

RICKS CABARET INTERNATIONAL INC

FORM 10KSB (Annual Report (Small Business Issuers))

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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, 1998

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
(State or other jurisdiction of
incorporation or organization)

76-0458229
(IRS Employer
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

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, 1998 were \$7,831,531. The aggregate market value of Common Stock held by non-affiliates of the registrant at December 15, 1998, based upon the last reported sales prices on NASDAQ, was \$2,090,161. As of December 15, 1998, there were 6,547,453 shares of Common Stock outstanding.

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PART I

ITEM 1. BUSINESS

Rick's Cabaret International, Inc. ("Rick's" or the "Company") currently owns and operates premiere adult nightclubs offering adult entertainment and restaurant and bar operations. The Company has two adult nightclubs in operation in Houston, Texas as well as a non-sexually oriented discotheque, Tantra. Additionally, the Company has adult nightclubs in operation in New Orleans, Louisiana and Minneapolis, Minnesota. The Company owns the original location of Rick's Cabaret on Bering Drive in Houston, Texas, the location of Tantra discotheque, in Houston, Texas and the location in Minneapolis, Minnesota. Rick's leases its location in north Houston, Texas located near George Bush Intercontinental Airport, which opened in December, 1998 from a consolidated subsidiary. The Company leases its New Orleans facility.

HISTORY AND INTRODUCTION

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, which operates the Company's location in New Orleans, Louisiana.

In January 1997, the Company formed RCI Entertainment (Minnesota), Inc., a Minnesota corporation, for the purpose of administering, operating and managing its location in Minneapolis, Minnesota, which began operations in 1998.

The Company formed RCI Entertainment (Texas), Inc., a Texas corporation, in June, 1996, for the purpose of acquiring 1.13 acres of land in Houston, Texas. The Company sold the property in November, 1997.

In August, 1998, the Company acquired approximately 93% of the outstanding common stock of Taurus Entertainment Companies, Inc., a Colorado corporation ("Taurus") in a private stock exchange transaction with certain principal stockholders of Taurus. The Stock Exchange Agreement provided that the Company exchange one share of its common stock for each three and one-half shares of Taurus common stock owned by certain principal shareholders of Taurus. As a result of the Exchange, the Company exchanged a total of 1,143,426 shares of its common stock for approximately 4,002,006 shares of common stock of Taurus, giving the Company control of Taurus. The terms and conditions of the Exchange were determined by the parties through arms length negotiations. However, no appraisal was conducted. The financial results of Taurus have been consolidated into the Company's financial statements since the date of acquisition.

Taurus is a publicly owned company in the adult entertainment business trading on the OTCBB under the symbol "TAUR". Taurus owns and operates two adult entertainment nightclubs in Austin and Houston, Texas under the name XTC Cabaret. Taurus owns one other facility in Houston, Texas which is leased to the Company. This location, was remodeled and opened in December, 1998. Taurus also leases one facility in New Orleans, Louisiana.

In a transaction simultaneous to the acquisition of Taurus, the Company acquired certain real estate in San Antonio, Texas from one of the principal stockholders of Taurus. The Company is holding this property for sale or development. The Company acquired the property from a principal stockholder of Taurus for the same price that the principal stockholder paid for the property. The Company financed the purchase of the property by the issuance of a six year \$366,000 Convertible Debenture, secured by the real estate acquired.

In a transaction simultaneous to the acquisition of Taurus, Taurus acquired certain real estate in Houston, Texas from Mr. McElroy. Taurus acquired the property from Mr. McElroy for the same price that Mr. McElroy paid for the property. Taurus financed the purchase of the property by the issuance of a six year \$286,744 Convertible Debenture, secured by the real estate acquired. The Company is a guarantor of this Convertible Debenture. The Convertible Debenture is convertible into shares of Common Stock of the Company at any time prior to maturity at the Conversion Price of \$2.75 per share.

BUSINESS STRATEGY

Prior to Rick's opening in 1983 in Houston, Texas, 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 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 prefers 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.

MANAGEMENT. The Company has recruited its management staff primarily from outside 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 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 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.

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 Service Managers who are in charge of recruiting and training a professional waitress staff and ensuring that each customer receives prompt and courteous service. Rick's employs Chefs with restaurant experience and Bar Managers, who are in charge of ordering inventory and scheduling of bar staff. 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 operations in all of its topless cabarets are full service operations 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.

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 are designed to create the feeling of an upscale restaurant. The sound system is designed to provide quality sound at levels where conversations can 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 first VIP room in 1987, which is open primarily to individuals who purchase memberships. All of the Company's topless clubs have VIP rooms. A 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. Membership in any Rick's VIP room also entitles members to access to other VIP rooms at all other locations opened by the Company.

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. In the past, Rick's has sponsored golf tournaments and outings which have 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 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." Rick's Cabaret in New Orleans received an award for "Best Topless Club" in the Southwest at the 1998 Exotic Dancer Award Show held in Las Vegas in September, 1998.

RICK'S CABARET IN NEW ORLEANS, LOUISIANA AND MINNEAPOLIS, MINNESOTA.

In addition to the Company's original operation on Bering Drive in Houston, Texas, the Company has opened a new location in December, 1998 near George Bush Intercontinental Airport in Houston, Texas. The Company also has locations in New Orleans, Louisiana and Minneapolis, Minnesota. The Company opened its location in New Orleans, Louisiana, in December, 1996, which is located at 315 Bourbon Street in the New Orleans celebrated French Quarter. The Company's lease for the New Orleans' location commenced on May 7, 1996, and has a term of 39 2 years. The lease is a triple net lease with the tenant paying taxes, maintenance and insurance. The club occupies 16,200 square feet in a three story building. The club is comprised of two entertainment venues, the first being a cabaret in the format of Rick's Cabaret in Houston, Texas, which is presently open and occupies the bottom floor. The second venue and format, yet to be opened, 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.

A facility in downtown Minneapolis, Minnesota was purchased in November 1997, renovated, and opened as a Rick's Cabaret in March, 1998. The Minneapolis facility had previously been operated as an adult entertainment venue. The club occupies 9,000 square feet in a one story building with a 6,400 square foot lower floor and is located at 300 South 3rd St. in Minneapolis, near the Target Center, home to the Timberwolves NBA team and the Metrodome, home to the NFL Vikings team.

The Company leased a 10,000 square foot building from a subsidiary of Taurus Entertainment Companies, Inc. in August 1998, located at 410 Sam Houston Parkway East, in north Houston, near George Bush Intercontinental Airport. The site was operated under the name Broadstreets Cabaret by Taurus Entertainment Companies, Inc. and was damaged by a fire in May, 1998. The property was rebuilt largely from funds provided by insurance monies and was opened as a topless cabaret in December, 1998.

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. 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. 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 continue to open adult cabarets in the format and bearing the name "Rick's Cabaret" in other cities. 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. 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. The existing business climate will also be of critical importance. The city must have a significant population of indigenous businessmen, should be a recognized tourist destination and should 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. For example, 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 approximately 10 are in direct competition with the Company. In New Orleans, Rick's is ideally located on world famous Bourbon Street. There are approximately 10 cabarets in New Orleans only one of which is considered direct competition. In Minneapolis, Rick's is favorably located downtown and is a short walk from the Metrodome Stadium and the Target Center. There is only one cabaret in Minneapolis 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 and within the cities in which the Company operates. 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. Louisiana and Minnesota 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.

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 in Houston, Texas 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.

In January 1997, the City Council of the City of Houston passed a comprehensive new Ordinance regulating the location of and the conduct within Sexually Oriented Businesses. The new Ordinance established new distances that Sexually Oriented Businesses may be located to schools, churches, playgrounds and other sexually oriented businesses. There were no provisions in the Ordinance exempting previously permitted sexually oriented businesses from the effect of the new Ordinance. In 1997, the Company was informed that Rick's Cabaret at its location at 3113 Bering Drive failed to meet the requirements of the Ordinance and accordingly the renewal of the Company's Business License at that location was denied.

The Ordinance provided that a business which was denied a renewal of its operating permit due to changes in distance requirements under the Ordinance would be entitled to continue in operation for a period of time (the "Amortization Period") if the owner were unable to recoup, by the effective date of the Ordinance, its investment in the business that was incurred through the date of the passage and approval of the Ordinance.

The Company filed a written request with the City of Houston requesting an extension of time during which the Company could continue operations at its original location under the Amortization Period provisions of the Ordinance since the Company was unable to recoup its investment prior to the effective date of the Ordinance. An administrative hearing (the "Hearing") was held by the City of Houston to determine the appropriate Amortization Period to be granted to the Company. At the Hearing, the Company was granted an amortization period through July 1998. The Company has the right to appeal any decision of the Hearing official to the district court in the State of Texas. The location in north Houston opened in December, 1998 similarly failed to meet the requirements of the Ordinance as passed, but the Company did receive an Amortization Period through June 30, 2000 for the location in north Houston.

In May, 1997, the City of Houston agreed to defer implementation of the Ordinance until the constitutionality of the entire Ordinance was decided by court trial. In February 1998 the U.S. District Court for the Southern District of Texas, Houston, Division, struck down certain provisions of the Ordinance, including the provision mandating a 1,500 foot distance between a club and schools, churches and other sexually oriented business, leaving intact the provision of the 750 foot distance as it existed in the prior Houston, Texas Ordinance.

There are other provisions in the Houston, Texas Ordinance, such as provisions governing the level of lighting in a sexually oriented business, the distance between a customer and dancer while the dancer is performing in a state of undress and provisions regarding the licensing of dancers that were upheld which may be detrimental to the business by the Company. The Company, in concert with other sexually oriented businesses, is appealing these aspects of the Houston, Texas Ordinance.

The City of Houston, and the Company in concert with other sexually oriented businesses, have appealed the court's rulings. In the event that the City of Houston is successful in an appeal, the Company's Houston locations could be out of compliance. Such an outcome could have an adverse impact on the Company's future.

On April 1, 1998, the City of Houston began enforcing certain portions of the Ordinance, including the distance requirement between a customer and a dancer while dancing, and the requirement that dancers be licensed. The City of Houston's enforcement of the recently implemented provisions of the Ordinance could have an adverse impact on the Rick's location in Houston, Texas. The current requirement of a three foot distance between a dancer and a customer could reduce customer satisfaction and could result in fewer customers at the Houston location. The requirement that a dancer be licensed may result in fewer dancers working, which could have an adverse impact on the Houston location. It is unknown what future impact the enforcement of the Ordinance may have on the Company's Houston locations.

The Company is also required to have a dance hall 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 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 dance hall permit if for any reason Mr. Watters failed to renew or was refused the renewal of the dance hall permit. Prior to expanding into any new market, the Company will take all steps necessary to obtain any required dance hall permits and to comply with any other related regulatory requirements within that market.

In Minneapolis, the Company is required to be in compliance with state and city liquor licensing laws. The cabaret is located in an area presently zoned to enable the operation of a topless cabaret.

In New Orleans, the Company is required to be in compliance with state and city liquor licensing laws. The cabaret is located in an area presently zoned to enable the operation of a topless cabaret.

In San Antonio, the Company would be required to be in compliance with state liquor licensing law and the sexually oriented business ordinance implemented by the City of San Antonio.

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, 1998, the Company had approximately 350 full-time employees, of which 30 are in management positions, including corporate and administrative operations, and approximately 150 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 1000 entertainers, who are self-employed and work with the Company on a non-exclusive basis as independent contractors. Performers in Minneapolis, Minnesota act as commissioned employees.

ITEM 2. PROPERTIES

The Company owns 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 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. 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 the Company also occupies 120 square feet at the same location. SRD provides and maintains the cigarette vending machines located at Rick's Cabaret.

The Company 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 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 leases the premises where Rick's Cabaret is located in New Orleans, Louisiana. The Company's lease for the New Orleans' location commenced on May 7, 1996, and has a term of 39 2 years. The lease is a triple net lease with tenant paying taxes, maintenance and insurance. The club occupies 16,200 square feet in a three story building.

The Company purchased a facility in downtown Minneapolis, Minnesota in November, 1997 which opened as a Rick's Cabaret in 1998. The Minneapolis facility had previously been operated as an adult entertainment venue. The club occupies 15,400 square feet in a one story building with a fully developed lower floor. The mortgage on the property was executed in November, 1997 with an original principal amount of \$500,000 and bearing interest of 9% per annum, amortized over 20 years with monthly principal and interest payments of \$4,498, and a balloon payment due in July 2007.

The Company purchased real estate in San Antonio, Texas from Ralph McElroy, a principal stockholder of the Company, consisting of 1.5 acres. The Company is analyzing its options regarding development of this property. The Company acquired the property from Mr. McElroy for the same price that Mr. McElroy paid for the property. The Company financed the purchase of the property by the issuance of a six year \$366,000 Convertible Debenture, secured by the real estate acquired. The principal balance of the Convertible Debenture is due in July, 2004, in one lump sum payment. Interest is due and payable monthly, with the first interest payment beginning in September, 1998. The Convertible Debenture is subject to redemption at the option of the Company, in whole or in part, at 100% of the principal face amount of the Convertible Debenture redeemed plus any accrued and unpaid interest on the redemption date, at any time and from time to time, upon not less than 30 nor more than 60 days notice, if the Closing Price of the common stock of the Company shall have equaled or exceeded \$8.50 per share of common stock for ten (10) consecutive trading days. The Convertible Debenture is convertible into shares of Common Stock at any time prior to maturity (unless earlier redeemed) at the Conversion Price of \$2.75 per share. See, Certain Relationships and Related Transactions.

Taurus purchased real estate in Houston, Texas from Ralph McElroy, a principal stockholder of the Company, where Taurus operates an XTC Cabaret. The Company acquired the property from Mr. McElroy for the same price that Mr. McElroy paid for the property. The Company financed the purchase of the property by the issuance of a six year \$286,744 Convertible Debenture, secured by the real estate acquired. The Company is a guarantor of this Convertible Debenture. The principal balance of the Convertible Debenture is due in July, 2004, in one lump sum payment. Interest is due and payable monthly, with the first interest payment beginning in September, 1998. The Convertible Debenture is convertible into shares of Common Stock of the Company at any time prior to maturity at the Conversion Price of \$2.75 per share. See, Certain Relationships and Related Transactions.

The Company leases premises located on the north side of Houston, Texas from Taurus, where a topless cabaret opened in December, 1998. The Company's lease for this location continues until July 31, 2018 at a monthly rent of \$15,000. The lease is a triple net lease with tenant paying taxes, maintenance and insurance. The club will occupy 10,000 square feet in a one story building.

ITEM 3. LEGAL PROCEEDINGS

In November, 1998, LMTD, Inc. initiated litigation against a subsidiary of one of the Company's subsidiaries, Citation Land, LLC ("Citation"), in a case styled LMTD, Inc. v. Texas Warehouse Company, Inc., et al. Cause No. 98-12570, in the 200th Judicial District Court of Travis County, Texas. The suit seeks specific performance and damages against Texas Warehouse Company, Inc. regarding a Purchase Option Agreement. Plaintiff also alleges a tortious interference claim against Citation in the amount of \$540,000. Counsel for Citation intends to file a counterclaim and or cross action at the time that its answer is due. Counsel for Citation believes that the exposure to Citation is minimal. The Company intends to vigorously defend itself in this matter and to deny all allegations.

On October 15, 1998, All City Beverage and Entertainment, Inc. initiated litigation against one of the Company's subsidiaries in a case styled All City Beverage and Entertainment, Inc. v. Taurus Entertainment Companies, Inc. ("Taurus"), Cause No. 98-49119, in the 61st Judicial District Court of Harris County, Texas. The suit seeks damages in the amount of \$25,000 and 175,000 shares of common stock of Taurus in connection with an Asset Purchase Agreement between All City Beverage and Entertainment, Inc. and Taurus. Taurus has filed a counter-claim asserting that there were undisclosed obligations which Taurus was required to pay. The counter-claim seeks damages in an amount in excess of \$25,000. This matter is in the early stages of litigation and no discovery has taken place. Taurus intends to vigorously defend itself in this matter.

SEXUALLY ORIENTED BUSINESS ORDINANCE OF HOUSTON, TEXAS

In January 1997, the City Council of the City of Houston passed a comprehensive new Ordinance regulating the location of and the conduct within Sexually Oriented Businesses. The new Ordinance established new distances that Sexually Oriented Businesses may be located to schools, churches, playgrounds and other sexually oriented businesses. There were no provisions in the Ordinance exempting previously permitted sexually oriented businesses from the effect of the new Ordinance. In 1997, the Company was informed that Rick's Cabaret at its location at 3113 Bering Drive failed to meet the requirements of the Ordinance and accordingly the renewal of the Company's Business License at that location was denied.

The Ordinance provided that a business which was denied a renewal of its operating permit due to changes in distance requirements under the Ordinance would be entitled to continue in operation for a period of time (the "Amortization Period") if the owner were unable to recoup, by the effective date of the Ordinance, its investment in the business that was incurred through the date of the passage and approval of the Ordinance.

The Company filed a written request with the City of Houston requesting an extension of time during which the Company could continue operations at its original location under the Amortization Period provisions of the Ordinance since the Company was unable to recoup its investment prior to the effective date of the Ordinance. An administrative hearing (the "Hearing") was held by the City of Houston to determine the appropriate Amortization Period to be granted to the Company. At the Hearing, the Company was granted an amortization period through July 1998. The Company has the right to appeal any decision of the Hearing official to the district court in the State of Texas.

In May, 1997, the City of Houston agreed to defer implementation of the Ordinance until the constitutionality of the entire Ordinance was decided by court trial. In February 1998 the U.S. District Court for the Southern District of Texas, Houston, Division, struck down certain provisions of the Ordinance, including the provision mandating a 1,500 foot distance between a club and schools, churches and other sexually oriented business, leaving intact the provision of the 750 foot distance as it existed in the prior Houston, Texas Ordinance.

There are other provisions in the Houston, Texas Ordinance, such as provisions governing the level of lighting in a sexually oriented business, the distance between a customer and dancer while the dancer is performing in a state of undress and provisions regarding the licensing of dancers that were upheld which may be detrimental to the business of the Company. The Company, in concert with other sexually oriented businesses, is appealing these aspects of the Houston, Texas Ordinance.

The City of Houston and the Company, in concert with other sexually oriented businesses has appealed the court's rulings. In the event that the City of Houston is successful in an appeal, the Company's Houston locations could be out of compliance. Such an outcome could have an adverse impact on the Company's future.

On April 1, 1998, the City of Houston began enforcing certain portions of the Ordinance, including the distance requirement between a customer and a dancer while dancing, and the requirement that dancers be licensed. The City of Houston's enforcement of the recently implemented provisions of the Ordinance could have an adverse impact on the Rick's location in Houston, Texas. The current requirement of a three foot distance between a dancer and a customer could reduce customer satisfaction and could result in fewer customers at the Houston location. The requirement that a dancer be licensed may result in fewer dancers working, which could have an adverse impact on the Houston location. It is unknown what future impact the enforcement of the Ordinance may have on the Company's Houston locations.

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

During the fourth quarter of 1998, 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

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.

COMMON STOCK	PRICE	RANGE
	HIGH	LOW
1997		
First Quarter	\$ 5 1/2	\$ 4.00
Second Quarter	\$4 7/16	\$ 2 3/4
Third Quarter	\$ 3.00	\$ 2 1/4
Fourth Quarter	\$ 2 5/8	\$ 2.00
1998		
First Quarter	\$3 3/16	\$ 2 1/4
Second Quarter	\$3 3/16	\$2 1/16
Third Quarter	\$ 4 3/8	\$ 2 1/8
Fourth Quarter	\$3 3/16	\$ 1/2

On December 15, 1998, the last sales price for the Common Stock as reported by The NASDAQ SmallCap Market was \$.50 per share. On December 15, 1998, there were approximately 392 stockholders of record of the Common Stock.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's Common Stock is American Stock Transfer & Trust Company, 40 Wall Street, 46th Floor, NY, NY 10005, (718) 921-8275.

DIVIDEND POLICY

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.

RECENT SALES OF UNREGISTERED SECURITIES

In August, 1998, the Company acquired approximately 93% of the outstanding common stock of Taurus Entertainment Companies, Inc., a Colorado corporation ("Taurus") in a private stock exchange transaction with certain principal stockholders of Taurus. The Stock Exchange Agreement provided that the Company exchange one share of its common stock for each three and one-half shares of Taurus common stock owned by certain principal shareholders of Taurus. As a result of the Exchange, the Company exchanged a total of 1,143,426 shares of its common stock for approximately 4,002,006 shares of common stock of Taurus. The Company believes that each of the persons had knowledge and experience in financial and business matters which allowed them to evaluate the merits and risk of the receipt of these securities of the Company, and that each person was knowledgeable about the Company's operations and financial condition. These transactions were effected by the Company in reliance upon exemptions from registration under the Securities Act of 1933 as amended (the "Act") as provided in Section 4(2) thereof. Each certificate issued for unregistered securities contained a legend stating that the securities have not been registered under the Act and setting forth the restrictions on the transferability and the sale of the securities. No underwriter participated in, nor did the Company pay any commissions or fees to any underwriter in connection with any of these transactions. None of the transactions involved a public offering.

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, 1998 and 1997.

FORWARD LOOKING STATEMENT AND INFORMATION

This Management Discussion and Analysis contains various forward looking statements which represent the Company's expectations or beliefs concerning future events and involve a number of risks and uncertainties. Important factors that could cause actual results to differ materially from those indicated include risks and uncertainties relating to the impact and implementation of the sexually oriented business ordinance in the City of Houston, competitive factors, the timing of the openings of other clubs, the integration of operations of Taurus Entertainment Companies, Inc with the operations and management of the Company, and the availability of acceptable financing to fund corporate expansion efforts. The Company has no obligation to update or revise these forward looking statements to reflect the occurrence of future events or circumstances.

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 location in New Orleans, Louisiana. The Company opened its facility in New Orleans in 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 sold the Land in November, 1997. In January, 1997 the Company formed RCI Entertainment (Minnesota) Inc. for the purpose of acquiring, renovating operating and managing its facility in Minneapolis, Minnesota. The Company opened its facility in Minneapolis, Minnesota in March, 1998. In December, 1998 the Company opened its fourth topless location in leased premises located in north Houston, Texas. The Company's fiscal year end is September 30. In August, 1998, the Company acquired 93% of the outstanding common stock of Taurus Entertainment Companies, Inc.

The Company's revenues are derived from the sale of liquor, beer, wine and food, which comprises approximately 58% of total revenues, and charges to the entertainers, cover charges and other income which comprise approximately 42% of total fiscal 1998 revenues.

RESULTS OF OPERATIONS

YEAR ENDED SEPTEMBER 30, 1998 COMPARED TO YEAR ENDED SEPTEMBER 30, 1997.

For the 1998 fiscal year, the Company had consolidated total revenues of \$7,831,531, an increase of 25% or \$1,553,952 above fiscal 1997 revenues of \$6,277,579. Revenues in New Orleans surpassed revenues in Houston for the first time, with New Orleans contributing 51% of the gross revenues of the Company, Houston 28%, Tantra 6% and Minneapolis (which was only open for approximately one-half of the fiscal year) 11%. The Taurus Entertainment Companies, Inc. group contributed, for the period from August 11, 1998 to September 30, 1998 4% of the gross revenues of the Company.

Costs of goods sold were 24% and 32% of sales of alcoholic beverages and food for fiscal 1998 and 1997, respectively. This decrease is due steps taken by management to achieve continuing improvements in cost of goods sold. The Company continues a program to improve margins from liquor and food sales and food service efficiency.

Salaries and wages increased 25% or \$530,427 from fiscal 1997 due to the addition of management personnel in Minneapolis, as a result of the policy of the Company in Minneapolis of treating the entertainers as employees and the acquisition of Taurus Entertainment Companies, Inc. Management staffing was increased in order to have adequately trained personnel to assist with the planning and pre-opening activities of other locations.

Other general and administrative expenses increased 7% or \$270,069 from fiscal 1997 to fiscal 1998. Charge card fees increased \$38,150 largely due to increased sales. Legal and accounting fees increased \$48,148 as a result of the cost of the acquisition and opening of the store in Minneapolis, Minnesota and the acquisition of Taurus Entertainment Companies, Inc.

Advertising and promotion decreased by \$286,324 reflecting a change in the Company's policy regarding advertising expenditures surrounding the opening of new stores.

Other costs increased \$290,694 during fiscal 1998 as a result of increased travel and lodging costs incurred by staff involved with the New Orleans and Minneapolis locations and the review of the Taurus Entertainment Companies, Inc. acquisition and of other potential acquisitions.

The Company experienced a net loss of \$604,864 for fiscal 1998 compared to a net loss of \$1,293,330 for fiscal 1997. Management has taken steps as discussed in greater detail below to ensure the Company will become profitable in fiscal 1999, principally as a result of increased revenues and decreased advertising expenditures and also as income from the opening of new locations is realized. See, Liquidity and Capital Resources.

Interest expense increased to \$384,037 during fiscal 1998 as a result of the acquisition of the land and building in Minneapolis, Minnesota and inclusion of the debt of Taurus Entertainment Companies, Inc.

YEAR ENDED SEPTEMBER 30, 1997 COMPARED TO YEAR ENDED SEPTEMBER 30, 1996.

For the 1997 fiscal year, the Company had consolidated total revenues of \$6,277,579, an increase of \$1,647,281 from fiscal 1996 revenues of \$4,630,298. Single location revenues for Rick's Cabaret - Houston declined 17% from fiscal 1996 to fiscal 1997 or approximately \$594,000. The decline at Rick's Cabaret in Houston was offset by the opening of Rick's Cabaret New Orleans which provided revenues of \$2,296,779 during the nine months of this fiscal period for which it was open. The overall decline in single location revenues in Houston, Texas was attributable to the increased level of competition in the area and the chilling effect of a new ordinance passed in January, 1997 by the City of Houston City Council.

Costs of goods sold were 32% and 30% of sales of alcoholic beverages and food for fiscal 1997 and 1996, respectively. This slight increase is due to the increase in food sales which carries a higher cost than beverage sales. The Company continues a program to improve margins from liquor and food sales and food service efficiency.

Salaries and wages increased 42% or \$625,400 from fiscal 1996 due to the addition of personnel in all areas of the company due to the opening of the New Orleans location and in preparation for the opening of the location in Minneapolis, Minnesota.

Other general and administrative expenses increased 23% or \$749,579 from fiscal 1996 to fiscal 1997. Charge card fees increased \$40,951 largely due to opening the new location in New Orleans. Legal and accounting decreased \$25,099 as a result of the final settlement of two cases involving the company. Advertising and promotion increased by \$241,130 reflecting the cost of media expenditure in New Orleans. The company's current media expenditures have declined reflecting the decrease in need for advertising in New Orleans. Other costs increased during fiscal 1996 as a result of (i) additional expenses of \$52,000 to recognize refunds due to wait staff employees in Houston for shift charges and tip processing fees, and (ii) increased travel and lodging costs incurred by staff involved with the opening of the New Orleans and Minneapolis locations and the review of other potential acquisitions.

The Company experienced a net loss of \$1,293,330 for fiscal 1997 compared to a net loss of \$708,614 for fiscal 1996.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1998 the Company had a working capital deficit of \$(887,833), compared to working capital of \$107,342 at the end of fiscal 1997. The decrease in working capital is primarily due to the sale of land held for sale in November, 1997 and the use of the proceeds in renovating and opening the nightclub in Minneapolis, Minnesota in March, 1998.

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 provided by operating activities in fiscal 1998 was \$427,172 compared to net cash used by operating activities of \$544,768 in fiscal 1997. The increase in cash provided by operating activities was due primarily to the net loss of \$570,864 being balanced by depreciation of \$440,055, an increase in accounts payable and accrued liabilities of \$512,278. Net cash used in investing activities was \$(307,465) in 1998 and was due to investment in the renovation of the property owned by the Company in Minneapolis, Minnesota.

Cash provided by financing activities was \$120,527 due to proceeds raised from selling common stock for \$775,000 less payments made on long-term debt in the amount of \$654,473.

Management believes it has implemented plans that will ensure that the Company will become profitable in fiscal 1999. The acquisition of Taurus Entertainment Companies, Inc. represented the first multi-unit expansion for the Company, and included locations outside of its original market of Houston, Texas. Emphasis will continue to be placed on reduction of Cost of Goods Sold by setting and monitoring management goals at each location.

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. The Company has, however, developed numerous contacts with professionals who have expertise in raising capital through private placement of securities and the Company will look to the public marketplace to find the resources necessary to continue its planned expansion.

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 locations 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 in all states 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 all of its location 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.

YEAR 2000

The Company currently believes that it does not have any significant exposure to uncertainties nor material anticipated costs related to Year 2000 issues including Company, vendor and customer issues. The Company's current systems and any anticipated upgrades are Year 2000 compliant.

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.

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. The Company's Board of Directors consists of five persons.

Name	Age	Position
Robert L. Watters	47	Director, Chairman of the Board, Chief Executive Officer and Chief Financial Officer
Erich Norton White	28	Director and Executive Vice President
Eric Langan	30	Director and Vice-President-Systems, Marketing and Promotion
Scott C. Mitchell	45	Director
Martin Sage	47	Director

Robert L. Watters, age 47, 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 28, 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 from May, 1995 until November, 1998 has been a General Manager, first in Houston and subsequently in New Orleans. Mr. White presently oversees General Management in all locations controlled by the Company. 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.

Eric Langan, age 30, has been involved in the adult entertainment business since 1989. He has served as the President and Director of Taurus since November, 1997. From January 1997 through the present, he has held the position of President with XTC Cabaret, Inc., which was subsequently acquired by Taurus. Since 1989, Mr. Langan has exercised managerial control over the grand openings and operations of numerous adult entertainment businesses. Through these activities, Mr. Langan has acquired the knowledge and skills necessary to successfully operate adult entertainment businesses. Mr. Langan has also been an officer of Citation Land Company which owned commercial income real estate in Houston, Texas, which also was subsequently acquired by Taurus. Mr. Langan has, from November, 1998 has been responsible for development of business systems, marketing and promotion at all of the locations controlled by the Company.

Scott C. Mitchell, age 45, 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 47, 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.

COMMITTEES OF THE BOARD OF DIRECTORS

The Company has no compensation committee and no nominating committee. Decisions concerning executive officer compensation for 1998 were made by the full Board of Directors. Robert L. Watters, Eric Langan and Erich Norton White are the only directors of the Company who are also officers of the Company.

In January, 1998 the Company established an Audit Committee of independent directors whose members are Martin Sage and Scott Mitchell. The primary purpose of the Audit Committee is to oversee the Company's financial reporting process on behalf of the Board of Directors. The Audit Committee meets privately with the Company's Chief Accounting Officer and with the Company's independent public accountants and evaluates the responses by the Chief Accounting Officer both to the facts presented and to the judgments made by the outside independent accountants. The Audit Committee will reports activities to the full Board after each meeting. In addition, the activities and responsibilities of the Audit Committee include the nomination or selection of the independent auditors, review of the results of the audit and a detailed review of the overall Company and the adequacy of the Company's internal controls.

CERTAIN SECURITIES FILINGS

The Company believes that all persons subject to Section 16(a) of the Exchange Act in connection with the Company have complied on a timely basis.

ITEM 10. EXECUTIVE COMPENSATION

The following table reflects all forms of compensation for services to the Company for the fiscal years ended September 30, 1998, 1997, 1996 of the chief executive officer and the executive vice-president of the Company. No other executive officer of the Company received compensation which exceeded \$100,000 during 1998.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Other Annual Compensation (1)	Long Term Compensation			All Other Compensation
		Salary	Bonus		Awards	Securities Underlying Options/ SARs	Payouts	
Robert L Watters CEO	1998	\$325,000	-0-	-0-	-0-	20,000	-0-	-0-
	1997	\$325,000	-0-	-0-	-0-	-0-	-0-	-0-
	1996	\$325,000	-0-	-0-	-0-	-0-	-0-	-0-
Erich Norton White EVP	1998	\$100,000	-0-	-0-	-0-	35,000	-0-	-0-
	1997	\$ 65,000	-0-	-0-	-0-	-0-	-0-	-0-
	1996	\$ 50,000	-0-	-0-	-0-	-0-	-0-	-0-

(1) The Company provides Messrs. Watters, and White with 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.

OPTION/SAR GRANTS IN LAST FISCAL YEAR
(Individual Grants)

Name	Number of Securities Underlying Options/SARs Granted (#)	Percent of Total Options/SARs Granted To Employees In Fiscal Year	Exercise Or Base Price (\$/Sh)	Expiration Date	Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation For Option Term	
					5% (\$)	10% (\$)
Robert L. Watters (1)	20,000	30%	\$ 2.50	1-28-03	-0-	-0-
Erich Norton White (1,2)	35,000	50%	\$ 2.50	1-28-03	-0-	-0-
1	Messrs. Watters and White received 20,000 options in theirs capacity as Directors of the Company. See, Director Compensation.					
2	Mr. White also received 15,000 options as employee compensation.					

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND
FY-END OPTION/SAR VALUES

Name	Shares Acquired On Exercise (#)	Value Realized (\$)	Number Of Securities Underlying Unexercised Options/SARs At Fiscal Year-End (#)		Value Of Unexercised In-The-Money Options/SARs At Fiscal Year-End (\$)	
			Exercisable/Unexercisable	Exercisable/Unexercisable	Exercisable/Unexercisable	Exercisable/Unexercisable
Robert L. Watters (1)	No exercises	-0-	-0- / 20,000	-0- / -0-	-0- / -0-	-0- / -0-
Erich Norton White (1)	No exercises	-0-	43,750 / 20,000	-0- / -0-	-0- / -0-	-0- / -0-

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 pursuant to which Messrs. Mitchell, Sage and White were each granted 5,000 stock options, all at an exercise price of \$3.00 per share, expiring in January, 2005. The options are exercisable only as to 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. In January, 1998, the Company issued 20,000 options on the Company's common stock to each of Messrs. Watters, White, Mitchell and Sage, who were then Directors, all at an exercise price of \$2.50 per share, expiring in January, 2003. The options are exercisable only as to 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, 1998, 300,000 stock options had been granted under the Plan, none of which have been exercised.

EMPLOYMENT AGREEMENT

The Company 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, 2000, 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.

The Company has a three year employment agreement with Eric Langan (the "Langan Agreement") to serve as its Vice-president of Operations. The Langan Agreement, which extends through August 11, 2001 and provides for an annual base salary of \$171,600. The Langan Agreement also provides for participation in all benefit plans maintained by the Company for salaried employees. Mr. Langan's Agreement contains a confidentiality provision and an agreement by Mr. Langan not to compete with the Company upon the expiration of the Langan Agreement. The Company has not established long-term incentive plans or defined benefit or actuarial plans. Pursuant to the Langan Agreement, Mr. Langan will receive options to purchase 250,000 of the Company's shares at an exercise price of \$1.75 per share, vesting in August, 1999.

The Company has a three year employment agreement with Erich Norton White (the "White Agreement") to serve as its Executive Vice-president. The White Agreement, which extends through April, 2000, provides for an annual base salary of \$100,000. The White Agreement also provides for participation in all benefit plans maintained by the Company for salaried employees. Mr. White's Agreement contains a confidentiality provision and an agreement by Mr. White not to compete with the Company upon the expiration of the White Agreement.

The Company has not established 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 17, 1998, with respect to the beneficial ownership of shares of Common Stock by (i) each person known to the Company 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. As of December 17, 1998, there were 6,547,453 shares of Common Stock outstanding.

Name and Address	Number of Shares	Title of Class	Percent of Class
Robert L. Watters 3113 Bering Houston, Texas 77057	1,769,500 (1,4)	Common Stock	27.1%
Erich Norton White 3113 Bering Houston, Texas 77057	43,750 (1,2,4)	Common Stock	0.6%
Scott C. Mitchell 820 Gessner ,Suite 1380 Houston, Texas 77024	13,750 (1,3,4)	Common Stock	0.2%
Martin Sage 1714-A Nantucket Houston, Texas 77057	3,750 (1,3,4)	Common Stock	0.1%
Eric Langan 3113 Bering Houston, Texas 77057	402,811 (1)	Common Stock	6.2%
Ralph McElroy 1211 Choquette Austin, Texas, 78757	817,688 (1,5)	Common Stock	12.5%
All directors and officers as a group (five (5) persons)	2,233,534	Common Stock	34.1%

(1) Messrs. Watters, White, Langan, Mitchell, Sage and McElroy have sole voting and investment power with respect to the shares shown as beneficially owned by them.

(2) Includes options to purchase 28,750 shares at an exercise price of \$3.00 per share, which are presently exercisable; includes an option to purchase 15,000 shares at an exercise price of \$2.50 per share which is presently exercisable; and does not include options to purchase an additional 1,250 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 3,750 shares at an exercise price of \$3.00 per share, which are presently exercisable; and does not include option to purchase 1,250 shares at an exercise price of \$3.00 per share which will not become exercisable within the next 60 days. Does not include options to purchase 20,000 shares which will not become exercisable within the next 60 days.

(4) Does not include options to purchase 20,000 shares which will not become exercisable within the next 60 days.

(5) Includes 133,091 shares of common stock issuable upon conversion of a convertible debenture. This debenture is currently convertible at a conversion price of \$2.75 per share and has a face amount of \$366,000. Also includes 104,270 shares of common stock issuable upon conversion of a convertible debenture Taurus of which the Company is a guarantor. This debenture is currently convertible at a conversion price of \$2.75 per share and has a face amount of \$\$286,744.

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 1998, Mr. Watters loaned \$121,000 to the Company. This loan is evidenced by a demand promissory note which bears interest at 12% per annum.

During the Company's fiscal years ending 1998 and 1997, the Company paid \$33,000 and \$20,090, respectively, for accounting services to accounting firms in which Mr. Mitchell, a director of the Company, was a principal.

In August, 1998, the Company acquired approximately 93% of the outstanding common stock of Taurus Entertainment Companies, Inc. ("Taurus") in a private stock exchange transaction with the certain principal stockholders of Taurus, among whom were Eric Langan and Ralph McElroy. The Stock Exchange Agreement provided that the Company exchange one share of its common stock for each three and one-half shares of Taurus common stock owned by certain principal shareholders of Taurus. As a result of the Exchange, Mr. Langan received 402,146 shares of common stock of the Company, and Mr. McElroy received 393,389 shares of common stock the Company. The terms and conditions of the Exchange were determined by the parties through arms length negotiations.

In a transaction simultaneous to the acquisition of Taurus, the Company acquired certain real estate in San Antonio, Texas from Mr. McElroy. The Company acquired the property from Mr. McElroy for the same price that Mr. McElroy paid for the property. The Company financed the purchase of the property by the issuance of a six year \$366,000 Convertible Debenture, secured by the real estate acquired. The Convertible Debenture bears interest at the rate of 12% per annum, with interest payable monthly. Interest payments began in September, 1998. The principal balance of the Convertible Debenture is due in one lump sum payment in July, 2004. The Convertible Debenture is subject to redemption at the option of the Company, in whole or in part, at 100% of the principal face amount of the Convertible Debenture redeemed plus any accrued and unpaid interest on the redemption date, at any time and from time to time, upon not less than 30 nor more than 60 days notice, if the Closing Price of the common stock of the Company shall have equaled or exceeded \$8.50 per share of common stock for ten (10) consecutive trading days. The Convertible Debenture is convertible into shares of Common Stock at any time prior to maturity (unless earlier redeemed) at the Conversion Price of \$2.75 per share. In the event that the Company files a Registration Statement to register shares of its Common Stock with the Securities and Exchange Commission (ASEC@) on Form S-3 or other similar form (except for Form S-8 or Form S-4) than the Company will undertake to use its best efforts to register for resale all of Mr. McElroy=s shares into which the Convertible Debenture may be converted under the same Registration Statement.

In a transaction simultaneous to the acquisition of Taurus, Taurus acquired certain real estate in Houston, Texas from Mr. McElroy. Taurus acquired the property from Mr. McElroy for the same price that Mr. McElroy paid for the property. The Company financed the purchase of the property by the issuance of a six year \$286,744 Convertible Debenture, secured by the real estate acquired. The Company is a guarantor of this Convertible Debenture. The Convertible Debenture bears interest at the rate of 12% per annum, with interest payable monthly. Interest payments began in September, 1998. The principal balance of the Convertible Debenture is due in one lump sum payment in July, 2004. The Convertible Debenture is convertible into shares of Common Stock of the Company at any time prior to maturity at the Conversion Price of \$2.75 per share. In the event that the Company files a Registration Statement to register shares of its Common Stock with the Securities and Exchange Commission (ASEC@) on Form S-3 or other similar form (except for Form S-8 or Form S-4) than the Company will undertake to use its best efforts to register for resale all of Mr. McElroy=s shares into which the Convertible Debenture may be converted under the same Registration Statement.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	Identification of Exhibit
3.1 *	The Company's Articles of Incorporation, which are incorporated by reference to the Company's Form SB-2 Exhibit 3.1 as effective with the Commission on October 12, 1995.
3.2 *	The Company's By-laws, which are incorporated by reference to the Company's Form SB-2 Exhibit 3.2 as effective with the Commission on October 12, 1995.
4.1 *	Specimen of the Company's common stock certificate, which is incorporated by reference to the Company's Form SB-2 Exhibit 4.1 as effective with the Commission on October 12, 1995.
4.2 *	Instruments defining the rights of security holders, which are incorporated by reference to the Company's Form SB-2 Exhibit 4.2 as effective with the Commission on October 12, 1995.
4.3 *	Form of Debenture, which is incorporated by reference to the Company's Form 8-K dated August 11, 1998 Exhibit 4.1.
10.1 *	Form of Stock Exchange Agreement With Certain Taurus Holders, which is incorporated by reference to the Company's Form 8-K dated August 11, 1998 Exhibit 10.1.
10.2 **	Employment Agreement with Robert L. Watters
10.3 **	Employment Agreement with Erich Norton White.
21.1 **	Subsidiaries
27.1 **	Financial Data Schedule
* _____	Incorporated by reference
**	Filed herewith

(b) Reports on Form 8-K.

The Company filed a report on Form 8-K dated August 11, 1998 which reported the acquisition of assets and other events.

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 23rd day of December 1998.

RICK'S CABARET INTERNATIONAL, INC.

By: /s/ ROBERT L. WATTERS

Robert L. Watters, Chairman of the Board,
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/ ROBERT L. WATTERS	Chairman of the Board,	December 23, 1998
----- Robert L. Watters	Chief Executive Officer, Chief Accounting Officer, and Director	
----- /s/ ERICH NORTON WHITE	Director and Executive	December 23, 1998
----- Erich Norton White	Vice President	
----- /s/ ERIC LANGAN	Director and	December 28, 1998
----- Eric Langan	Vice-President-Systems, Marketing and Promotion	
----- /s/ SCOTT C. MITCHELL	Director	December 23, 1998
----- Scott C. Mitchell		
----- /s/ MARTIN SAGE	Director	December 23, 1998
----- Martin Sage		

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
AUDITED FINANCIAL INFORMATION
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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, 1998 and 1997, 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 consolidated financial position of Rick's Cabaret International, Inc. and subsidiaries as of September 30, 1998 and 1997, 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.

Dallas, Texas
November 13, 1998

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 1998 AND 1997

ASSETS

	1998	1997
	-----	-----
Current assets:		
Cash	\$ 597,644	\$ 357,410
Accounts receivable	58,023	29,695
Inventories	94,633	61,953
Prepaid expenses	34,876	57,413
Land held for sale	569,069	815,652
	-----	-----
Total current assets	1,354,245	1,322,123
	-----	-----
Property and equipment:		
Buildings, land and leasehold improvements	9,851,798	5,285,119
Furniture and equipment	1,609,031	1,188,800
	-----	-----
	11,460,829	6,473,919
	-----	-----
Less accumulated depreciation	(1,213,557)	(813,853)
	-----	-----
	10,247,272	5,660,066
	-----	-----
Other assets:		
Goodwill, less accumulated amortization of \$91,924	3,154,804	-
Other	112,025	165,504
	-----	-----
	3,266,829	165,504
	-----	-----
	\$14,868,346	\$ 7,147,693
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt (Note 4)	\$ 718,636	\$ 398,798
Accounts payable - trade	1,179,410	649,618
Accrued expenses	344,032	166,365
	-----	-----
Total current liabilities	2,242,078	1,214,781
	-----	-----
Long-term debt, less current portion (Note 4)	6,015,903	1,754,175
	-----	-----
Total liabilities	8,257,981	2,968,956
	-----	-----
Commitments and contingencies (Note 7)	-	-
Minority interests	11,896	-
Stockholders' equity (Notes 1 and 9):		
Preferred stock - \$.10 par, authorized 1,000,000 shares; none issued	-	-
Common stock - \$.01 par, authorized 15,000,000 shares; issued 6,467,353 and 4,114,922	64,673	41,149
Additional paid-in capital	8,941,378	5,940,306
Retained earnings (deficit)	(2,407,582)	(1,802,718)
	-----	-----
Total stockholders' equity	6,598,469	4,178,737
	-----	-----
	\$14,868,346	\$ 7,147,693
	=====	=====

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

	1998	1997
	-----	-----
Revenues:		
Sales of alcoholic beverages	\$ 4,028,988	\$ 3,192,356
Sales of food	515,821	563,281
Service revenues	3,010,999	2,184,002
Other	275,723	337,940
	-----	-----
	7,831,531	6,277,579
	-----	-----
Operating expenses:		
Cost of goods sold	1,102,556	1,197,416
Salaries and wages	2,653,558	2,123,131
Other general and administrative:		
Taxes and permits	831,388	705,516
Charge card fees	160,474	122,324
Rent	395,038	341,509
Legal and accounting	355,186	307,038
Advertising	488,224	774,548
Other	2,065,934	1,775,240
	-----	-----
	8,052,358	7,346,722
	-----	-----
Loss from operations	(220,827)	(1,069,143)
Interest expense	(384,037)	(160,784)
	-----	-----
Loss before income taxes and cumulative effect of accounting change	(604,864)	(1,229,927)
Income taxes (benefit) (Note 5)	-	(87,735)
	-----	-----
Loss before cumulative effect of accounting change	(604,864)	(1,142,192)
Cumulative effect of change in accounting for preopening costs - no income tax effect	-	(151,138)
	-----	-----
Net loss	\$ (604,864)	\$(1,293,330)
	=====	=====
Loss per common share:		
Before cumulative effect of change in accounting	(0.14)	(0.30)
Effect of accounting change	-	(0.03)
	-----	-----
Loss per common share	\$ (0.14)	\$ (0.33)
	=====	=====
Weighted average shares outstanding	4,338,034	4,114,922
	=====	=====
Proforma amounts assuming the new accounting method is applied retroactively:		
Net loss	\$(1,217,809)	
	=====	
Net loss per share	\$ (0.30)	
	=====	

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

	Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Total
	Number of Shares	Amount			
Balance, September 30, 1996	4,068,077	\$ 40,681	\$5,788,528	\$ (509,388)	\$ 5,319,821
Sale of common stock for cash	46,845	468	151,778	-	152,246
Net income (loss)	-	-	-	(1,293,330)	(1,293,330)
Balance, September 30, 1997	4,114,922	41,149	5,940,306	(1,802,718)	4,178,737
Acquisition of Taurus Entertainment Companies, Inc.	1,443,426	14,434	1,993,316	-	2,007,750
Acquisition of Minnesota property	147,632	1,476	180,667	-	182,143
Shares issued for accounts payable	44,000	440	59,263	-	59,703
Sales of common stock for cash	717,373	7,174	767,826	-	775,000
Net income (loss)	-	-	-	(604,864)	(604,864)
Balance, September 30, 1998	6,467,353	\$ 64,673	\$8,941,378	\$(2,407,582)	\$ 6,598,469

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

	1998	1997
	-----	-----
Net loss	\$ (604,864)	\$(1,293,330)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	440,055	311,464
Cumulative effect of accounting change	-	151,138
Minority interest	(6,826)	-
Loss on sale of land	33,650	
Other	15,169	
Changes in assets and liabilities:		
Accounts receivable	(56,975)	43,836
Inventories	(31,935)	(14,333)
Prepaid expenses and other assets	126,620	(150,207)
Accounts payable and accrued liabilities	512,278	218,894
Income taxes payable/receivable	-	187,770
	-----	-----
Net cash provided (used) by operating activities	427,172	(544,768)
	-----	-----
Cash flows from investing activities:		
Additions to property and equipment and goodwill	(1,089,467)	(4,321,541)
Proceeds from sale of land	782,002	-
	-----	-----
Net cash used by investing activities	(307,465)	(4,321,541)
	-----	-----
Cash flows from financing activities:		
Common stock issued, less offering costs	775,000	152,246
Increase in long-term debt	-	2,070,332
Payments on long-term debt	(654,473)	(148,862)
	-----	-----
Net cash provided by financing activities	120,527	2,073,716
	-----	-----
Net increase (decrease) in cash	240,234	(2,792,593)
Cash at beginning of year	357,410	3,150,003
	-----	-----
Cash at end of year	\$ 597,644	\$ 357,410
	=====	=====
Cash paid during the period for:		
Interest	\$ 380,560	\$ 151,338
	=====	=====

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 1998 AND 1997

1. ORGANIZATION

Rick's Cabaret International, Inc. (the "Company") was formed in December 1994, to acquire all the outstanding capital stock of Trumps Inc. ("Trumps"), a company owned 100% by the Company's sole stockholder. 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. The Company originally owned a premiere adult nightclub offering topless entertainment and restaurant and bar operations and a non-sexually oriented bar in Houston, Texas. The Company opened another premier adult nightclub in leased facilities on Bourbon Street in New Orleans, Louisiana in January 1997, and during the year ended September 30, 1998, the Company opened another premier adult nightclub in a facility purchased in Minneapolis, Minnesota. Also during the year ended September 30, 1998, the Company acquired approximately 93% of the outstanding common stock of Taurus Entertainment Companies, Inc. ("Taurus"), a publicly held company which also owns adult nightclubs (see Note 3). In December 1998, the Company will open a fourth premier adult nightclub in north Houston, located near George Bush Intercontinental Airport in premises leased from a subsidiary of Taurus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company has reported net losses of \$570,864 and \$1,293,330 for the years ended September 30, 1998 and 1997 and net cash resources were used in operating activities for each year. The following is a summary of management's plan to raise capital and generate additional operating funds.

Management has instituted plans to both increase the profitability of each operating unit in the company as well as to place non-income producing assets of the company on the market for sale. Management believes that these actions will enable the company to operate the company from the company's internally generated funds. Scheduled principal payments in the fiscal year ending September 30, 1999 will be \$107,000 less than in the year ended September 30, 1998 and interest expense will also be reduced. Steps have been taken in the original Houston operation to restore profitability by reductions in management expense and increase in local promotions. Management believes that the profitability of the New Orleans operation will remain strong.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Management also believes that the Minneapolis operation will continue to increase its sales and will become profitable and that the new location opened in December 1998 in north Houston will quickly become profitable. The Company has no present plans for expansion in the fiscal year ending September 30, 1999 that will require additional cash.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

Net Loss Per Common Share

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"). SFAS 128 provides a different method of calculating earnings per share than was formerly used in APB Opinion 15. SFAS 128 provides for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Dilutive earnings per share reflects the potential dilution of securities that could share in the earnings of the Company. The Company was required to adopt this standard in the fourth quarter of calendar 1997. Because the Company's potential dilutive securities are antidilutive, the accompanying presentation is only of basic loss per share.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Building and improvements	31	years
Equipment	5-7	years
Leasehold improvements	40	years

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.

Change in Accounting Principle - Preopening Costs

During the year ended September 30, 1997, the Company has changed its method of accounting for preopening costs for new locations from the deferral method to directly expensing the costs in the period in which they were incurred. Management believes that the direct expense method is preferable because it does not subject future periods to losses resulting from estimates of future recoverability and more reasonably matches costs with revenues.

The change in accounting principle resulted in an increase in net loss of \$151,138 for the year ended September 30, 1997, reflecting the cumulative effect of this change for the periods prior to 1997. The effect of the change on the net loss before cumulative effect of the accounting change is an increase of approximately \$312,000.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

During 1997, the Company deferred costs of approximately \$101,000 which represents expenditures incurred to develop a new advertising campaign which will be used in other locations during the next eighteen months. These costs are for logo design, artwork and ad layouts, a photographic library and the associated creative fees. These costs are being amortized over eighteen months. Amortization amounted to approximately \$49,000 and \$52,000 during the years ended September 30, 1998 and 1997, respectively.

3. ACQUISITION

On August 11, 1998, the Company acquired approximately 93% of the outstanding common stock of Taurus Entertainment Companies, Inc. ("Taurus") for 1,143,426 shares of common stock. This acquisition has been accounted for using the purchase method of accounting. Accordingly, the accompanying financial statements include the operations of Taurus from the date of acquisition. Under purchase accounting, the total purchase price was allocated to the tangible and intangible assets and liabilities of Taurus based upon their respective estimated fair values as of the closing date based upon valuations and other analyses. The estimated purchase price and preliminary adjustments to the historical book value of Taurus are as follows:

Purchase price, based on value of common stock issued (including 300,000 shares issued as a commission on the transaction)	\$2,007,750
Book value of net assets acquired	(174,176)

Purchase price in excess of net assets acquired	\$1,833,574
	=====
Allocation of purchase price in excess of net assets acquired:	
Increase in property, plant and equipment to fair market value	\$1,031,000
Goodwill	802,574

Total	\$1,833,574
	=====

The following unaudited pro forma consolidated information for the years ended September 30, 1998 and 1997 give effect to the transaction as if it had occurred at the beginning of each year. The unaudited pro forma consolidated information is presented for informational purposes only and is not necessarily indicative of the results

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

3. ACQUISITION (CONTINUED)

of operations that would have been achieved had the transaction been completed as of the beginning of each year, nor are they indicative of the Company's future results of operations.

	1998	1997
Revenues	\$10,947,305	\$ 8,037,965
Loss before cumulative effect of accounting change	\$(1,166,340)	\$(1,293,407)
Net loss	\$(1,166,340)	\$(1,444,545)
Net loss per common share	\$ (0.23)	\$ (0.28)

A facility in downtown Minneapolis, Minnesota was purchased in November 1997, and renovated. The facility cost approximately \$3,000,000: \$200,000 cash at closing, 95,000 shares of Company common stock, a 10% note payable of \$200,000 due in eighteen months and the balance of \$2,500,000 in a 10% note with a twenty-year amortization, maturing in 2007 (see Note 4). The acquisition resulted in recording goodwill in the amount of approximately \$2,423,000. The Company also issued 52,632 shares for related costs. The Company opened the location for business in March 1998. The Minneapolis facility had previously been operated as an adult entertainment venue. Because the Company did not buy a business in the transaction, no pro forma information is available.

4. LONG-TERM DEBT

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

	1998	1997
Note payable to a bank, payable \$10,000 per month, plus interest at 8.5%, collateralized by all assets of the Company subsidiary, RCI Entertainment Louisiana, Inc.	\$ 117,749	\$ 231,904
Note payable to a bank, payable \$9,919 per month, including interest at 8.5%, matures July 2002, collateralized by all assets of the Company subsidiary, RCI Entertainment Louisiana, Inc.	740,427	793,159
Note payable to a bank, payable \$13,434 per month, including interest at the prime rate plus 1%, matures December 2001, collateralized by land and building in Houston, Texas.	562,308	960,260

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

4. LONG-TERM DEBT (CONTINUED)

	1998	1997
12% convertible debenture, payable monthly (interest only) until maturity July 2004. See Note 9.	\$ 364,000	\$ -
10% note payable to an individual, payable \$12,314 per month, including interest, matures August 1999.	128,922	-
9% notes payable to an individual, monthly payments aggregating \$22,732, including interest, maturing in 2018. Collateralized by real estate in Minneapolis, Minnesota. See Note 3.	2,499,364	-
Note payable to partnership maturing March 2026, due in monthly installments of \$576 including principal and interest at 12%; collateralized by real estate.	55,443	-
Note payable to partnership maturing July 2007, due in monthly installments of \$653 including principal and interest at 12%; collateralized by real estate.	62,868	-
Note payable to corporation maturing December 2000, due in monthly principal installments of \$2,000 plus interest at 9%; collateralized by real estate.	147,854	-
Note payable to individual maturing July 2004, due in monthly installments of \$2,868 including principal and interest at 12%; collateralized by real estate.	286,745	-
Note payable to individual maturing March 2006, due in monthly installments of \$2,573, plus interest at 9.25%; collateralized by real estate.	310,455	-
Note payable to corporation maturing April 2002, due in monthly installments of \$13,758 including principal and interest at 10%; collateralized by real estate.	528,970	-

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

4. LONG-TERM DEBT (CONTINUED)

	1998	1997
	-----	-----
Note payable to a financing company maturing August 2003, due in monthly installments of \$5,380, including interest at 10%, collateralized by real estate	556,566	-
Various notes, at interest rates ranging from 6% to 12%, payable in monthly installments, including interest, aggregating approximately \$8,500, collateralized by real estate.	372,868	167,650
	-----	-----
	6,734,539	2,152,973
Less current maturities	(718,636)	(398,798)
	-----	-----
	\$6,015,903	\$1,754,175
	=====	=====

Substantially all the Company's assets are pledged to secure the above debt. The prime rate was 8.5% at September 30, 1998. Following are the maturities of long-term debt for the years ending September 30:

1999	\$ 718,636
2000	581,698
2001	524,900
2002	481,110
2003	669,870
Thereafter	3,758,325

	\$6,734,539
	=====

5. INCOME TAXES

Income tax expense (benefit) consisted of current taxes for 1998 and 1997. 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:

	1998	1997
	-----	-----
Tax credit on loss before income taxes at the statutory rate	\$(384,996)	\$(418,000)
Separate return limitation - unavailable loss carrybacks	384,996	330,265
	-----	-----
	\$ -	\$ (87,735)
	=====	=====

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

5. INCOME TAXES (CONTINUED)

The components of the net deferred tax asset/liability are as follows at September 30:

Operating loss carryforwards	\$(1,139,000)	\$(476,000)
Deferred tax asset valuation allowance	1,139,000	476,000
	-----	-----
	\$ -	\$ -
	=====	=====

For tax purposes, the Company has a net operating loss carryforward amounting to approximately \$3,350,000 which will expire, if not utilized, beginning in 2012.

6. RELATED PARTY TRANSACTIONS

During 1998 and 1997, the Company paid \$33,000 and \$20,000, respectively, for accounting services to an accounting firm in which a director of the Company was a principal.

Included in accounts payable in the accompanying consolidated balance sheet is approximately \$122,000 payable to the Company's Chief Executive Officer, the result of his payment of certain expenses principally related to the Minnesota acquisition.

7. COMMITMENTS AND CONTINGENCIES

Leases

The Company formerly leased 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. Lease payments were 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 began leasing the space on a month-to-month basis. The lease provided that the Company was 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 on the building amounted to \$63,000 for the year ended September 30, 1997. The lawsuit was settled in 1996, resulting in the former stockholder owning the building. The Company has purchased the property from the former stockholder.

The Company has entered into an operating lease for a nightclub in New Orleans, Louisiana. The 39 year lease commenced in May 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. The Company also leases corporate office facilities. Following is a schedule of minimum lease payments for the years ending September 30:

1999	\$ 425,445
2000	320,000
2001	300,000
2002	300,000
2003	300,000
Thereafter	8,015,000

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

7. 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 may be in excess of federally insured limits. The Company has not incurred losses related to its cash on deposit with banks.

Litigation

In November, 1998, LMTD, Inc. initiated litigation against a subsidiary of one of the Company's subsidiaries, Citation Land, LLC ("Citation"), in a case styled LMTD, Inc. v. Texas Warehouse Company, Inc., et al. Cause No. 98-12570, in the 200th Judicial District Court of Travis County, Texas. The suit seeks specific performance and damages against Texas Warehouse Company, Inc. regarding a Purchase Option Agreement. Plaintiff also alleges a tortious interference claim against Citation in the amount of \$540,000. Counsel for Citation intends to file a counterclaim and or cross action at the time that its answer is due. Counsel for Citation believes that the exposure to Citation is minimal. The Company intends to vigorously defend itself in this matter and to deny all allegations.

On October 15, 1998, All City Beverage and Entertainment, Inc. initiated litigation against one of the Company's subsidiaries in a case styled All City Beverage and Entertainment, Inc. v. Taurus Entertainment Companies, Inc. ("Taurus"), Cause No. 98- 49119, in the 61st Judicial District Court of Harris County, Texas. The suit seeks damages in the amount of \$25,000 and 175,000 shares of common stock of Taurus in connection with an Asset Purchase Agreement between All City Beverage and Entertainment, Inc. and Taurus. Taurus has filed a counter-claim asserting that there were undisclosed obligations which Taurus was required to pay. The counter-claim seeks damages in an amount in excess of \$25,000. This matter is in the early stages of litigation and no discovery has taken place. Taurus intends to vigorously defend itself in this matter.

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.

Sexually Oriented Business Ordinance of Houston, Texas

In January 1997, the City Council of the City of Houston passed a comprehensive new Ordinance regulating the location of and the conduct within Sexually Oriented Businesses. The new Ordinance established new distances that Sexually Oriented Businesses may be located to schools, churches, playgrounds and other sexually oriented

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

7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Sexually Oriented Business Ordinance of Houston, Texas

businesses. There were no provisions in the Ordinance exempting previously permitted sexually oriented businesses from the effect of the new Ordinance. In 1997, the Company was informed that Rick's Cabaret at its location at 3113 Bering Drive failed to meet the requirements of the Ordinance and accordingly the renewal of the Company's Business License at that location was denied. The location in north Houston opened in December, 1998 similarly failed to meet the requirements of the Ordinance as passed.

The Ordinance provided that a business which was denied a renewal of its operating permit due to changes in distance requirements under the Ordinance would be entitled to continue in operation for a period of time (the "Amortization Period") if the owner were unable to recoup, by the effective date of the Ordinance, its investment in the business that was incurred through the date of the passage and approval of the Ordinance.

The Company filed a written request with the City of Houston requesting an extension of time during which the Company could continue operations at its original location under the Amortization Period provisions of the Ordinance since the Company was unable to recoup its investment prior to the effective date of the Ordinance. An administrative hearing (the "Hearing") was held by the City of Houston to determine the appropriate Amortization Period to be granted to the Company. At the Hearing, the Company was granted an amortization period through July 1998. The Company has the right to appeal any decision of the Hearing official to the district court in the State of Texas.

In May, 1997, the City of Houston agreed to defer implementation of the Ordinance until the constitutionality of the entire Ordinance was decided by court trial. In February 1998 the U.S. District Court for the Southern District of Texas, Houston, Division, struck down certain provisions of the Ordinance, including the provision mandating a 1,500 foot distance between a club and schools, churches and other sexually oriented business, leaving intact the provision of the 750 foot distance as it existed in the prior Houston, Texas Ordinance.

There are other provisions in the Houston, Texas Ordinance, such as provisions governing the level of lighting in a sexually oriented business, the distance between a customer and dancer while the dancer is performing in a state of undress and provisions regarding the licensing of dancers that were upheld which may be detrimental to the business by the Company. The Company, in concert with other sexually oriented businesses, is appealing these aspects of the Houston, Texas Ordinance.

The City of Houston and the Company, in concert with other sexually oriented businesses has appealed the court's rulings. In the event that the City of Houston is successful in an appeal, the Company's Houston locations could be out of compliance. Such an outcome could have an adverse impact on the Company's future.

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

7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Sexually Oriented Business Ordinance of Houston, Texas

On April 1, 1998, the City of Houston began enforcing certain portions of the Ordinance, including the distance requirement between a customer and a dancer while dancing, and the requirement that dancers be licensed. The City of Houston's enforcement of the recently implemented provisions of the Ordinance could have an adverse impact on the Rick's location in Houston, Texas. The current requirement of a three foot distance between a dancer and a customer could reduce customer satisfaction and could result in fewer customers at the Houston location. The requirement that a dancer be licensed may result in fewer dancers working, which could have an adverse impact on the Houston location. It is unknown what future impact the enforcement of the Ordinance may have on the Company's Houston locations.

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 and notes 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 base on their effective interest rates compared to current market rates.

Other

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, 2000, 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.

8. 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

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

8. EMPLOYEE STOCK OPTION PLAN (CONTINUED)

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.

During the year ended September 30, 1998 and 1997, options were granted as follows:

	1998	1997
Outstanding at beginning of year	105,000	105,000
Granted	230,000	-
Expired	(35,000)	-
Exercised	-	-
Outstanding at end of year	300,000	105,000
Exercisable at end of year	50,000	-
Exercise price per share	\$1.875 to \$4.75	\$3.00 to \$4.75

SFAS 123

In October 1995, the Financial Accounting Standards Board ("FASB") issued SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 defines a fair value based method of accounting for an employee stock option or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award. However, SFAS 123 also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees."

Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. Entities electing to remain with the accounting in Opinion 25 must make pro forma disclosures of net income and earnings per share as if the fair value based method of accounting had been applied. The pro forma disclosure requirements are effective for financial statements for fiscal years beginning after December 15, 1995. The Company has elected to measure compensation cost, including options issued, under Opinion 25. The Company issued no options during the year ended September 30, 1997.

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

8. EMPLOYEE STOCK OPTION PLAN (CONTINUED)

Pro forma disclosures as required by SFAS 123 for the fiscal year ended September 30, 1998 are as follows:

Pro forma net loss	\$ (634,407)

Pro forma net loss per share	\$ (.15)

The fair value of the awards was estimated at the grant date using a Black-Scholes option pricing model with the following weighted average assumptions for 1998: risk-free interest rate of 4.4%; volatility factor of 127%; and an expected life of the awards of one to four years. The weighted average contractual life of the outstanding options at September 30, 1998 was 4.5 years.

9. STOCKHOLDERS' EQUITY

The Company has outstanding 1,160,000 warrants to purchase its common stock as a result of its public offering. The warrants are exercisable as follows: 920,000 at \$3.00 per share until October 1998 (expired), 160,000 at \$4.35 per share until October 2000 and 80,000 at \$4.35 per share until October 1998 (expired).

The Company acquired certain real estate in San Antonio, Texas under terms of a 12% subordinated convertible debenture (Note 4). The debenture is payable monthly, interest only, until maturity in July 2004. The Company has the option to redeem the debenture, in whole or in part, at its option if the closing price of the Company's common stock should equal or exceed \$8.50 per share for a period of ten days. The holder of the debenture has the option to convert any portion of the debenture to common shares of the Company at the conversion price of \$2.75 per share. The debentures are subordinated to the Company's bank debt and other "Senior Debt", as defined. The debentures are collateralized by the acquired real estate.

Taurus purchased real estate in Houston, Texas from Ralph McElroy, a principal stockholder of the Company, where Taurus operates an XTC Cabaret. The Company acquired the property from Mr. McElroy for the same price that Mr. McElroy paid for the property. The Company financed the purchase of the property by the issuance of a six year \$286,744 Convertible Debenture, secured by the real estate acquired. The Company is a guarantor of this Convertible Debenture. The principal balance of the Convertible Debenture is due in July, 2004, in one lump sum payment. Interest is due and payable monthly, with the first interest payment beginning in September, 1998. The Convertible Debenture is convertible into shares of Common Stock of the Company at any time prior to maturity at the Conversion Price of \$2.75 per share.

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

10. ACCOUNTING DEVELOPMENTS

SFAS 129

Statement of Financial Accounting Standards No. 129, Disclosure of Information about Capital Structure ("SFAS 129"), effective for periods ending after December 15, 1997, establishes standards for disclosing information about an entity's capital structure. SFAS 129 requires disclosure of the pertinent rights and privileges of various securities outstanding (stock, options, warrants, preferred stock, debt and participating rights) including dividend and liquidation preferences, participant rights, call prices and dates, conversion or exercise prices and redemption requirements. Adoption of SFAS 129 has had no effect on the Company as it currently discloses the information specified.

SFAS 130

In June 1997, the Financial Accounting Standards Board issued two new disclosure standards. Results of operations and financial position are unaffected by implementation of these new standard Statement of Financial Accounting Standards (SFAS) 130, "Reporting Comprehensive Income", establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Results of operations and financial position are unaffected by implementation of this new standard.

SFAS 131

SFAS 131, "Disclosure about Segments of a Business Enterprise", establishes standards for the way that public enterprises report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. SFAS 131 defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. This accounting pronouncement will not have an effect on the Company's financial statements, since the Company only operates in one segment of business, the operation of adult night clubs.

INDEX TO EXHIBITS

EXHIBIT NUMBER	SEQUENTIAL DESCRIPTION

3.1	* The Company's Articles of Incorporation, which are incorporated by reference to the Company's Form SB-2 Exhibit 3.1 as effective with the Commission on October 12, 1995.
3.2	* The Company's By-laws, which are incorporated by reference to the Company's Form SB-2 Exhibit 3.2 as effective with the Commission on October 12, 1995.
4.1	* Specimen of the Company's common stock certificate, which is incorporated by reference to the Company's Form SB-2 Exhibit 4.1 as effective with the Commission on October 12, 1995.
4.2	* Instruments defining the rights of security holders, which are incorporated by reference to the Company's Form SB-2 Exhibit 4.2 as effective with the Commission on October 12, 1995.
4.3	* Form of Debenture, which is incorporated by reference to the Company's Form 8-K dated August 11, 1998 Exhibit 4.1.
10.1	* Form of Stock Exchange Agreement With Certain Taurus Holders, which is incorporated by reference to the Company's Form 8-K dated August 11, 1998 Exhibit 10.1.
10.2	** Employment Agreement with Robert L. Watters
10.3	** Employment Agreement with Erich Norton White.
21.1	** Subsidiaries
27.1	** Financial Data Schedule
<hr style="width: 20%; margin-left: 0;"/>	
*	Incorporated by reference
**	Filed herewith

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") between Rick's Cabaret International, Inc., a Texas corporation, having its principal office and place of business in Houston, Texas (hereinafter referred to as the "Company") and Robert Watters, a resident of Houston, Texas (hereinafter referred to as the "Employee").

RECITALS:

The Company presently operates Rick's Cabaret in Houston, Texas and Rick's Cabaret in New Orleans, Louisiana and Tantra in Houston, Texas and the Company desires to employ the Employee in the capacity of the President and Chief Executive Officer of the Company to manage the day-to-day operations of the nightclubs and the Employee desires to be so employed under this Agreement, subject to the terms, conditions and covenants contained herein.

CONDITIONS OF AGREEMENT

I.

CONSIDERATION

This Agreement is executed and delivered for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged. The special training and knowledge acquired or to be acquired by the Employee during employment are material factors relating to the employment of the Employee without which the employment relationship would not be commenced. The parties hereto acknowledge and agree that this Agreement is necessary to protect the Company's legitimate interests, including, but not limited to, its business goodwill, trade secrets and other confidential or proprietary information.

II.

TERM OF EMPLOYMENT

2.1 Term. The Company hereby employs the Employee and the Employee hereby

accepts employment with the Company for a term of three (3) years ("Initial Term") which shall commence on the 15th day of April, 1997 and shall Continue for the entire Initial Term, subject to earlier termination as provided in this Agreement.

2.2 Extension of Initial Term. After the expiration of the Initial Term, this Agreement will be automatically extended for additional and successive one (1) year periods, unless either party gives written notice to the other at least 30 days prior to the expiration of the Initial Term, or any one year renewal term, that such

automatic extension shall not occur, in which event Employee's employment shall terminate upon the expiration of the Initial Term, or such renewal,

III.

DUTIES OF EMPLOYEE

3.1 Duties. The Employee is hereby employed as President and Chief Executive Officer of the Company. The Employee's responsibilities for such office shall be as set forth in the Bylaws of the Company including managing the day-to-day operations of the Company's business and its ongoing expansion efforts. Generally, in his capacity as President and Chief Executive Officer of the Company, the Employee will be primarily responsible for the general supervision, direction, and control of the Company, subject to the control of the President. In the discharge of such duties and throughout Employee's employment with Company, Employee shall, with respect to conduct involving certain matters including, but not limited to, conflicts of interest, usurpation of corporate authority, and personal and professional decorum and reputation, comply with (i) all requirements imposed by the Company upon similarly situated employees of the Company; (ii) standards generally accepted within the business community regarding similarly situated persons; and (iii) any relevant legal authority.

3.2 Change in Duties. The duties of Employee shall be those assigned to him from time by the Company and may be changed by the Company from time to time without resulting in rescission or termination of this Agreement.

3.3 Engaging in Other Employment. The Employee shall devote such productive time, ability, and attention to the business of the Company during the term of this Agreement as is required to fulfill his duties and responsibilities as set forth in Section 3.1 above. During the period of employment, the Employee further agrees not to (I) solely or jointly with others undertake or join any planning for or organization of any business activity competitive with the business activities of the Company, and (ii) directly or indirectly, engage or participate in any other activities in conflict with the best interest of the Company. Notwithstanding anything herein contained to the contrary, the Employee shall be able to devote such time as he deems reasonably necessary to his own private investments and affairs, so long as the performance of the Employee hereunder is not impaired and the covenants contained herein are not violated,

IV.

COMPENSATION TO EMPLOYEE

4.1. Monthly Salary. During the Initial Term of this Agreement, the Employee shall be entitled to a monthly salary of \$25,000.00, less all payroll deductions and applicable taxes. The time of payment for each installment shall be consistent with the general business practices of the Company.

4.2 Other Compensation The Employee understands and agrees that any additional compensation to the Employee (whether a bonus or other form of additional compensation shall rest in the sole discretion of the Board of Directors (or any Compensation Committee consisting of members of the Board of Directors) and shall be based upon the performance of the Company as well as participation in all benefit plans maintained by the company for salaried employees.

4.3 Review. The Employee, after the initial Term, if still employed by the Company, shall be reviewed at such times as are consistent with the Company's general personnel policies.

4.4 Fringe Benefits-Employee Benefits Plan. The Employee shall be entitled to participate on an equitable basis, as the Board of Directors may, in the exercise of its discretion deem appropriate, in any stock option plan and any additional year end or other profit sharing or incentive or deferred compensation arrangements, whether provided for in stock, cash or otherwise, which the Company may distribute to or provide for officers and employees generally, or for a limited or selected group, as well as under any other plans, benefits, customs or practices now or hereinafter made available to other executives of the Company, including as examples only, group life insurance and medical insurance. The Company may terminate, amend or modify any or all such plans at any time and may choose not to adopt additional plans. The Employee's rights under any benefits plans now in force or later adopted by the Company shall be governed solely by their terms.

4.5 Expense Account. The Employee is authorized to incur reasonable and necessary expenses directly associated with the promotion of the interests of the Company, and the performance of his assignments, including expenditures for entertainment and travel. The Company will reimburse the Employee from time to time for all such business expenses, upon the Employee's presenting to the Company such information and support as prescribed by Company policy.

4.6 Holidays and Vacations. The Employee shall be entitled to three (3) weeks of paid vacation for each year during the term hereof. Additionally, the Employee shall be entitled to such fully paid holidays as are normally taken by other full time employees of businesses similar to the Company, and such other holidays which may be particular to the Employee's religious preference.

4.7 Replacement of Present Contract. This agreement shall replace the contract presently in existence between Robert Watters and the Company which commenced on January 1, 1995 and which expires on December 31, 1997.

V.

LIFE INSURANCE

At any time during the term of this Agreement, the Company shall have the right to insure the Employee's life for the Company's sole benefit, and to determine the amount and type of insurance and type of policy. The Company shall be required to pay all premiums due on such policies. The Employee shall cooperate with the Company in taking out insurance by submitting to physical examination(s), by supplying all information required by the insurance company, and by executing any and all other necessary documents. The Employee shall incur no financial obligation by executing the required documents and shall have no interest in any such policies, except as otherwise provided herein.

VI.

TERMINATION OF EMPLOYMENT

6.1 Termination by the Employee Without Cause. If the employment of the Employee is terminated by the Employee for any reason other than as set forth in the other paragraphs of this Article VI (such termination being herein defined as without cause"), the Employee shall give the Company thirty (30) days written notice of termination; provided, however, that the Employee shall not be entitled to terminate his employment with the Company during the initial Term without cause. Except as otherwise provided for herein, any such termination of the Employee's employment for any reason whatsoever, whether voluntary or involuntary, shall not prejudice any other remedy to which any party may be entitled either at law, in equity, or under this Agreement.

6.2 Termination for Cause by the Company. The Company may "for cause" terminate the employment of the Employee at any time without notice. "For cause" for the purpose of this Agreement is defined as:

- A. The willful and continued failure to substantially perform his duties as set forth in this Agreement;
- B. The breach by the Employee of any of the provisions of this Agreement or of the covenants contained in Article VII of this Agreement;
- C. If the Employee is convicted of any crime involving moral turpitude; including without limitation, fraud or embezzlement or similar acts of dishonesty toward the Company; or

If the Employee is terminated for cause as hereinabove defined, the Company shall pay to the Employee only that compensation specified in Paragraph 6.3

below.

6.3 Effect of Termination on Compensation. In the event of the termination of employment by the Company or the Employee for any reason whatsoever, including resignation or voluntary termination by the Employee, the Employee shall be entitled to the compensation earned by him including all compensation specified in Article IV

herein, prior to the date of termination as provided for in this Agreement, computed pro rata up to and including the date of such termination of employment. Upon such payment to the Employee, the Company shall be relieved of further obligation as it relates to this Agreement; however, the Employee shall still be bound by the covenants and restrictions contained in Article VII below.

VII.

RESTRICTIVE COVENANTS

7.1 Definition. The Employee hereby acknowledges that during the course of his employment with the Company, he will have access to and will become familiar with various trade secrets and other proprietary and confidential information which are owned by the Company and which are used in the operation of the Company's business. "Trade secrets and other proprietary and confidential information" consist of, for example, and not intending to be inclusive, (i) methods of doing business; (ii) financial information, consisting of financial cost, and sales data and other information; (iii) personnel information (iv) lists of Customers and accounts, contracts, sales information, pricing list, vendor and supplier list of the Company; (v) other information of a confidential nature which must remain confidential for the continuing success of the Company; and (vi) such other information concerning the business of the Company and the Company's goodwill.

7.2 Non-Disclosure and Confidentiality Covenants. The Employee acknowledges that the Company's trade secrets and other proprietary and confidential information, as they may exist from time to time, are valuable, special and unique assets of the Company's business. Additionally, Employee acknowledges that the business goodwill and business contacts of the Company are the sole property of the Company and are among the Company's most valuable business property. Therefore, in consideration of the mutual promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and to protect the foregoing valuable property of the Company, the Employee expressly covenants and agrees as follows:

Except as required in the course of his employment with the Company, the Employee will not, during and after the termination of his employment:

- (1) Disclose, directly or indirectly, the Company's trade secrets and proprietary and confidential information, or any part thereof, to any person, corporation, association or other entity for any reason or purpose whatsoever; or
- (2) Directly or indirectly use the Company's trade secrets and other proprietary and confidential information, or any part thereof, for his own purpose or for his own benefit in any activity of any nature whatsoever.

7.3 Return of Company's Property. The Employee covenants and agrees that, upon the

request of the Company or upon termination of employment, the Employee shall turn over to the Company all files, records, documents, drawings, presentations, specifications, equipment, disks or other computer media, data, computer printouts, records, written materials and similar items relating to the business of the Company, and any other property of the Company in his possession or under his control. In the event the Employee fails to return the Company's property when required or requested to do so, the Company may, in addition to any other remedy provided by law, withhold any amounts due the Employee until full compliance with this Paragraph 7.3.

7.4 Covenant Not to Compete. So long as the Employee is employed by the Company and for a period of eighteen (18) months after either (i) the voluntary termination of employment by Employee or (ii) the termination of the Employee by the Company for cause, as set forth in Section 6.2 hereof, the Employee specifically agrees that he will not, for himself, on behalf of, or in conjunction with any person, firm, corporation or entity, other than the Company (either as principal, employee, shareholder, member, director, partner, consultant, owner or part owner of any corporation, partnership or any type of business entity) anywhere in any county in which the Company is doing business at the time of termination, directly or indirectly, own, manage, operate, control, be employed by, participate in, or he connected in any manner with the ownership, management, operation, or control of any business similar to the type of business conducted by the Company at the time of termination of the Employee's employment.

7.5 Employee's Acknowledgements and Agreements. The Employee acknowledges and agrees that:

- (1) Due to the nature of the Company's business, the foregoing covenants place no greater restraint upon the Employee than is reasonably necessary to protect the business and goodwill of the Company;
- (2) These covenants protect a legitimate interest of the Company and do not serve solely to limit the Company's future competition;
- (3) This Agreement is not an invalid or unreasonable restraint of trade;
- (4) A breach of these covenants by the Employee would cause irreparable damage to the Company;
- (5) These covenants will not preclude the Employee from becoming gainfully employed following termination of employment with the Company;
- (6) These covenants are reasonable in scope and are reasonably necessary to protect the Company's business and goodwill and valuable and extensive trade which the Company has established through its own expense and effort;

(7) The signing of this Agreement is necessary for the Employee's employment; and

(8) He has carefully read and considered all provisions of this Agreement and that all of the restrictions set forth are fair and reasonable and are reasonably required for the protection of the interests of the Company.

7.6 Remedies Injunction. In the event of the Employee's actual or threatened breach provisions of this Agreement, the Employee agrees that the Company shall be entitled to a temporary restraining order, preliminary injunction and/or permanent injunction restraining and prohibiting the Employee from violating the provisions herein. Nothing in this Agreement shall be construed to prohibit the Company from pursuing any other available remedies for such breach or threatened breach, including the recovery of damages from the Employee. The Employee further agrees that for the purpose of any such injunction proceeding, it shall be presumed that the Company's legal remedies would be inadequate and that the Company would suffer irreparable harm as a result of the Employee's violation of the provisions of this Agreement. In any proceeding brought by the Company to enforce the provisions of this Agreement, no other matter relating to the terms of any claim or cause of action of the Employee against the Company will be defense thereto.

7.7 Severability. In the event that any of the provisions of this Agreement are held to be invalid or unenforceable in whole or in part, those provisions to the extent enforceable and all other provisions shall nevertheless continue to valid and enforceable as though the invalid or unenforceable parts had not been included in this Agreement. In the event that any provision relating to the time period or scope of a restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or scope such court deems reasonable and enforceable, then the time period or scope of the restriction deemed reasonable and enforceable by the court shall become and shall thereafter be the maximum time period or the applicable scope of the restriction. The Employee further agrees that such covenants and/or any portion thereof are severable, separate and independent, and should any specific restriction or the application thereof, to any person, firm, corporation, or situation be held to be invalid, that holding shall not affect the remainder of such provisions or covenants.

VIII.

GENERAL PROVISIONS

8.1 Notices. Any notices to be given hereunder by either party to the other may be effected either by personal delivery in writing or by mail, registered or certified, postage prepaid with return receipt requested. Mailed notices shall be addressed to the parties at the addresses set forth below, but each party may change their address by written notice

in accordance with this Paragraph 8.1 Notices delivered personally shall be deemed communicated as of actual receipt; mailed notices shall be deemed communicated as of three (3) days after mailing.

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

If to Employee: Robert Waiters
3113 Bering Drive
Houston, Texas

8.2 Law Governing Agreement and Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas. This Agreement is executed in Harris County, Texas. Venue shall be in Harris County, Texas for any legal proceeding to enforce the terms, conditions or covenants contained herein.

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

8.4 Contract Terms to be Exclusive. This Agreement Contains the sole and entire agreement between the parties and shall supersede any and all other agreements between the parties with respect to the Employee's employment. The parties acknowledge and agree that neither of them has made any representation with respect to the subject matter of this Agreement or any other agreement executed between them or any representations inducing the execution and delivery hereof or any other agreement executed between them except such representations as are specifically set forth herein and each of the parties hereto acknowledges that he or it has relied on his or its own judgement in entering into the same. The parties hereto further acknowledge that any statements or representations that may have heretofore been made by either of them to the other are void and of no effect and that neither of them has relied thereon in connection with his or its dealings with the other.

8.5 Waiver or Modification Ineffective Unless in Writing. It is further agreed that no waiver or modification of this Agreement or of any covenant, condition, or limitation herein contained shall be valid unless in writing and duly executed by the party to be charged therewith and that no evidence of any waiver or modification shall be offered or received in evidence in any proceeding or litigation between the parties hereto arising out of or affecting this Agreement, or the rights or obligations of any party hereunder, unless such waiver or modification is in writing, duly executed as aforesaid, and the parties further agree that the provisions of this paragraph may not be waived as herein set forth.

8.6 Invalidity of Contract. Should any provision(s) of this Agreement be declared

invalid or unenforceable by a court of competent jurisdiction, 11 shall be severed or modified and the remainder of this Agreement shall be enforced in Iota[Additionally, if the Employee claims that any provision or covenant contained herein is invalid or unenforceable, he nevertheless agrees to comply with such provision or covenant as written until a court of competent jurisdiction determines the enforceability or validity of such provision or covenant. or limit. the scope thereof and further agrees to be liable for any and all damages to the Company pending such determination by the court.

8.7 Assignment The rights and benefits of the Company under this Agreement shall inure in the benefit of and be binding upon the successors and assigns of the Company. The rights of the Employee hereunder are personal and nontransferable except that the rights and benefits hereof shall inure to the benefit of the heirs, executors and legal representatives of the Employee.

8.8 Gender In all cases where a feminine or masculine pronoun is used it shall be deemed to include the other and as may be applicable to the instant matter.

IN WITNESS WHEREOF, this Agreement has been executed in Houston, Harris County, Texas, as of the 15 day _____, 1997.

COMPANY;

RICK'S CABARET INTERNATIONAL, INC.

By: /s/ *Erich N. White*

ERICH N. WHITE, VICE PRESIDENT

EMPLOYEE:

/S/ *ROBERT WATERS*

ROBERT WATERS

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") between RCT Entertainment (Louisiana), Inc., a Louisiana corporation, having its principal office and place of business in New Orleans, Louisiana (hereinafter referred to as the "Company") and Erich Norton White, a resident of New Orleans, Louisiana (hereinafter referred to as the "Employee").

RECITALS:

The Company presently operates Rick's Cabaret, a premier adult nightclub offering topless entertainment in New Orleans, Louisiana and the Company desires to employ the Employee in the capacity of the General Manager of the Company to manage the day-to-day operations of the nightclub and the Employee desires to be so employed under this Agreement, subject to the terms, conditions and covenants contained herein and as a Vice President Operations of Rick's Cabaret International, Inc.

CONDITIONS OF AGREEMENT

I.

CONSIDERATION

This Agreement is executed and delivered for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged. The special training and knowledge acquired or to be acquired by the Employee during employment are material factors relating to the employment of the Employee without which the employment relationship would not be commenced. The parties hereto acknowledge and agree that this Agreement is necessary to protect the Company's legitimate interests, including, but not limited to, its business goodwill, trade secrets and other confidential or proprietary information.

II.

TERM OF EMPLOYMENT

2.1 Term. The Company hereby employs the Employee and the Employee hereby accepts employment with the Company for a term of three (3) years ("Initial Term") which shall commence on the 15th day of April, 1997 and shall continue for the entire Initial Term, subject to earlier termination as provided in this Agreement.

2.2 Extension of Initial Term. After the expiration of the Initial Term, this Agreement will be automatically extended for additional and successive one

(1) year periods, unless either party gives written notice to the other at least 30 days

prior to the expiration of the Initial Term, or any one year renewal term, that such automatic extension shall not occur, in which event Employee's employment shall terminate upon the expiration of the Initial Term, or such renewal.

III.

DUTIES OF EMPLOYEE

3.1 Duties. The Employee is hereby employed as General Manager of the New Orleans nightclub and as a Vice President Operations of Rick's Cabaret International, Inc. The Employee's responsibilities for such office shall be as directed by the President of Rick's Cabaret International, Inc. and the President of RCI Entertainment (Louisiana) Inc. and as set forth in the Bylaws of the Company including managing the day-to-day operations of the Company's business. Generally, in his capacity as General Manager of the Company, the Employee will be primarily responsible for the general supervision, direction, and control of the Company, subject to the control of the President. In the discharge of such duties and throughout Employee's employment with Company, Employee shall, with respect to conduct involving certain matters including, but not limited to, conflicts of interest, usurpation of corporate authority, and personal and professional decorum and reputation, comply with (i) all requirements imposed by the Company upon similarly situated employees of the Company; (ii) standards generally accepted within the business community regarding similarly situated persons; and (iii) any relevant legal authority.

3.2 Change in Duties. The duties of Employee shall be those assigned to him from time by the Company and may be changed by the Company from time to time without resulting in rescission or termination of this Agreement.

3.3 Engaging in Other Employment. The Employee shall devote such productive time, ability, and attention to the business of the Company during the term of this Agreement as is required to fulfill his duties and responsibilities as set forth in Section 3.1 above. During the period of employment, the Employee further agrees not to (i) solely or jointly with others under-take or join any planning for or organization of any business activity competitive with the business activities of the Company, and (ii) directly or indirectly, engage or participate in any other activities in conflict with the best interest of the Company. Notwithstanding anything herein contained to the contrary, the Employee shall be able to devote such time as he deems reasonably necessary to his own private investments and affairs, so long as the performance of the Employee hereunder is not impaired and the covenants contained herein are not violated,

IV.

COMPENSATION TO EMPLOYEE

4.1. Monthly Salary. During the Initial Term of this Agreement, the Employee shall be entitled to a monthly salary of \$5,000.00, less all payroll deductions and applicable taxes.

The time of payment for each installment shall be consistent with the general business practices of the Company.

4.2 Other Compensation Employee is hereby granted 25,000 options under the terms of the Employee Stock Option Plan of Rick's Cabaret International, Inc. The options are to purchase stock in Rick's Cabaret International, Inc. at the closing price on April 11, 1997, minus any discount permitted under the terms of the Employee Stock Option Plan.

Employee will be entitled to an annual bonus in the amount of 6% of the net profitability (before calculation of any allocated US Federal Income Tax) after an allocation of 30% of the overhead of the parent company, Rick's Cabaret International, Inc. (which for the purposes of the initial term will be assumed not to exceed \$500,000 for 100% of overhead).

Employee will not be entitled to any bonus in the event that the profitability of RCI Entertainment (Louisiana) Inc., before computation of any allocated US federal income tax, is less than \$500,000.00. In the event that profitability is in excess of \$500,000.00 then Employee shall be entitled to a bonus equaling 6% of the entire profitability. Any bonus accruing due shall be paid annually 15 days after the close of the fiscal year.

For the fiscal year ending September 30, 1997 the minimum threshold for profitability will be \$375,000 rather than \$500,000.00. Employee shall be entitled to draw down on any bonus accrued every fiscal quarter of the Company, to the extent 50% of the accrued bonus.

In the event that Employee's bonus exceeds \$30,000 in any fiscal year, the Company agrees to match the excess with a grant of stock in an identical amount to the excess (for example if the bonus payable to Employee in the fiscal year were \$70,000 Employee would receive stock valued at \$40,000 (valued as at the end of the relevant fiscal year)).

4.3 Review. The Employee, after the initial Term, if still employed by the Company, shall be reviewed at such times as are consistent with the Company's general personnel policies.

4.4 Fringe Benefits-Employee Benefits Plan. The Employee shall be entitled to participate on an equitable basis, as the Board of Directors may, in the exercise of its discretion deem appropriate, in any stock option plan and any additional year end or other profit sharing or incentive or deferred compensation arrangements, whether provided for in stock, cash or otherwise, which the Company may distribute to or provide for officers and employees generally, or for a limited or selected group, as well as under any other plans, benefits, customs or practices now or hereinafter made available to other executives of the Company, including as examples only, group life insurance and medical insurance. The Company may terminate, amend or modify any or all such plans at any time and may choose not to adopt additional plans. The Employee's rights under any benefits plans now in force or later adopted by the Company shall be governed solely by their terms.

4.5 Expense Account. The Employee is authorized to incur reasonable and necessary expenses directly associated with the promotion of the interests of the Company, and the performance of his assignments, including expenditures for entertainment and travel. The Company will reimburse the Employee from time to time for all such business expenses, upon the Employee's presenting to the Company such information and support as prescribed by Company policy.

4.6 Holidays and Vacations. The Employee shall be entitled to two (2) weeks of paid vacation for each year during the term hereof. Additionally, the Employee shall be entitled to such fully paid holidays as are normally taken by other full time employees of businesses similar to the Company, and such other holidays which may be particular to the Employee's religious preference.

V.

LIFE INSURANCE

At any time during the term of this Agreement, the Company shall have the right to insure the Employee's life for the Company's sole benefit, and to determine the amount and type of insurance and type of policy. The Company shall be required to pay all premiums due on such policies. The Employee shall cooperate with the Company in taking out insurance by submitting to physical examination(s), by supplying all information required by the insurance company, and by executing any and all other necessary documents. The Employee shall incur no financial obligation by executing the required documents and shall have no interest in any such policies, except as otherwise provided herein.

VI.

TERMINATION OF EMPLOYMENT

6.1 Termination by the Employee Without Cause. If the employment of the Employee is terminated by the Employee for any reason other than as set forth in the other paragraphs of this Article VI (such termination being herein defined as "without cause"), the Employee shall give the Company thirty (30) days written notice of termination; provided, however, that the Employee shall not be entitled to terminate his employment with the Company during the initial Term without cause. Except as otherwise provided for herein, any such termination of the Employee's employment for any reason whatsoever, whether voluntary or involuntary, shall not prejudice any other remedy to which any party may be entitled either at law, in equity, or under this Agreement.

6.2 Termination for Cause by the Company. The Company may "for cause"

terminate the employment of the Employee at any time without notice. "For cause" for the purpose of this Agreement is defined as:

- A. The willful and continued failure to substantially perform his duties as set forth in this Agreement;
- B. The breach by the Employee of any of the provisions of this Agreement or of the covenants contained in Article VII of this Agreement;
- C. If the Employee is convicted of any crime involving moral turpitude; including without limitation, fraud or embezzlement or similar acts of dishonesty toward the Company; or
- D. If the Employee fails to achieve the minimum profitability goals as set forth in Paragraph 4.2 of this Agreement in any fiscal year.

If the Employee is terminated for cause as hereinabove defined, the Company shall pay to the Employee only that compensation specified in Paragraph 6.3

below.

6.3 Effect of Termination on Compensation. In the event of the termination of employment by the Company or the Employee for any reason whatsoever, including resignation or voluntary termination by the Employee, the Employee shall be entitled to the compensation earned by him including all compensation specified in Article IV herein, prior to the date of termination as provided for in this Agreement, computed pro rata up to and including the date of such termination of employment. Upon such payment to the Employee, the Company shall be relieved of further obligation as it relates to this Agreement; however, the Employee shall still be bound by the covenants and restrictions contained in Article VII below.

VII.

RESTRICTIVE COVENANTS

7.1 Definition. The Employee hereby acknowledges that during the course of his employment with the Company, he will have access to and will become familiar with various trade secrets and other proprietary and confidential information which are owned by the Company and which are used in the operation of the Company's business. "Trade secrets and other proprietary and confidential information" consist of, for example, and not intending to be inclusive, (i) methods of doing business; (ii) financial information, consisting of financial cost, and sales data and other information; (iii) personnel information (iv) lists of Customers and accounts, contracts, sales information, pricing list, vendor and supplier list of the Company; (v) other information of a confidential nature which must remain confidential for the continuing success of the Company; and (vi) such other information concerning the business of the Company and the Company's goodwill.

7.2 Non-Disclosure and Confidentiality Covenants. The Employee acknowledges that

the Company's trade secrets and other proprietary and confidential information, as they may exist from time to time, are valuable, special and unique assets of the Company's business. Additionally, Employee acknowledges that the business goodwill and business contacts of the Company are the sole property of the Company and are among the Company's most valuable business property. Therefore, in consideration of the mutual promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and to protect the foregoing valuable property of the Company, the Employee expressly covenants and agrees as follows:

Except as required in the course of his employment with the Company, the Employee will not, during and after the termination of his employment:

- (1) Disclose, directly or indirectly, the Company's trade secrets and proprietary and confidential information, or any part thereof, to any person, corporation, association or other entity for any reason or purpose whatsoever; or
- (2) Directly or indirectly use the Company's trade secrets and other proprietary and confidential information, or any part thereof, for his own purpose or for his own benefit in any activity of any nature whatsoever.

7.3 Return of Company's Property. The Employee covenants and agrees that, upon the request of the Company or upon termination of employment, the Employee shall turn over to the Company all files, records, documents, drawings, presentations, specifications, equipment, disks or other computer media, data, computer printouts, records, written materials and similar items relating to the business of the Company, and any other property of the Company in his possession or under his control. In the event the Employee fails to return the Company's property when required or requested to do so, the Company may, in addition to any other remedy provided by law, withhold any amounts due the Employee until full compliance with this Paragraph 7.3.

7.4 Covenant Not to Compete. So long as the Employee is employed by the Company and for a period of six (6) months after either (i) the voluntary termination of employment by Employee or (ii) the termination of the Employee by the Company for cause, as set forth in Section 6.2 hereof, the Employee specifically agrees that he will not, for himself, on behalf of, or in conjunction with any person, firm, corporation or entity, other than the Company (either as principal, employee, shareholder, member, director, partner, consultant, owner or part owner of any corporation, partnership or any type of business entity) anywhere in any county in which the Company is doing business at the time of termination, directly or indirectly, own, manage, operate, control, be employed by, participate in, or be connected in any manner with the ownership, management, operation, or control of any business similar to the type of business conducted by the Company at the time of termination of the Employee's employment.

7.5 Employee' Acknowledgements and Agreements. The Employee acknowledges and agrees that:

- (1) Due to the nature of the Company's business, the foregoing covenants place no greater restraint upon the Employee than is reasonably necessary to protect the business and goodwill of the Company;
- (2) These covenants protect a legitimate interest of the Company and do not serve solely to limit the Company's future competition;
- (3) This Agreement is not an invalid or unreasonable restraint of trade;
- (4) A breach of these covenants by the Employee would cause irreparable damage to the Company;
- (5) These covenants will not preclude the Employee from becoming gainfully employed following termination of employment with the Company;
- (6) These covenants are reasonable in scope and are reasonably necessary to protect the Company's business and goodwill and valuable and extensive trade which the Company has established through its own expense and effort;
- (7) The signing of this Agreement is necessary for the Employee's employment; and
- (8) He has carefully read and considered all provisions of this Agreement and that all of the restrictions set forth are fair and reasonable and are reasonably required for the protection of the interests of the Company.

7.6 Remedies Injunction. In the event of the Employee's actual or threatened breach provisions of this Agreement, the Employee agrees that the Company shall be entitled to a temporary restraining order, preliminary injunction and/or permanent injunction restraining and prohibiting the Employee from violating the provisions herein. Nothing in this Agreement shall be construed to prohibit the Company from pursuing any other available remedies for such breach or threatened breach, including the recovery of damages from the Employee. The Employee further agrees that for the purpose of any such injunction proceeding, it shall be presumed that the Company's legal remedies would be inadequate and that the Company would suffer irreparable harm as a result of the Employee's violation of the provisions of this Agreement. In any proceeding brought by the Company to enforce the provisions of this Agreement, no other matter relating to the terms of any claim or cause of action of the Employee against the Company will be defense thereto.

7.7 Severability. In the event that any of the provisions of this Agreement are held to be invalid or unenforceable in whole or in part, those provisions to the extent enforceable and all other provisions shall nevertheless continue to valid and

enforceable as though the invalid or unenforceable parts had not been included in this Agreement. In the event that any provision relating to the time period or scope of a restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or scope such court deems reasonable and enforceable, then the time period or scope of the restriction deemed reasonable and enforceable by the court shall become and shall thereafter be the maximum time period or the applicable scope of the restriction. The Employee further agrees that such covenants and/or any portion thereof are severable, separate and independent, and should any specific restriction or the application thereof, to any person, firm, corporation, or situation be held to be invalid, that holding shall not affect the remainder of such provisions or covenants.

VIII.

GENERAL PROVISIONS

8.1 Notices. Any notices to be given hereunder by either party to the other may be effected either by personal delivery in writing or by mail, registered or certified, postage prepaid with return receipt requested. Mailed notices shall be addressed to the parties at the addresses set forth below, but each party may change their address by written notice in accordance with this Paragraph 8.1 Notices delivered personally shall be deemed communicated as of actual receipt; mailed notices shall be deemed communicated as of three (3) days after mailing.

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

If to Employee: Erich Norton White
315 Bourbon Street
New Orleans, Louisiana

8.2 Law Governing Agreement and Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas. This Agreement is executed in Harris County, Texas. Venue shall be in Harris County, Texas for any legal proceeding to enforce the terms, conditions or covenants contained herein.

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

8.4 Contract Terms to be Exclusive. This Agreement Contains the sole and entire

agreement between the parties and shall supersede any and all other agreements between the parties with respect to the Employee's employment. The parties acknowledge and agree that neither of them has made any representation with respect to the subject matter of this Agreement or any other agreement executed between them or any representations inducing the execution and delivery hereof or any other agreement executed between them except such representations as are specifically set forth herein and each of the parties hereto acknowledges that he or it has relied on his or its own judgement in entering into the same. The parties hereto further acknowledge that any statements or representations that may have heretofore been made by either of them to the other are void and of no effect and that neither of them has relied thereon in connection with his or its dealings with the other.

8.5 Waiver or Modification Ineffective Unless in Writing. It is further agreed that no waiver or modification of this Agreement or of any covenant, condition, or limitation herein contained shall be valid unless in writing and duly executed by the party to be charged therewith and that no evidence of any waiver or modification shall be offered or received in evidence in any proceeding or litigation between the parties hereto arising out of or affecting this Agreement, or the rights or obligations of any party hereunder, unless such waiver or modification is in writing, duly executed as aforesaid, and the parties further agree that the provisions of this paragraph may not be waived as herein set forth.

8.6 Invalidity of Contract. Should any provision(s) of this Agreement be declared invalid or unenforceable by a court of competent jurisdiction, it shall be severed or modified and the remainder of this Agreement shall be enforced in total. Additionally, if the Employee claims that any provision or covenant contained herein is invalid or unenforceable, he nevertheless agrees to comply with such provision or covenant as written until a court of competent jurisdiction determines the enforceability or validity of such provision or covenant, or limits the scope thereof, and further agrees to be liable for any and all damages to the Company pending such determination by the court.

8.7 Assignment. The rights and benefits of the Company under this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company. The rights of the Employee hereunder are personal and nontransferable except that the rights and benefits hereof shall inure to the benefit of the heirs, executors and legal representatives of the Employee.

8.8 Gender. In all cases where a feminine or masculine pronoun is used it shall be deemed to include the other and as may be applicable to the instant matter.

IN WITNESS WHEREOF, this Agreement has been executed in Houston, Harris County, Texas as of the _ day of _____, 1997

COMPANY;

RCI ENTERTAINMENT (LOUISIANA), INC.

/S/ ROBERT WATERS

ROBERT WATERS, PRESIDENT

EMPLOYEE:

BY: /S/ ERICH N. WHITE

ERICH N. WHITE

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of the 14th day of May, 1998

WHEREAS Erich Norton White and RCI Entertainment (Louisiana) Inc. entered into an Employment Agreement on the 15th day of April, 1997, and,

WHEREAS both parties wish to amend the Employment Agreement,

NOW THEREFORE, in consideration of the above and in further consideration of the benefits to both parties arising from the following amendment to the Employment Agreement. the parties have agreed as follows:

Section 4.1 of the Employment Agreement shall be modified such that the annual salary of Erich Norton White shall be \$100,000 payable in bi-weekly installments.

Section 4.2 of the Employment Agreement continue in force with no modification.

Section 2.1 of the Employment Agreement shall be modified such that the Initial Term of the Employment Agreement shall continue until April 14, 2001.

IN WITNESS whereto the parties have signed this Agreement on the date first above written,

BY: /S/ ERICH N. WHITE

ERICH N. WHITE

/S/ ROBERT WATERS

ROBERT WATERS, PRESIDENT
PRESIDENT, RCI ENTERTAINMENT (LOUISIANA), INC.
PRESIDENT, RICK'S CABARET INTERNATIONAL, INC.

Exhibit 21.1 Subsidiaries

Trumps, Inc., a Texas corporation, 100% owned.

Tantric Enterprises, Inc., a Texas corporation, 100% owned. Tantra Dance, Inc., a Texas corporation, 100% owned. Tantra Parking, Inc., a Texas corporation, 100% owned. RCI Entertainment (Texas), Inc., a Texas corporation, 100% owned. RCI Entertainment (Louisiana) Inc., a Louisiana corporation, 100% owned. RCI Entertainment (Minnesota), Inc., a Minnesota corporation, 100% owned. Taurus Entertainment Companies, Inc., a Colorado corporation, 93% owned.

ARTICLE 5

MULTIPLIER: 1

PERIOD TYPE	YEAR
FISCAL YEAR END	SEP 30 1998
PERIOD START	OCT 01 1997
PERIOD END	SEP 30 1998
CASH	597644
SECURITIES	0
RECEIVABLES	58023
ALLOWANCES	0
INVENTORY	94633
CURRENT ASSETS	1354245
PP&E	11460829
DEPRECIATION	(1213557)
TOTAL ASSETS	14868346
CURRENT LIABILITIES	2242078
BONDS	6734539
COMMON	64673
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	6533796
TOTAL LIABILITY AND EQUITY	14868346
SALES	7831531
TOTAL REVENUES	7831531
CGS	1102556
TOTAL COSTS	8052358
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	384037
INCOME PRETAX	(604864)
INCOME TAX	0
INCOME CONTINUING	(604864)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(604864)
EPS PRIMARY	(.14)
EPS DILUTED	(.14)

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