ Scott C. Mitchell	Director	December 20, 1996

Scott C. Mitchell

/s/ Director December __, 1996

Martin Sage

/s/ Robert Gary White Chief Financial Officer and December 27, 1996

Principal Accounting Officer

Robert Gary White

</TABLE>

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INDEX TO EXHIBITS

Exhibit No.	Description
-----	-----
10.1 -	Lease of premises located at 315-21 Bourbon Street, New Orleans, Louisiana, dated February 13, 1996
21.1 -	Subsidiaries of Registrant
27.1 -	Financial Data Schedule

AGREEMENT OF LEASE

1. PARTIES

1.1 THIS LEASE is made and entered into as of the 13th day of February, 1996, by and between THREE FIFTEEN BOURBON STREET, L.L.C. ("Landlord") and RCI ENTERTAINMENT LOUISIANA, INC. ("Tenant").

2. PREMISES

2.1 Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the following described property:

Three story building bearing municipal address 315-17-19-21 Bourbon Street, New Orleans, Louisiana; leased premises comprising three floors and mezzanine, approximately 16,000 square feet of gross leasable area.

(hereinafter collectively referred to as the "Premises"), all as more fully described in Exhibit A attached hereto and made a part hereof.

3. TERM

3.1 This Lease shall be for a term of four hundred eighty (480) months commencing on the 1st day of June, 1996, and ending on the 31st day of May, 2036, unless sooner terminated or extended as provided herein (hereinafter referred to as the "Term").

4. RENT

4.1 Except as otherwise provided herein, Rent under this Lease is payable monthly by Tenant to Landlord, in advance, on the first day of each month commencing on June 1, 1996, and is payable without deduction, set-off, prior notice or demand. The amount of the monthly rent during the Term shall be as follows:

4.1.1 MINIMUM Rent. The monthly Minimum Rent shall be in the amounts set forth below:

2	
<TABLE>	
<CAPTION>	
Time Period	Rent Due
-----	-----
<S>	<C>
Months 1-3 (6/1/96 - 8/31/96)	Zero
Months 4-9 (9/1/96 - 2/28/97)	\$15,000 per month
Months 10-120 (3/1/97 - 5/31/06)	\$25,000 per month
Months 121 through 180	\$20,000.00 per month, adjusted for inflation using ratio of CPI for the month of March 2006 divided by CPI for the month of March 1996, as a multiplier, provided that the Minimum Rent shall in no case be lower than the Minimum Rent for the month of May 2006.
Months 181 through 240	\$20,000.00 per month, adjusted for inflation using ratio of CPI for the month of March 2011 - CPI the month of March 1996, as a multiplier, provided that the Minimum Rent shall in no case be lower than the Minimum Rent for the month of May 2011.
Months 241 through 480	As provided in Section 4.1.3.
</TABLE>	

4.1.1.1 For purposes of this Section 4, "CPI" shall mean the unadjusted monthly Consumer Price Index for All Urban Consumers (CPI-U), U.S. City Average (All Items) (1982-84=100), published by the Bureau of

Labor Statistics of the United States Department of Labor, or any successor index thereto, appropriately adjusted. In the event that the Consumer Price Index is converted to a different standard referenced base or otherwise revised, the determination of the Minimum Rent adjustment shall be made with the use of such conversion factor, formula or table for converting the Consumer Price Index as may be published by the Bureau of Labor Statistics or, if said Bureau shall not publish the same, then with the use of such conversion factor, formula or table as may be published by Prentice-Hall, Inc., or any other nationally recognized publisher of similar statistical information. If the Consumer Price Index ceases to be published, and there is no successor thereto, such other index as Landlord and Tenant are unable to agree as to such substituted index, such matter shall be submitted to arbitration in accordance with the commercial arbitration rules of the American Arbitration Association.

4.1.2 Percentage Rent. In the event that Tenant's annual Gross Receipts, as hereinafter defined, shall exceed Four Million Five Hundred Thousand (\$4,500,000.00) Dollars per annum (the "Breakpoint") (as such Breakpoint amount may subsequently be adjusted under the provisions of this Section 4.1.2), in any Lease Year, as hereinafter defined, then, in addition to the fixed Minimum Rent, Tenant shall pay to Landlord, as additional Percentage Rent, a sum equal to five (5%) percent of the annual Gross Receipts from the business conducted in or from the Premises in excess of such Breakpoint amount during such Lease Year. No additional Percentage Rent shall be payable by Tenant on Gross Receipts up to the Breakpoint amount for any Lease Year.

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For purposes of this Lease, a "Lease Year" shall be each period of June 1 through May 31 during the Term of this Lease.

Payment of any such additional rent shall be made by Tenant to Landlord within thirty (30) days after the end of each Lease Year. The Breakpoint amount shall be adjusted for inflation at such times and in the manner provided for adjustment of Minimum Rent as provided for in Section 4.1.1, by substituting the Breakpoint amount for the Minimum Rent in the Section 4.1.1 calculations.

Neither the provisions herein set forth for the computation of the Percentage Rent, nor any one or more agreements herein contained, is intended, nor shall be deemed or construed, to create a partnership between Landlord and Tenant nor to make Landlord in any way responsible for the debts or losses of Tenant.

4.1.2.1 The term "Gross Receipts," as used in this Lease, shall mean the total of actual gross charges made by Tenant, its licensees, and/or concessionaires, for all merchandise sold and services performed at or from the Premises or arranged for or order at, from, or through the Premises, whether for cash or other consideration, or on credit, and regardless of the type of payment of such charges or whether such charges are ever collected, together with the total of any rental payments received by Tenant pursuant to a sublease of not more than one hundred fifty (150) square feet within the Premises exclusively for the sale of apparel, which sublease is hereby expressly permitted by Landlord. Tenant's Gross Receipts shall also include the gross receipts from all mechanical or other vending devices placed in the Premises by or under the

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authority of Tenant, together with any gaming devices, including, but not limited to video poker machines, except that, in the case of both video poker machines and/or pay telephones, only the commissions or

proceeds actually received by Tenant shall be included in Gross Receipts; provided, however, that in the event such video poker machines and/or pay telephones are subleased or otherwise contracted for from an individual or entity affiliated with Tenant, Gross Receipts shall include the actual gross receipts from such devices received by the affiliate of Tenant.

Tenant may exclude the following from its statements of Gross Receipts: (i) all sales, use or gross receipt taxes, imposed by any city, parish, state or federal authority wherein the Premises are located, which taxes are determined by the amount of such sale and added thereto, together with any entertainment tax, collected from the customer or patron and required to be accounted for, and paid over, by Tenant, its licensees, and/or concessionaires, to such governmental authority; provided, however, that no franchise or capital stock tax or similar tax, business license fee or permit charge, and no income tax or similar tax based upon profits or receipts shall be deducted from Gross Receipts whatsoever; (ii) amounts of all chargebacks, discounts and/or service charges due credit card companies with respect to credit sales included in Gross Receipts; (iii) all cash dance sales receipts for which 1099's are issued to the performers; and (iv) in the event performers currently classified as independent contractors are subsequently required to be retained as employees by ruling or

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administrative position of the Internal Revenue Service, all compensation paid, together with the employer's portion of FICA and FUTA; but Tenant shall not be entitled to exclude payments made to the theatrical performers classified as employees and receiving W-2 statements with respect to their compensation.

Each charge or sale upon installment or credit shall be treated as a sale for the full price in the month during which such charge or sale shall be made, irrespective of the time when Tenant shall receive payment (whether full or partial) therefor.

Landlord and Tenant understand and agree that Percentage Rent, as defined in this Section 4, is a material consideration of this Lease, and in order to achieve maximum sales volume, Tenant covenants and agrees that neither Tenant nor any affiliate (and, if Tenant is a corporation, its officers, directors, stockholders, and any affiliates) shall directly or indirectly own, operate, manage or have any interest in the profits of any similar business operation featuring live entertainment, and located on Bourbon Street, New Orleans, Louisiana, and that if this provision shall be violated, then Gross Receipts (as defined in this Lease) of any such similar business operation shall be included in the Gross Receipts made from the Premises and the Percentage Rent hereunder shall be computed upon the aggregate of the Gross Receipts made from the Premises and by any such other similar business conducted on Bourbon Street, New Orleans, Louisiana.

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4.1.2.2 Within thirty (30) days after the end of the Lease Year, Tenant shall deliver to Landlord a written statement signed by Tenant and certified by Tenant's Chief Financial Officer, setting forth in reasonably accurate detail, the amount of Gross Receipts for the preceding Lease Year, such annual statement to be accompanied by a payment of the Percentage Rent, if any, due for such period.

4.1.2.3 Tenant shall keep a full and accurate set of books adequately showing the amount of Gross Receipts received by Tenant in each yearly period as aforementioned. Subject to reasonable prior notice, and at such reasonable times as shall not disrupt or interfere

with Tenant's operations, Landlord and its duly authorized representative, during the term hereof, shall have the right to inspect Tenant's books and records and any other data in any way pertaining to Gross Receipts, and Tenant agrees to keep such books, records and data available for such purposes at a convenient place.

4.1.3 RENT FOR REMAINING TERM. Not later than one hundred eighty (180) days prior to the expiration of the initial twenty (20) years of the Term of this Lease, Landlord and Tenant agree to negotiate in good faith to fix the rent due for the succeeding five (5) year period. In the event Landlord and Tenant are unable to agree in writing before the commencement of such period on the amount of the annual rent to be paid during the next succeeding five (5) year period, the annual rent to be paid during such next succeeding five (5) year period shall be a sum equal to twelve (12%) percent of the value of the Premises on the date three (3) months before the expiration of the

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initial twenty (20) year period of this Lease, such value to be determined in accordance with Section 4.1.3.1. However, the annual rent with respect to years 21 through 25 of the Term of this Lease shall, in no event, be less than the total Minimum and Percentage Rent payable for the Lease Year ending May 31, 2016. The annual rent for years 26 through 30 of the Term of this Lease shall be an amount equal to the annual rent calculated pursuant to the foregoing provisions of this Section 4.1.3 for years 21 through 25 of the Term of this Lease, adjusted for inflation using the CPI for the month of March 2021 divided by CPI for the month of March 2016, as a multiplier, provided that the annual rental shall in no event be lower than the annual rent calculated for years 21 through 25 of the Term of this Lease. All such rent shall be payable monthly as provided in Section 4.1 hereof.

Not later than one hundred eighty (180) days prior to the expiration of the initial thirty (30) years of the Term of this Lease, Landlord and Tenant agree to negotiate in good faith to fix the rent due for the succeeding five (5) year period. In the event Landlord and Tenant are unable to agree in writing before the commencement of such period on the amount of the annual rent to be paid during the next succeeding five (5) year period, the annual rent to be paid during such next succeeding five (5) year period shall be a sum equal to twelve (12%) percent of the value of the Premises on the date three (3) months before the expiration of the initial thirty (30) year period of this Lease, such value to be determined in accordance with Section 4.1.3.1. However, the annual rent with respect to years 31 through 35 of the Term of this Lease shall, in no event, be less than the total Minimum and Percentage Rent payable for the Lease Year ending

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May 31, 2026. The annual rent for years 36 through 40 of the Term of this Lease shall be an amount equal to the annual rent calculated pursuant to the foregoing provisions of this Section 4.1.3 for years 31 through 35 of the Term of this Lease, adjusted for inflation using the CPI for the month of March 2031 divided by CPI for the month of March 2026, as a multiplier, provided that the annual rental shall in no event be lower than the annual rent calculated for years 31 through 35 of the Term of this Lease. All such rent shall be payable monthly as provided in Section 4.1 hereof.

4.1.3.1 In the event Landlord and Tenant are unable to agree to the value of the Premises for purposes of Section 4.1.3, Landlord and Tenant shall each appoint an arbitrator within five (5) days after written notice of the dispute or after written notice of the necessity for arbitration and shall advise the other party of the choice of arbitrator. Every arbitrator designated pursuant to this Section 4.1.3.1 shall be a qualified MAI appraiser. On either Landlord's or Tenant's failure to appoint an arbitrator within five (5) days after notification of the appointment by the other party, the person appointed as arbitrator may appoint an arbitrator to represent the party in default. The two arbitrators appointed in either manner shall

then appraise the Premises. In the event they are unable to agree as to the value of the Premises, they shall select a third arbitrator, in which event a value determination concurred in by two of the three arbitrators shall be binding on the parties. If the two arbitrators are unable to agree on a third arbitrator, the third arbitrator shall be appointed by the local representative of the American Arbitration Association.

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Landlord and Tenant shall each pay one-half (1/2) of the reasonable fees and expenses of the arbitrators and shall be bound by the award made by the arbitrators.

5. PAYMENTS FOR TAXES, INSURANCE
PREMIUMS, DEDUCTIBLES, AND OTHER COSTS

5.1 Tenant shall be responsible for all Real Property Charges (as defined in Section 5.2 below) levied or assessed against the Premises or otherwise incurred in connection with the Premises. To insure the timely and orderly payment of all Real Property Charges, Landlord shall pay the same (except for the premiums for insurance described in Sections 11.1 through 11.7 hereof) and shall be reimbursed all amounts so expended by it in accordance with the procedure set forth in this Section 5. With respect to the premiums of insurance described in Sections 11.1 through 11.7, Tenant and Landlord agree that (i) if the premiums relate to coverage for more than one business location of Tenant, Tenant shall pay such premiums and submit a request for reimbursement to Landlord, which request for reimbursement shall be accompanied by proof of payment by Tenant of such premiums; and (ii) if the premiums relate to coverage for the Premises only, Tenant shall forward any invoices for such premiums to Landlord, which shall pay such invoices from the escrow account described in Section 5.4 below.

Tenant's obligation to pay Real Property Charges as provided in this Section 5 shall survive any termination or expiration of this Lease, with regard to any such Real Property Charges applicable to the time period during which this Lease is in effect.

5.2 Real Property Charges consist of the following:

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5.2.1 All real property taxes, assessments, and other charges levied or assessed against the Premises (collectively "Real Property Charges").

5.2.2 All charges, fees, or other costs or expenses incurred in connection with the Premises for:

5.2.2.1 connection of fire sprinklers, or

5.2.2.2 termite service contract

5.2.2.3 all premiums for a policy or policies of Owner's, Landlord's, and Tenant's liability insurance to be procured and maintained by Landlord for its own protection, naming Landlord as insured, with a minimum total coverage of Five Million (\$5,000,000.00) Dollars combined limit, both primary and excess.

5.2.3 All premiums for the insurance coverages required under Section 11.1 through 11.7 below.

5.2.4 Any and all deductible amounts which would be payable in the event of claims made under any liability or property insurance coverages provided for herein.

5.3 Except as otherwise expressly provided elsewhere in this Section 5 and in Section 11 hereinafter, Landlord shall be responsible to pay all Real Property Charges and to procure all services and obtain all invoices in connection therewith. Landlord shall be entitled to reimbursement for such payments as herein provided.

5.4 Tenant shall reimburse Landlord for all Real Property Charges paid by Landlord by paying, monthly as "Additional Rent," due and payable in the same manner as the other payments of rent hereunder, one twelfth (1/12th) of Landlord's reasonable estimate for all Real

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Property Charges on a calendar year basis (the "Escrow Payments"). All Escrow Payments shall be deposited and maintained by Landlord in an interest bearing account, with interest earnings thereon accruing to the benefit of Tenant. Tenant shall be responsible for payment of any service and maintenance charges imposed by the entity administering such account. Within thirty (30) days after the end of each calendar year, Landlord will notify Tenant of the amount, if any, by which the monthly Escrow Payments differed from the total amount actually expended by Landlord for the Real Property Charges during the preceding year. If the total of the monthly Escrow Payments paid by Tenant is less than the total of such Real Property Charges, then Tenant will pay Landlord the difference within ten (10) days of Landlord's giving such notice to Tenant, and any sums not timely paid in accordance with the foregoing shall bear interest at the prime rate of interest charged by Citibank, N.A. at its main office at New York, New York, as reported from time to time in the Wall Street Journal or other similar publications. If the monthly Escrow Payments paid by Tenant exceed the Real Property Charges, such overpayment shall be carried forward to the following calendar year and Landlord's estimate of the Real Property Charges shall be adjusted accordingly. In addition, Tenant shall pay to Landlord on or before the date of commencement of the Term a sum equal to the pro-rata amount of each pre-paid Real Property Charge(s) attributable to the period of time that will elapse between the date of commencement of the Term of this Lease and the time period covered by such pre-paid Real Property Charge(s) then in effect, together with an amount equal to the initial year premiums due for all insurance coverages provided for and all one-time or advance payment charges included in the Real Property Charges provided for in Section 5.2 above.

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6. USE

6.1 Tenant may use the Premises only for the following purposes: nightclub, theatre, bar, and restaurant (the "Project"), with ancillary topless cabaret entertainment permitted, together with the ancillary retail sales of related items such as cigarettes, souvenirs, and specialty apparel. Any other uses are strictly prohibited absent Landlord's prior written consent, in Landlord's sole discretion.

7. POSSESSION; CONDITION OF PREMISES; RESPONSIBILITY AND LIABILITY

7.1 The Tenant accepts the Premises "as is" in all respects. Tenant has been afforded an opportunity to conduct whatever examinations, inspections and tests with respect to the Premises that Tenant deems advisable. Tenant shall have no recourse against Landlord on account of any matter relating to the condition or status of the Premises, including but not limited to any hidden defects therein, and further including but not limited to any aspect of the physical condition thereof, and further including by way of illustration without limitation any matters relating to termites or other pests, hazardous or dangerous substances, or environmental matters. During the Term hereof, Landlord shall maintain the Tenant's quiet and peaceful possession of the Premises in accordance with Louisiana Civil Code article 2692(3).

7.2 Pursuant to LSA-R.S. 9:3221, Tenant hereby assumes responsibility for the condition of the Premises. Landlord shall not be liable for injury to any person or damage to any property caused by any vice or defect in the Premises or any other aspect of the condition or status of the Premises. Tenant shall indemnify and hold Landlord harmless from all damages, loss, costs, expenses, harm arising out of any injury, death or loss to any person or property occurring in, on, or about the Premises. Tenant hereby warrants that it will appear and defend

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any lawsuit brought against Landlord arising out of such injury or loss, and in the event of any judgment against Landlord, Tenant agrees and binds itself to pay the same or to reimburse Landlord in the same amount.

7.3 Tenant shall be responsible, at its sole cost and expense, to cause the Premises to be repaired or altered so as to achieve compliance with any applicable laws or regulations, including, by way of illustration without limitation, the Americans with Disabilities Act, 42 U.S.C. Section 12101, et seq.

7.4 Tenant shall, at its sole cost and expense, install sprinklers in all unsprinklered portions of the Premises in connection with any alterations or improvements or other construction work to be performed by Tenant, so as to maintain at all times during the Term hereof the status and insurance rating of the Premises as a completely sprinklered building; including, but not limited to hood areas in all kitchen facilities located on the premises, which shall be equipped with a Halon or similar system, smoke detectors and off-site fire detection and monitoring services.

8. ALTERATIONS AND IMPROVEMENTS

8.1 Tenant shall not have the right to make any alterations or additions whatsoever to the Premises without the prior written approval of Landlord, in Landlord's sole discretion.

8.2 Subject to Landlord's prior written approval, in Landlord's sole discretion, Tenant may make initial improvements or engage in construction on the Premises, after thirty (30) days prior review of written plans and specifications provided by Tenant, which shall be submitted to Landlord not later than July 31, 1996. Tenant shall be solely responsible for all governmental approvals and permits for such improvements or construction, including those by

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the Vieux Carre' Commission or other city or state agencies, provided, however, that Landlord shall assist Tenant and join in any application necessary to qualify the Premises and the Project for historic rehabilitation tax credits, as well as participation in the Restoration Tax Abatement Program with respect to ad valorem taxation, and does hereby appoint Tenant as Landlord's agent for purposes of filing such application(s). Tenant's general contractor must be reasonably acceptable to Landlord and must provide a payment and performance bond acceptable to Landlord, with Landlord as a named obligee.

8.3 If at any time any mechanic's or materialmen's liens are filed against the Premises or against the property of which it is a part, attributable to any alterations or improvements or other construction work performed by or at the request of Tenant, then Tenant shall cause the inscription of same to be removed from the public records of Orleans Parish, by bonding or payment or otherwise, within fifteen (15) business days after notice thereof by Landlord to Tenant.

9. MAINTENANCE

9.1 Tenant shall be solely responsible and liable for, and shall perform, all exterior and interior maintenance, repairs and/or replacements of

and upon the Premises, in all respects, necessary to maintain the Premises in good condition, all at Tenant's sole cost and expense. Tenant must maintain the Premises in good condition, all at Tenant's sole cost and expense. Further, Tenant shall be responsible to maintain the sidewalk adjacent to the Premises in safe condition, clean and free of obstructions.

9.2 Without limiting the generality of the foregoing, Tenant shall specifically keep the Premises free of trash and debris, shall be responsible for its own trash removal (whether

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by dumpster or otherwise), and generally shall preserve the character, cleanliness, and state of repair of the entire Premises and the routine replacement of the air conditioning and heating filters,

10. UTILITIES

10.1 Tenant shall make all arrangements for and pay for all utilities, utility deposits, and other services furnished to or used by it on the Premises, including but not limited to gas, electricity, water, sewerage, telephone, and trash collection.

11. INSURANCE

Tenant, at its expense, shall maintain or cause to be maintained in full force and effect the following described insurance coverages:

11.1 Public Liability and Property Damage Insurance. Tenant at its cost shall maintain commercial general liability insurance, including products liability insurance, with a liability limit of Five Million and No/100 Dollars (\$5,000,000), insuring against all liability of Tenant and its authorized representatives arising out of or in connection with Tenant's use or occupancy of the Premises. All insurance shall insure performance by Tenant of the indemnity provisions of Section 7.2 hereof. Landlord shall be named as additional insured under the policies required by this Section 11.1. Of the \$5,000,000 of coverage required under this Section 11.1, \$1,000,000 may be primary insurance, and the remainder may be an excess liability policy with a combined aggregate limit of \$4,000,000.

11.2 Tenant's Fire and Casualty Insurance. Tenant at its cost shall maintain on all of Tenant's merchandise, inventory, furniture, fixtures, equipment and improvements in, on, or about the Premises, a fire and other perils insurance policy (special form, open peril) to

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the extent of their full replacement value. The proceeds from this policy shall be used by Tenant for the replacement of the property and the restoration of Tenant's improvements or alterations. The policy required under this Section 11.2 shall be issued by the same company that issues the fire and casualty insurance policy required by Section 11.3 hereunder, as long as the policy required under this Section 11.2 is commercially available from such company.

11.3 Landlord's Fire and Casualty and Flood Insurance. Tenant shall obtain, for the benefit of Landlord, on the Building (excluding contents), a fire and other perils insurance policy (special form, open peril) to the extent of its full replacement value. Tenant shall also maintain on the Building (excluding contents) a flood insurance policy in an amount determined by Landlord to be appropriate. Landlord shall be named insured on the insurance policies described in this section 11.3, and the proceeds shall be made payable to Landlord and Landlord's mortgagee, if any, as their interests may appear.

11.4 Builder's Risk. During the period of construction of Tenant's improvements on the Premises, Tenant shall obtain Builder's Risk Insurance with a limit equivalent to the replacement cost of the permanent improvements to the Leased Premises to be made by Tenant.

11.5 Loss of Rents. Tenant shall obtain loss of rents insurance, for the benefit of Landlord, covering a period of one year, with a limit of \$300,000 for any twelve (12) month period, provided, however, that the amount of coverage shall in no event be less than the amount of rent (Minimum Rent and Percentage Rent) paid during the immediately preceding Lease Year. Landlord shall be named insured on the insurance policy described in this section 11.5.

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11.6 Liquor Liability ("Dram Shop") Insurance. From and after the date Tenant commences business operations on the Premises, Tenant shall obtain liquor liability insurance, with Bodily Injury and Property Damage, including coverage for Assault and Battery, with combined single limit, for each occurrence, of \$1,000,000 and general aggregate of \$1,000,000.

11.7 Worker's Compensation/Employer's Liability Insurance. Tenant shall obtain worker's compensation insurance in an amount equal to the Statutory Limit, providing for a policy limit, by disease, of \$500,000, and a policy limit, by employee, of \$500,000.

11.8 Contractor's Insurance. During the period of construction of improvements to the Premises as permitted under Section 8, any Contractor, whether independent or otherwise, performing any work whatsoever on the Premises shall procure and maintain such insurance, with limits as hereinafter provided, which will cover the Contractor's, the Tenant's and the Landlord's legal liability arising from operations in, on or about the Premises by Contractor or Subcontractor, and by anyone directly or indirectly employed by any of them, for claims for damages for personal injury, including accidental death, as well as claims for property damage. The insurance required by this section shall be written for not less than a single combined limit of \$1,000,000, for each occurrence; \$2,000,000 general aggregate; \$1,000,000 personal injury/advertising liability aggregate; and \$2,000,000 products/completed operations aggregate, and shall include Independent Contractor's Liability, Contractual, Broad Form Property Damage, Personal Injury Liability, Explosion, Collapse and Underground Liability and Owner's and Contractor's Protective Liability endorsements. Contractor shall also carry umbrella liability insurance in an amount not less than \$4,000,000 for each occurrence and \$4,000,000 aggregate, and shall carry Worker's Compensation/Employer's Liability Insurance

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in an amount not less than the statutory limit for Worker's Compensation and Occupational Disease and not less than \$500,000 for employer's liability.

11.9 Miscellaneous Provisions.

11.9.1 All policies of insurance provided for herein shall contain deductibles in amounts satisfactory to Landlord.

11.9.2 Tenant (or Tenant's contractor, in the case of coverage required under Section 11.8 hereof), shall name Landlord as an additional insured on all of the coverages enumerated in this Section 11 (except those coverages in which Landlord is required to be the named insured) and Tenant (or Tenant's contractor, in the case of coverage required under Section 11.8 hereof) shall furnish Landlord with certificates of insurance for all coverage required under this Section 11 at least ten (10) days prior to the date of commencement of the Term of this Lease. Tenant shall deliver the originals of such policies to Landlord as soon as such policies are issued by the insurance company providing coverage under such policies.

11.9.3 If in the reasonable opinion of the insurance consultant retained by Landlord, the amount of insurance coverage and other terms of the insurance policies (including, without limitation, the exclusions and endorsements thereto) maintained by Tenant pursuant

to the provisions of this Section 11, are not adequate to protect the interests of Landlord, Tenant shall from time to time increase or modify the insurance coverage as required by Landlord's insurance consultant.

11.9.4 All insurance required to be maintained by Tenant hereunder shall be maintained with insurance companies acceptable to Landlord, authorized to do business

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in Louisiana, rated "A" or better by the A.M. Best Company, Inc., and having a Financial Size Category established by the A.M. Best Company, Inc. of Class VIII or higher.

11.9.5 All insurance required to be maintained by Tenant hereunder shall, except as otherwise explicitly provided herein, be maintained continuously in full force and effect during the Term of this Lease.

11.9.6 All insurance required to be maintained by Tenant hereunder shall contain waivers of subrogation in favor of Landlord.

11.9.7 All insurance required to be maintained by Tenant hereunder shall provide that said policies may not be cancelled, nor may there occur any change in coverage or scope or amount of insurance, without thirty (30) days' prior written notice to both Tenant and Landlord.

11.9.8 All of the insurance required to be maintained by Tenant under the provisions of this Section 11 shall be procured and paid for by Tenant. Tenant shall obtain and provide certificates of insurance with respect to all such insurance policies to Landlord at least ten (10) days prior to the date of commencement of the term hereof, and thereafter at least thirty (30) days prior to the expiration of any such insurance policy.

11.9.9 In the event that any policy of insurance described in Section 11.3 and Section 11.5 hereof is canceled, or not renewed, and Tenant shall not have provided evidence to Landlord that substitute coverage, effective no later than the effective date of such cancellation or nonrenewal and complying with the provisions of this Lease, has

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been obtained, Landlord shall have the right, for the remainder of the term of this Lease, to procure directly such coverage, deducting the cost thereof from the escrow account described in Section 5 hereof. If for any reason there are insufficient funds in such escrow account, Tenant shall reimburse Landlord in full for the amount of such premiums immediately upon demand. If Tenant shall fail to make such reimbursement upon demand, such failure shall constitute a default under this Lease, as described in Section 13 hereof.

11.9.10 As used in this Section 11, "replacement cost" shall mean "cost to reconstruct with materials of like kind and quality with no deduction for deterioration or obsolescence and in full compliance with all building codes in effect at the time of reconstruction."

11.9.11 Tenant shall use its best efforts to obtain the agreement of each of the insurance companies issuing policies pursuant to the provisions of this Section 11 to send copies to Landlord of all notices and other correspondence sent to Tenant, at the same time such notices or other correspondence is sent to Tenant.

12. SUBLETTING AND ASSIGNMENT;
OWNERSHIP AND OPERATION OF TENANT

12.1 Except as otherwise permitted under Section 4.1.2.1, absent the express written permission of Landlord, which shall not unreasonably be denied:

12.1.1 Tenant shall neither assign this Lease nor sublease or allow any other person or entity to occupy, manage, operate or use any or all of the Premises;

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12.1.2 Except as otherwise expressly provided in this Section 12, no sublease or assignment may be made at any profit, compensation or remuneration to Tenant in excess of its exact obligations to Landlord under this Lease.

12.2 In all events, the ancillary permitted use of topless cabaret entertainment is limited to Tenant only, and no assignee or sublessee may engage in such use.

12.3 In the event Tenant desires to sublease the Premises to a sublessee approved by Landlord, the financial terms of such sublease shall provide that any profit, compensation, rent or remuneration received by Tenant from sublessee, in excess of the financial obligations for rent payable under this Lease, may be retained by Tenant in an amount equal to Tenant's Remaining Unamortized Investment in the Premises. After recovery of Tenant's Remaining Unamortized Investment, all profit, compensation, rent or remuneration received as a result of the sublease shall inure exclusively to the benefit of Landlord.

12.3.1 For purposes of this Section 12, "Tenant's Remaining Unamortized Investment" shall be Tenant's adjusted depreciable tax basis in the leasehold improvements to the Premises, reduced and recovered on a straight line basis over the Term of this Lease, together with the adjusted depreciable basis in all furniture, fixtures and equipment installed in or present on the Premises and reduced and recovered over the recovery period used by Tenant for federal tax purposes. Tenant's depreciable bases shall be determined as of the close of the first taxable year ending after the close of the first Lease Year in the Term of this Lease, and reduced thereafter in accordance with this Section 12.3.1.

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12.4 In the exercise of Landlord's reasonable discretion in considering any request by Tenant to sublease the Premises, Landlord may properly consider the comparability of rent payable by such prospective sublessee to the aggregate rent payable by Tenant hereunder.

12.5 Any sublease or assignment made in contravention of any provision of this Section 12 shall be null and void and without any effect. Unless expressly released by Landlord, Tenant shall continue to be obligated under the terms of this Lease, notwithstanding any consent to sublease.

13. DEFAULT

13.1 The occurrence of any of the following shall constitute a default by Tenant:

13.1.1 Failure to make a payment of rent under the Lease promptly when due and the failure to pay rent is not cured by Tenant within ten (10) business days after written notice to Tenant. However, Landlord shall not be required to give Tenant notice of nonpayment of rent more than two (2) times in a twelve (12) month period.

13.1.2 Abandonment or vacating of the Premises for ten (10)

consecutive days; provided that reasonable periods of remodeling, reconstruction and scheduled closings shall not be deemed to constitute an abandonment;

13.1.3 Violation of or failure to perform any obligation under this Lease, provided, however, that except with respect to the failure of timely payment pursuant to Section 13.1.1, Landlord may not exercise any of its remedies on account of such default without first affording Tenant notice thereof and a period of thirty (30) days after such notice within which to cure such default. If the default cannot be reasonably cured within thirty (30) days, Landlord shall not exercise any of its remedies on account thereof

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if Tenant commences to cure the default within the thirty (30) day period and diligently and in good faith continues to cure the default.

13.1.4 If Tenant is voluntarily adjudicated a bankrupt or applies for or takes the benefit of any bankruptcy or insolvency act or any statutory provisions now or hereafter enacted for the relief of debtors, or makes a general assignment for the benefit of creditors, or files a petition for reorganization, or applies for the appointment of a Receiver or Trustee of its property, or dissolves or liquidates or commences an action or proceeding for dissolution or liquidation.

13.1.5 If any action or proceeding shall be instituted against Tenant seeking its adjudication as a bankrupt or seeking its reorganization or seeking the appointment of a Receiver or Trustee of its property or otherwise seeking respite or other creditors' relief or the issuance of an attachment against the property of Tenant or any part thereof or the taking of any property of Tenant in connection with the dissolution or liquidation of Tenant, if such action or proceedings shall not be vacated or set aside or dismissed within sixty (60) days.

13.1.6 If Tenant shall cease to be a wholly owned subsidiary of Rick's Cabaret International, Inc.

13.1.7 If Rick's Cabaret International, Inc. shall violate any provision of the guaranty provided for in Section 23.5 hereinafter, or otherwise seek to avoid, revoke or terminate such guaranty.

13.2 Upon the occurrence of a default by Tenant, Landlord, without the necessity of any further notice or demand upon Tenant, all of which are expressly waived, including but not

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limited to any notice of default or notice to vacate, shall have all remedies available at law, and in addition thereto shall have the following remedies, all of which are meant to be cumulative and not exclusive of each other:

13.2.1 The right to proceed for past due installments of rent only, reserving its right to proceed later for remaining installments;

13.2.2 The right to terminate this Lease and immediately evict Tenant without waiving Landlord's right to collect all installments of rent and all other payments due or owing for the period up to the time Landlord regains occupancy;

13.2.3 The right to declare all of the remaining installments of rent herein agreed upon to be immediately due and exigible without further demand or putting in default.

13.3 DEFAULT BY LANDLORD. If Landlord defaults in the performance of a provision of this Lease, Tenant shall furnish written notice thereof to Landlord. Landlord shall have thirty (30) calendar days after receipt of the notice within which to cure the default or to commence and thereafter diligently attempt to cure the default. If the default is not thereafter cured, Tenant may cancel this Lease or Tenant may exercise any other right or remedy permitted by law. In addition to any other right or remedy, Tenant shall have the right to seek injunctive relief without the necessity of proving irreparable harm.

14. SURRENDER; HOLDING OVER; TITLE TO IMPROVEMENTS

14.1 At the expiration or termination of this Lease as herein provided, Tenant shall immediately vacate and surrender possession of the Premises to Landlord. The Premises shall be surrendered by Tenant in broom clean, and in good, condition, excepting only deterioration

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caused by ordinary wear and tear, and Tenant shall remove any and all personal property and other materials from the Premises, including but not limited to, any sign(s) Tenant may have placed on the Premises pursuant to this Lease. Tenant, at Tenant's sole cost and expense, shall repair any and all damage to the Premises caused by the removal of Tenant's personal property.

14.2 In the event Tenant remains in possession of the Premises after the expiration of the Term of this Lease, Tenant shall be deemed to be doing so from month to month only, at two (2) times the rental rate in effect during the last month of the Term of the Lease, and except as to the duration of the tenancy and the method of termination thereof, subject to the provisions of this Lease. Either Landlord or Tenant may terminate such tenancy upon at least twenty (20) days prior written notice.

14.3 At the expiration or termination of this Lease as herein provided, Tenant shall immediately return unto Landlord any and all keys, including master-keys, for any and all locks to the Premises.

14.4 All improvements or construction by Tenant upon the Premises shall be the property of Tenant until the expiration or termination of this Lease, and upon the expiration or termination of this Lease, all of same shall become the property of Landlord, with the exception solely of movable property that can be removed from the Premises without any material damage to the Premises, which movable property may be removed by Tenant prior to the date of termination or expiration of this Lease. Any such movable property remaining on the Premises after the expiration or termination of this Lease shall, at the option of Landlord, become the property of Landlord or be removed by Landlord at Landlord's cost, which cost must be

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reimbursed by Tenant to Landlord within five (5) business days after notice thereof by Landlord to Tenant.

15. DESTRUCTION

15.1 Destruction Due to Risk Covered by Insurance. If the Premises is totally or partially destroyed from a risk covered by the insurance described in Section 11, rendering the Premises totally or partially inaccessible or unusable, Landlord shall restore the Premises to substantially the same condition it was in immediately before the destruction. The destruction shall not terminate this Lease. If the then existing laws do not permit the restoration, either party can terminate this Lease by giving written notice to the other party.

If the cost of the restoration exceeds the amount of the insurance proceeds received by Landlord for the restoration and not required to be applied to the reduction of indebtedness secured by a mortgage covering the

Premises, Landlord may elect to terminate this Lease by giving notice to Tenant within thirty (30) days after determining that the restoration costs will exceed the insurance proceeds received. If Landlord elects to terminate this Lease as a result thereof, Tenant, within thirty (30) days after receiving Landlord's notice to terminate, may elect to pay to Landlord the difference between the amount of insurance proceeds received and the cost of restoration, in which case Landlord shall restore the Premises. After the restoration, Landlord shall give Tenant satisfactory evidence that all sums contributed by Tenant as provided by this Section 15.1 have been expended by Landlord in paying for the cost of restoration.

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16. SIGNS

16.1 Subject to applicable zoning and other laws and regulations, Tenant at its cost shall have the right to place, construct, and maintain on the interior of the Premises and the exterior of the Building one or more signs advertising Tenant's business at the Premises. Tenant may not place, construct, and maintain on the Premises any signs that are not related to Tenant's business and operations at the Premises. Tenant's signs shall comply with all laws, and Tenant shall obtain all appropriate permits and approvals before erecting the signs. Landlord makes no representation with respect to Tenant's ability to obtain the permits and approvals.

16.2 Tenant is obligated to promptly remove on or before the termination or expiration of this Lease any and all signs in or upon any part of the Premises, and is obligated to pay the cost of said removal.

17. LANDLORD'S ENTRY ON PREMISES

17.1 Landlord and its authorized representatives shall have the right to enter the Premises at all reasonable times to determine whether the Premises are in good condition and whether Tenant is complying with its obligations under this Lease, to make any restoration to the Premises that Landlord has the obligation to perform under this Lease, and to do any other thing that is reasonable in connection with Landlord's interest in the Premises, provided that such entry shall not interfere with Tenant's customary use of the Premises.

17.2 Landlord shall have the right to show the Premises to any person or persons interested in buying the Premises during the Term of this Lease and during the final six (6) months of the Term of this Lease, to prospective tenants, so long as same does not interfere with Tenant's customary use of the Premises.

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18. NO WAIVER

18.1 Failure to strictly or promptly enforce any of the terms or conditions of this Lease shall not operate as a waiver of Landlord's rights, Landlord expressly reserving the right always to enforce prompt payment of rent, or to cancel this Lease regardless of any indulgences or extensions previously granted. The receiving by Landlord of any rent in arrears shall not constitute a waiver of any other default; it shall constitute only a waiver of timely payment of that particular installment of rent. No act or conduct of Landlord, including but not limited to the acceptance of the keys to the Premises, shall constitute an acceptance of a surrender of the Premises before the expiration of the term. Only a notice from Landlord to Tenant shall constitute acceptance of the surrender of the Premises and accomplish a termination of the Lease.

19. NOTICES

19.1 Notices under this Lease shall be in writing and shall be deemed given when served in person and receipted for, or when mailed by United

States Mail, Certified Mail, Return Receipt Requested, addressed to the parties as follows:

If to Landlord: Three Fifteen Bourbon Street, L.L.C.
3713 Tolmas Drive
Metairie, Louisiana 70002-1844
Attention: Edson C. Tung

If to Tenant: RCI Entertainment Louisiana, Inc.
3113 Bering @ Richmond
Houston, Texas 77057
Attention: Robert Watters

19.2 Any changes in the names or addresses set out in Section 19.1 above shall be given through proper notice in conformity with the requirements of Section 19.1 above.

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19.3 Whenever the provisions of this Lease call for the consent of either Landlord or Tenant, said consent shall be in writing and shall otherwise comply with the provisions of this Section 19 concerning notices in writing.

20. CONDEMNATION OF LEASED PREMISES

20.1 If all of the Premises is taken in a condemnation, eminent domain, or similar proceeding for a public taking or agreement in lieu thereof (a "Taking"), then this Lease shall terminate as of the date that possession is taken.

20.2 If there is a Taking of only part of the Premises, and the partial Taking renders that portion not taken unsuitable for Tenant's business, then this Lease shall terminate as of the date possession is taken. If the partial Taking does not render the remainder of the Premises unsuitable for Tenant's business, then this Lease shall continue in effect, except that the fixed Minimum Rent (and the percentage rent Breakpoint) shall be reduced in the same proportion that the value of the portion being taken bears to the total value of the Premises immediately before the Taking.

20.3 If there is a Taking and this Lease is not terminated as a result thereof, then Landlord shall, upon receipt of proceeds from the Taking, make all necessary repairs or alterations to the Premises. Landlord shall not in any event be required to spend for the work an amount in excess of the amount received by and made available to Landlord for that purpose and not required to be applied to the reduction of indebtedness secured by a mortgage covering the Premises. However, Landlord shall not be required to restore any of Tenant's merchandise, inventory, furniture, fixtures, and other property, which excluded items are the sole responsibility of Tenant.

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20.4 Tenant shall not be entitled to and expressly waives all claims to an award or similar compensation for a Taking, although Tenant shall have the right if Landlord's award is not reduced, to make a separate claim from the condemnor, but not from the Landlord, for compensation as may be recoverable by Tenant in its own right for damage to Tenant's property and leasehold interests.

21. SUBORDINATION AND NON-DISTURBANCE

21.1 This Lease is and shall at all times remain superior to any mortgages that may be granted by Tenant upon Tenant's leasehold interest in the premises and/or Tenant's rights under this Lease, regardless of the relative ranking of such instruments according to the dates of inscriptions in the public records of Orleans Parish. The provisions of this Section 21.1 shall be self-executing, not requiring any further documentation, but Tenant and its mortgagees shall be obligated to execute any such documentation upon Landlord's

request. This subordination provided under this Section 21.1 is conditioned upon the agreement by Landlord, expressed in this Section 21.1, not to disturb Tenant or any party acquiring Tenant's interest hereunder by foreclosure or dation en paiement, under this Lease provided that all obligations imposed upon the Tenant hereunder are fulfilled.

21.2 This Lease, and Tenant's interest hereunder, are and shall be subordinate to any mortgage placed by Landlord upon the Landlord's fee interest in the property comprising the Premises, whether such mortgage exists as of the date of execution hereof or arises subsequently, and regardless of the relative ranking of such instruments according to the dates of inscriptions in the public records of Orleans Parish. The provisions of this Section 21.2 shall be self-executing, not requiring any further documentation, but Tenant shall be obligated to

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execute any such documentation upon Landlord's request or Landlord's mortgagee. This subordination provided under this Section 21.2 is conditioned upon the agreement by Landlord and its successors and assigns, including but not limited to any party acquiring the interest of Landlord hereunder by foreclosure or by dation en paiement, which agreement is hereby expressed in this Section 21.2, not to disturb Tenant in its possession hereunder as long as all the obligations of Tenant are fulfilled.

21.3 Tenant shall have the right, but not the obligation, to cure any defaults which may occur under any mortgage placed by Landlord on the Premises, provided that Landlord shall not be contesting the issue of such default in good faith. Any expense incurred by Tenant in curing such defaults may be set off and deducted against accrued or future rent due under this Lease.

22. SUBORDINATION TO LANDLORD'S LENDER

22.1 Tenant agrees that the rights granted to the Tenant herein shall be subordinate to the rights of any person now or hereafter holding the rights of mortgagee with respect to the Premises, and further agrees to execute any instrument reasonably required in order to make this subordination a matter of public record, provided that such mortgagee agrees that, if it or its successors in title become the owner of the Premises, the Tenant shall have the right to remain in peaceful possession under the terms of this Lease if, at the time the mortgage acquires such title, the Tenant is then not in default under the terms of this Lease, and if the Tenant certifies the amount of rent, if any, that it has paid in advance.

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23. MISCELLANEOUS

23.1 Landlord and Tenant agree that this Lease will be executed in duplicate originals, each of which shall constitute an original copy of this Lease.

23.2 This Lease shall be construed and interpreted in accordance with the laws of the state in which the Premises are located.

23.3 In the event any part or parts of this Lease are held to be unenforceable for any reason, it is agreed that the remaining portions of this Lease shall remain in full force and effect.

23.4 Neither Tenant nor Landlord shall record this Lease. Upon the request of Landlord or Tenant, the other party shall join in the execution of a memorandum of this Lease for the purpose of recordation. The memorandum shall not disclose the rents or other financial information. The cost of preparation and recordation of the memorandum shall be paid by the requesting party.

23.5 For the first five (5) years of the Term of this Lease, all

obligations of Tenant hereunder are unconditionally and solidarily guaranteed by Rick's Cabaret International, Inc.

24. COVENANTS PRIOR TO LEASE TERM

24.1 From the date hereof until April 30, 1996, Tenant shall have the right to cancel the Lease only in the event Tenant is unable, despite Tenant's best efforts, to obtain approval for the issuance of all governmental approvals, permits and licenses necessary for Tenant's contemplated use of the Premises. Upon the giving of notice thereof by Tenant to Landlord, the Lease shall be terminated and will be null and void and without further legal effect. If the Lease is not cancelled by 5:00 P.M. on April 30, 1996, all of the terms of the Lease shall be in full force and effect, and Tenant shall be fully obligated to perform all of the provisions hereof.

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24.2 On or before May 31, 1996, Tenant must (1) have received Landlord's reasonable approval of a budget for the Project, (2) have received and delivered to Landlord all certificates of insurance and/or duplicate policies of insurance required under Section 11 above, (3) have received Landlord's reasonable approval of the plans and specifications for the Project and the identity of the general contractor, and (4) have submitted to Landlord a payment and performance bond for the construction of the Project, reasonably acceptable to Landlord.

24.3 Tenant shall be prohibited from communicating with any person who represents or is employed by the tenant currently occupying the Premises without Landlord's prior approval.

25. ARBITRATION

25.1 Any dispute between the parties relating to the interpretation and enforcement of their rights and obligations under the Lease shall be resolved solely by mandatory and binding arbitration in accordance with the provisions of this Section 25.1. The arbitration shall be conducted in New Orleans, Louisiana, by the American Arbitration Association in accordance with the Commercial Arbitration Rules of the American Arbitration Association, as then in effect. The arbitration panel shall consist of three arbitrators. The arbitrators must be former or retired judges, attorneys with at least ten years' experience in real estate and commercial matters, or non-attorneys with like experience in the area of dispute. The prevailing party shall be awarded reasonable attorneys' fees, expert and non-expert witness costs and expenses, and other costs and expenses incurred in connection with the arbitration, unless the arbitration panel for good cause determines otherwise. Costs and fees of the arbitrators shall be borne by the non-prevailing party, unless the arbitration panel for good cause determines otherwise. The

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award or decision of the arbitration panel shall be final and judgment may be entered in any court having jurisdiction thereof. Except as otherwise specifically provided in this Section 25.1, all other disputes and questions shall be resolved judicially.

26. RIGHT OF FIRST REFUSAL

26.1 During the Term of this Lease, but only so long as Robert Watters shall continue to serve as President or Chief Executive Officer of Rick's Cabaret International, Inc., Tenant shall have a right of first refusal to purchase the Premises in accordance with the terms of this Section 26.1. If Landlord desires to sell the Premises, Landlord shall first give to Tenant a notice (the "First Refusal Notice") stating that Landlord desires to sell the Premises and stating the terms and conditions upon which Landlord is willing to sell (the "Proposed Terms"). The First Refusal Notice shall constitute an offer by Landlord to Tenant to sell the Premises to Tenant on the Proposed Terms. Landlord may send a First Refusal Notice whether or not there is a prospective

purchaser. Tenant may accept the offer and agree to purchase the Premises on the Proposed Terms by delivering to Landlord, within fourteen (14) days after receipt of the First Refusal Notice, Tenant's unqualified written acceptance of the offer. If Tenant accepts the offer, Tenant shall purchase the Premises from Landlord in accordance with the Proposed Terms. If Tenant does not accept Landlord's offer, Landlord may sell the Premises to any other person or entity on terms and conditions that are no more favorable financially to the prospective purchaser than the Proposed Terms (considering both as a whole rather than comparing specific individual terms) at any time within one hundred eighty (180) days after the expiration of Tenant's fourteen (14) day first refusal option. Before entering into the sale, Landlord shall deliver to Tenant for Tenant's review a copy of the proposed sale. Landlord may delete from

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the copy delivered to Tenant the name of the proposed purchaser, if known, and any other confidential information that is not relevant to Tenant's comparison of the financial terms of the proposed sale on the Proposed Terms. If Tenant fails to notify Landlord within fourteen (14) days after receipt of the proposed sale that the proposed sale, as a whole, is more favorable financially to the prospective purchaser than the Proposed Terms, then any objection Tenant may have to the proposed sale shall be deemed waived. The provisions of this Section 26.1 shall automatically terminate and Tenant shall not have any first refusal rights with respect to a sale of the Premises if the effective date of the sale is after the termination of this Lease for any reason.

Notwithstanding the foregoing, Tenant's right of first refusal shall not apply to a sale or other transfer (a) between or among the persons or entities who constitute the members of Landlord, (b) to one or more of the relatives (as defined below) or one or more of the persons who constitute the members of Landlord, (c) to one or more trusts in which the principal beneficiaries are one or more of the persons described in clauses (a) and (b) above, (d) to one or more legal entities (i.e., partnership, corporation, limited liability company, or like entity) in which the majority of the voting interests is owned by one or more of the persons described in clauses (a) and (b) above, or (e) to a judicial sale in execution of a mortgage affecting the Premises now or hereafter granted by Landlord or a dation en paiement to a mortgagee in lieu of foreclosure. A "relative" as used above in clause (b) means any ascendant, descendant, sibling or spouse.

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IN WITNESS WHEREOF, the undersigned have executed this Lease in multiple originals in the presence of the undersigned competent witnesses, on the dates hereinbelow written.

WITNESSES:

LANDLORD:

THREE FIFTEEN BOURBON STREET, L.L.C.

/s/ ANN PLAIER

By: /s/ EDSON C. TUNG

EDSON C. TUNG
ITS: MANAGER

/s/ SAMANTHA E. RUSK

TENANT:

RCI ENTERTAINMENT LOUISIANA, INC.

/s/ JANET L. CARLALLO

By: /s/ ROBERT WATTERS

ROBERT WATTERS
ITS: PRESIDENT

/s/ [ILLEGIBLE]

AND NOW TO THESE PRESENTS COMES AND INTERVENES Rick's Cabaret International, Inc., appearing through its duly authorized officer, which executes this Lease solely for the purpose of binding itself to the guaranty provisions of Section 23.5 hereof.

RICH'S CABARET INTERNATIONAL, INC.

/s/ JANET L. CARLALLO

By: /s/ ROBERT WATTERS

ROBERT WATTERS
ITS: PRESIDENT

/s/ [ILLEGIBLE]

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ACKNOWLEDGMENT

STATE OF LOUISIANA

PARISH OF ORLEANS

BEFORE ME, Pamela W. Hammond, Notary Public, on this day personally appeared EDSON C. TUNG, known to me to be the person whose name is subscribed to the foregoing instrument, and known to me to be the Manager of Three Fifteen Bourbon Street, L.L.C., a Louisiana limited company, and acknowledged to me that he executed said instrument for the purposes and consideration therein expressed, and as the act of said limited liability company.

Given under my hand and seal of office this 8th day of August, 1996.

/s/ PAMELA W. HAMMOND

NOTARY PUBLIC

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ACKNOWLEDGMENT

STATE OF LOUISIANA

COUNTY (PARISH) OF ORLEANS

BEFORE ME, E. Howell Crosby, Notary Public, on this day personally appeared ROBERT WATTERS, known to me to be the person whose name is subscribed to the foregoing instrument, and known to me to be the President of RCI Entertainment Louisiana, Inc., a Louisiana corporation, and acknowledged to me that he executed said instrument for the purposes and consideration therein expressed, and as the act of said corporation.

Given under my hand and seal of office this 7th day of June, 1996.

/s/ E. HOWELL CROSBY

NOTARY PUBLIC

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ACKNOWLEDGMENT

STATE OF LOUISIANA

BEFORE ME, E. Howell Crosby, Notary Public, on this day personally appeared ROBERT WATTERS, known to me to be the person whose name is subscribed to the foregoing instrument, and known to me to be the President of Rick's Cabaret International, Inc., a _____ corporation, and acknowledged to me that he executed said instrument for the purposes and consideration therein expressed, and as the act of said corporation.

Given under my hand and seal of office this 7th day of June, 1996.

/s/ E. HOWELL CROSBY

NOTARY PUBLIC

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EXHIBITS

Exhibit A Property Description.

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EXHIBIT A

A CERTAIN LOT OF GROUND, together with all the buildings and improvements thereon and all the servitudes, rights and appurtenances thereunto belonging or in anywise appertaining, situated in the State of Louisiana, Parish of Orleans, in the Second Municipal District of the City of New Orleans, in Square No. 69 thereof, bounded by Bourbon, Conti, Dauphine and Bienville Streets; which lot of ground commences at a distance of 163 feet 3 inches 2 lines from the corner of Bourbon and Conti Streets and measures thence, in the direction of Bienville Street, a distance of 28 feet 11 inches 1 line front on Bourbon Street, the same in width in the rear, by a depth of 127 feet 10 inches 5 lines, between equal and parallel lines; all as per sketch of survey by Frank H. Waddill, Surveyor, annexed to an act before Edgar Grima, Notary Public, dated June 9, 1911.

AND

A CERTAIN LOT OF GROUND, together with all the buildings and improvements thereon and all the servitudes, rights and appurtenances thereunto belonging or in anywise appertaining, situated in the State of Louisiana, Parish of Orleans, in the Second Municipal District of the City of New Orleans, in Square No. 69 thereof, bounded by Bourbon, Conti, Dauphine and Bienville Streets; which lot of ground measures 22 feet 3 inches 4 lines front on Bourbon Street, by 127 feet 10 inches 5 lines in depth; all as per plan of L. H. Pille, Surveyor, dated February 28, 1848, deposited in the office of Theodore Guyol, late Notary, as Plan No. 138.

According to a survey by Gilbert, Kelly & Couturie, Inc., Surveying & Engineering, dated August 5, 1995, a copy of which is attached hereto, the above described lots of ground are situated in the same District and Square of the City of New Orleans, adjoin each other, and have the same dimensions as above set forth, except that the secondly described lot is shown to have an actual measurement on its rear line of 22 feet 10 inches 3 lines, and is shown to commence at a distance of 111 feet 2 inches 5 lines from the corner of Bourbon and Bienville Streets.

Improvements thereon bear the Municipal Nos. 315-317-319-321 Bourbon Street.

The following are subsidiaries of the Registrant:

Trumps, Inc.
Tantric Enterprises, Inc.
Tantra Dance, Inc.
Tantra Parking, Inc.
RCI (Holdings), Inc.
RCI Entertainment (Texas), Inc.

All of the above are Texas corporations.

RCI Entertainment (Louisiana), Inc., a Louisiana corporation
Edison Park L.L.C., a Louisiana limited liability company
wholly owned by RCI Entertainment (Louisiana), Inc.

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