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RICKS CABARET INTERNATIONAL INC

Form 8-K

November 14, 2006

Securities and Exchange Commission
Washington, D.C. 20549

FORM 8-K

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

Date of Report: November 10, 2006

RICK'S CABARET INTERNATIONAL, INC.
(Exact Name of Registrant As Specified in Its Charter)

| | | |
|---|--------------------------|--------------------------------------|
| Texas | 0-26958 | 76-0037324 |
| (State Or Other Jurisdiction of Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

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

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

ITEM 8.01 OTHER EVENTS.

On November 10, 2006, our subsidiary, RCI Entertainment (Austin), Inc. ("RCI"), completed the acquisition of 51% of the membership interest of Playmates Gentlemen's Club, LLC ("Playmates") from Behzad Bahrami ("Seller"). Playmates owns an adult entertainment cabaret known as "Playmates" (the "Club") located at 8110 Springdale Road, Austin, Texas 78724 (the "Premises"). Under the terms of the previously announced Purchase Agreement, RCI paid a total purchase price of \$1,500,000 which was paid \$500,000 in cash at the time of closing and the issuance of 125,000 shares of our restricted common stock valued at \$8.00 per share (the "Shares").

Pursuant to the terms of the Purchase Agreement, on or after one year after the closing date, the Seller shall have the right, but not the obligation to have us purchase from Seller 5,000 Shares per month (the "Monthly Shares"), calculated at a price per share equal to \$8.00 ("Value of the Shares") until the Seller has received a total of \$1,000,000 from the sale of the Shares. Seller shall notify us during any given month of its election to "Put" the Monthly Shares to us during that particular month. At our election during any given month, we may either buy the Monthly Shares or, if we elect not to buy the Monthly Shares from the Seller, then the Seller shall sell the Monthly Shares in the open market. Any deficiency between the amount which the Seller receives from the sale of the Monthly Shares and the Value of the Shares shall be paid by us within three (3) business days of the date of sale of the Monthly Shares during that particular month. Our obligation to purchase the Monthly Shares from the Seller shall terminate and cease at such time as the Seller has received a total of \$1,000,000 from the sale of the Shares.

In the event the Seller elects not to "Put" the Shares to us, the Seller shall not sell more than 10,000 Shares per week in the open market, provided that Seller complies with Rule 144 of the Securities Act of 1933, as amended, in connection with his sale of the Shares.

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As part of the transaction, under the terms of Playmates' Amended and Restated Regulations, RCI will be the Manager of Playmates and will operate the day-to-day business of Playmates, including the operations of the Club. RCI will provide, if necessary, an initial \$200,000 line of credit for operation of the Club. The Seller and Playmates entered a five-year covenant not to compete with the Club. Further, Playmates executed a new lease agreement with the landlord giving it the right to lease the Premises for ten (10) years at \$29,000 per month, with the right to an option for an additional ten (10) years at \$37,000 per month, with RCI agreeing to guarantee the first two (2) years of the lease. RCI and the Seller also entered into a Members' Agreement relating to the ownership of their membership interest. Finally, as part of the transaction, the Seller entered a Lock-up/Leak-out Agreement with us regarding the Shares.

The transaction was funded by our issuance of three (3) separate Convertible Debentures (collectively, the "Debentures") to Wade McElroy, Ryan McElroy and Doris King, the sons and sister, respectively, of Ralph McElroy, a greater than 10% shareholder (the "Holders"). Each of the Debentures bears interest at the rate of 12% per annum and has a maturity date of November 9, 2008. Under the terms of the Debentures, we are required to make monthly interest payments beginning December 9, 2006. We have the right to redeem the Debentures in whole or in part at any time during the term of the Debentures. The Holders have the option to convert all or any

portion of the principal amount of the Debentures into shares of our common stock at a rate of \$7.50 per share (the "Conversion Shares"), subject to adjustment under certain conditions. The Debentures provide, absent shareholder approval, that the number of shares of our common stock that may be issued by us or acquired by a Holder and any affiliates of a Holder upon conversion of the Debentures shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock. The Conversion Shares have piggyback registration rights.

The terms and conditions of the transaction were the result of arms-length negotiation between the parties. A copy of the press release related to this transaction is attached hereto as Exhibit 99.1.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

| Exhibit Number | Description |
|----------------|---------------------------------------|
| 99.1 | Press release dated November 10, 2006 |

SIGNATURES

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

RICK'S CABARET INTERNATIONAL, INC.

By: /s/ Eric Langan

Eric Langan

Date: November 14, 2006

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Chairman, President,
Chief Executive Officer and
Principal Accounting Officer