

Minneapolis
City of Lakes

**Regulatory Services
Department**

**Licenses &
Consumer Services
Division**

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**Shieks Palace Royal, 115 4th St. So.
Rational for Approving the Transfer of Shares
And the New Corporate Officers
May 2007**

- VCG is a publicly traded company and thus has a higher level of financial and operational reporting for the Security and Exchange Commission.
- VCG's business plan has no intention of changing the current venue or replacing the current management at Sheiks. There are no current licensing issues at that establishment,
- They are performing well with similar clubs in Colorado, North Carolina, Kentucky, and other major markets.
- VCG's prospectus and business overview indicates that they are acquiring premier clubs in all the major markets having licenses approved in other cities since 2004.
- We were able to reach an agreement with Classic Affairs not to distribute handbills on public property, and to provide higher standards of conduct for adult entertainment businesses.

Principal questions that need to be considered when reviewing this application include:

1. **Will this new corporate owner operate this business in compliance with local, state and federal laws?** The office of Licenses and Consumer Services believe they will.
2. **Will Minneapolis receive any benefits from approving the new ownership at Shieks Palace Royal?** The offices of Licenses and Consumer Services believe that we are gaining two wins for the City. First and foremost, we have gained an agreement on the type of dancing that can take place in the business, and be assured that sexual contact between customers and employees will not occur. Secondly we have gained an agreement with the business that they will not distribute advertising flyers and handbills on the streets and sidewalks of the City. Currently, this is a legal activity that creates thousands of pieces of litter in the City every week. These would be an improvement above the current license.

Prepared by:

Ricardo Cervantes, Deputy Director, Licenses and Consumer Services.
612-673-5857.

Classic Affairs, Inc.
115 4th Street South

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2004 Investigation

Classic Affairs Inc. dba; Shieks Palace Royal

115 South 4th Street, Mpls., MN.

VCG APPLICATION FOR SCHIEK'S PALACE ROYALE

Lt. Travis Glampe

March 8, 2007

February 6, 2004

- VCG Holding corporation makes application for a liquor license in conjunction with their purchase of Schiek's Palace Royale at 115 North Fourth Street.
- VCG is a publicly held company that is listed on the American Stock Exchange.
- As of 11-11-2007 VCG owns seven strip clubs. They manage an additional 9 strip clubs using their wholly owed subsidiary, IEC. These 9 strip clubs are owned by VCG's CEO, Troy Lowrie.
- Based on their application, Sgt. Kent Warnberg and Sgt. Andy Schmidt of the Minneapolis Police Department made site visits to VCG's various establishments in Denver, St. Louis, Indianapolis, and Louisville. This was done as part of the background investigation for VCG's application. Their findings are memorialized in police reports that are attached. A number of illegal incidents and questionable management practices were noted.
- VCG withdraws their liquor license application prior to PS&RS Committee review.

August 16, 2006

- VCG forwards a letter to City Council Member Lisa Goodman. A summary of letter:
 - VCG disagrees with Sgt. Warnberg's assessment that they were on the verge of indictment, violations and closure. Since the investigation none of these has occurred and they have opened new clubs in Denver and Phoenix.
 - VCG states that Sgt. Warnberg had a personal mission in his investigation. There is nothing to back to up this accusation.
 - VCG states that Sgt. Warnberg's attention to VCG was out of line with treatment of other clubs operating in Minneapolis.
 - VCG states that Sgt. Warnberg did not accurately represent VCG's business operation.

-The letter is attached.

Glampe's commentary:

- Warnberg and Schmidt made detailed reports that recorded their observations. I have no question that the reports are accurate.
- VCG is making an effort to discredit Sgt. Warnberg in an effort to avoid discussing the shortcomings and illegal activities observed in their clubs.

October 12, 2006

-A meeting is held with VCG and local counsel-Al Garcia. VCG is planning on coming back and wants to discuss the previous report and investigation. VCG is informed that the previous investigation and reports are still relevant and would

be used in any future investigation. VCG's desire is to minimize this investigation. The City agrees to draft a document that would specify the actual incidents and shortcomings that they would like VCG to address.

-VCG states that the clubs in East St. Louis are of a lower class than their higher end clubs. Thus the expected behavior would be different in East St. Louis.

-Sgt. Glampe summarizes Warnberg and Schmidt's reports. Based on this summary Glampe drafts a list of questions that the City is requesting VCG respond to. This list is broken down by each of the clubs Warnberg and Schmidt visited. This summary and the accompanying questions are attached.

Glampe's commentary:

VCG wants to wipe the slate clean. They wanted the previous investigation to be completely quashed and therefore not pertinent to a future application. The previous investigation cannot be discounted in any way. The observed behavior was so egregious that it must be considered. VCG must show how things have changed in their clubs.

November 15, 2006

-VCG responds in writing. A summary:

-VCG claims to abide by the law.

-VCG claims to have labor standards that serve as an indicator of the commitment to the health and safety of its employees. They claim to have a zero tolerance policy.

-Our investigation caused VCG to do a third party audit in which no violations were found.

-VGC states that our 2004 investigation was flawed.

-VCG states their function is to sell a fantasy.

-VCG's product is seduction. Their dancers are trained in the art of theatrical production that leaves the guest with the perception that they experienced more than what they saw.

-VGC then attempts to address our questions.

-VCG does not acknowledge that what Warnberg and Schmidt saw actually happened. As an example they refused to acknowledge that a bathroom attendant offered to sell Viagra for \$15 to the officers.

-The VCG letter is attached.

Glampe's commentary:

VCG refused to acknowledge any inappropriate behavior occurred during the 2004 investigation. Subsequently they wouldn't/couldn't state how they addressed these problems and why they occurred in the first place. As a result of their response nothing has been cleared up by VCG. It is my opinion that the actions occurred during the investigation and VCG has not addressed them.

-A meeting is held with VCG local counsel Al Garcia. He is informed that we are not satisfied with the response given by VCG. He is further informed that we

want specific answers to the specific shortcoming that were seen. He believes that his clients are skirting around the issues for liability reasons.

January 9, 2007

-A meeting is held with VCG Government Liaison John Soto and local counsel Al Garcia.

-Soto asks that any subsequent investigation be done at their clubs with a similar clientele to that of Shiek's. The East St. Louis clubs would not fall into this category.

-Soto states that the manager at Shiek's will remain in place and no operational changes will occur.

Glampe's commentary:

VCG is still refusing to acknowledge that there was illegal behavior in their clubs during 2004. This would have been their golden opportunity to admit that this behavior occurred and to tell us how they would have addressed the problems. The City certainly would have been able to take a different view if VCG had presented a impressive list of responses and changes as a result of our previous investigation. They have offered a very limited list of changes and responses.

Glampe's overall commentary:

-Another extensive investigation should be done. The past investigation uncovered behavior that would have prompted the City to recommend a denial of the license application.

-This investigation should include visits to the same clubs that were previously visited. This includes an emphasis on the East St. Louis clubs.

-The investigation should include a visit to Shiek's. VCG claims they will not change the operation of Shiek's. We need to determine how Shiek's is being run.

-PS&RS should be made aware of VCG's lack of accountability regarding the previous investigation.

Minneapolis Police Department
License Inspection Division

File: 11400

Ward: 7

APPLICANT: Classic Affairs, Inc.
DBA: Schiek's Palace Royale
115 North 4th Street

LICENSES CURRENTLY HELD: On Sale Liquor Class A w/Sunday Sales,
Tobacco, Special Late Night Entertainment

DATE OF APPLICATION: February 6, 2004

INSPECTOR: Kenneth Ziegler [REDACTED]

NOTICE TO RESIDENTS: Neither Notice Nor Public Hearing is Required

PURPOSE OF APPLICATION: The existing licensee, Classic Affairs Inc., requests approval of a new 100% shareholder (VCG Holding Corporation), and new directors, officers, and on-site manager.

[REDACTED]

APPLICATION FOR APPROVAL OF VCG HOLDING CORP. AS SOLE SHAREHOLDER OF CLASSIC AFFAIRS, INC.

This application involves the purchase of 100% of the outstanding and issued stock of Classic Affairs, Inc. (the current licensee) by VCG Holding Corp (VCGH), a publicly-traded company. With the approval of this application, VCGH will become the parent company and sole shareholder of Classic Affairs, Inc., the liquor licensee.

VCG Holding Corp. (VCGH) is a Colorado corporation registered and incorporated with the Colorado Secretary of State's office on 11/14/90 (incorporation file #19981004295 C) and presented evidence that it is a corporation in good standing in the State of Colorado.

VCGH filed their initial registration statement with the U.S. Securities and Exchange Commission (SEC) on 9/10/02. On May 13, 2003, VCGH filed amendment no. 3 to Form SB-2 Registration Statement with the SEC and achieved status as a publicly traded corporation. The prospectus of even date details the initial company offering of

APPLICATION FOR NEW DIRECTORS & OFFICERS OF CLASSIC AFFAIRS INC.

Upon approval of this application, it is the intention of the parties that Robert Sabes resign his present offices of director and officer(s) of Classic Affairs, Inc..

The applicant has indicated that upon the acquisition of Mr. Sabes' shares of Classic Affairs Inc. by VCGH, Troy Lowrie, Michael Ocello, and Donald Prosser will be the individuals elected by VCGH/Classic Affairs Inc. as the new directors and officers of the licensee.

APPLICATION FOR NEW ON-SITE MANAGER

The applicant presented a letter written by Troy Lowrie of VCGH stating that (upon approval of this application) all management personnel will be employees of Classic Affairs, Inc.. and will be paid out of the payroll account of Classic Affairs, Inc..

The applicant requests approval of Alberto Luis Fortuny as the on-site manager of Classic Affairs Inc. dba: Schiek's Palace Royale.

Alberto Luis Fortuny ([REDACTED]; Mexico City, Mexico) indicates residence [REDACTED]
[REDACTED]

Mr. Fortuny indicates employment with International Entertainment Consultants, Inc. (IEC), 390 Union Blvd. #504, Lakewood CO (home office) as an area director and promotions director from 5/91 to present. Mr. Fortuny indicates that he has worked at the Illinois and Tennessee locations.

Mr. Fortuny is married to Cynthia L. Fortuny ([REDACTED]; St. Louis, MO), and he has two minor children. VCGH has contracted with Boyd & Associates, an approved beverage alcohol server training provider, for quarterly alcohol server training for the management and wait staff of Schiek's.

International Entertainment Consultants

International Entertainment Consultants Inc, a Colorado corporation (IEC), has more than 20 years of managing adult entertainment nightclubs. As of 10/6/03, it had contracts to manage twelve nightclubs, including the nightclubs owned at that time by VCGH. Troy Lowrie, Micheal Ocello, and Donald Prosser are all affiliated with IEC. Under a standard management contract, IEC is responsible for all aspects of club management, administration & accounting; however, the direct operating expenses such as food and beverage operations, employee payroll, advertising, entertainment and facility management are paid for directly by the licensee.

VCGH filed a Form 8-K with the US SEC indicating that effective 10/6/03, VCGH purchased 100% of the outstanding common stock of IEC in consideration for the issuance of 4,769 shares of VCGH restricted common stock to Troy Lowrie, valued at

\$15,500.00, the book value of IECs assets. By acquiring IEC and the associated centralization of management, VCGH expects to realize a substantial reduction in management expense. As mentioned earlier in this section, the applicant has represented that all management personnel will be employees of Classic Affairs, Inc.. and will be paid out of the payroll account of Classic Affairs, Inc..

VENUES OWNED BY VCGH

As of 1/30/04 the applicant indicates that VCG Holding Corp., as the parent company of the licensee, operates the following nightclubs:

The Platinum Club in Brooklyn, IL

Power Plant in Phoenix, AZ

PT's Showclub in Memphis, TN

PT's Showclub in Indianapolis, IN

Representatives of VCGH indicate that they are also in discussion to purchase a majority interest in a nightclub in Hawaii and intend to open yet another nightclub in Phoenix, Arizona under the VCGH umbrella sometime in 2004.

It is the case that Troy Lowrie, Mary Bowles-Cook and Micheal Ocello, as principals of other corporations and legal entities also have an interest in other nightclubs throughout the U.S. that are not currently operated under the VCGH umbrella; a list of these venues was provided by the applicant.

LETTER OF INTENT TO PURCHASE

The applicant presented an initial Letter Of Intent (LOI) executed 1/29/04 by and between Robert W. Sabes, Classic Affairs Inc, and JFS Desert Fountain, LLC as sellers and VCG Holding Corp. (VCGH) as purchaser. The LOI presents the terms which shall be incorporated into definitive agreements to purchase all of the issued and outstanding shares of Classic Affairs Inc. (agreement termed the "Share Acquisition Definitive Agreement") and an option to purchase the real property 1t 115 South 4th Street owned by JFS Desert Fountain (agreement termed the "Real Property Option Definitive Agreement").

The initial LOI sets forth the purchase price of the share acquisition at eleven million dollars, with an initial payment of five million required at closing and the balance secured by a ten year promissory note in equal monthly installments of principal and interest at an initial rate of 6.5% annually, as adjusted.

Subsequent to the initial LOI, the applicant informed the License Division via a letter dated 3/8/04 that the economic terms of the purchase had changed. The amended economic terms of the purchase are as follows. At closing of the purchase agreement,

2,436,778 shares of common stock held by individual security holders as of that date and up to 700,000 shares of common stock reserved for issuance under the company's stock option and bonus plan.

The articles of incorporation of VCGH authorize the issuance of 50,000,000 shares of common stock and 1,000,000 shares of preferred stock as well as up to 700,000 shares of common stock reserved for issuance under the company's stock option and bonus plan. According to documents provided by the applicant (derived from Transfer Online), as of 01/26/04, 7,976,559 shares of common stock of VCGH were issued and outstanding.

VCGH is undergoing the approval process for acceptance onto the American Stock Exchange (AMEX). VCGH indicates that it expects to obtain this approval sometime in mid-March 2004.

VCGH names the following principals and shareholders with 10% or more shares of stock:

<u>Name</u>	<u>Position(s)</u>	<u># Shares</u>	<u>% Shares</u>
Troy H. Lowrie	Director, Chairman, CEO	416,197	Under 10%
Michael L. Ocello	Director, President	45,000	Under 10%
Donald Prosser	Director, CFO	115,600	Under 10%
Mary E. Bowles-Cook	Secretary, Treasurer	7,700	Under 10%
Robert J. McGraw, Jr.	Director	11,000	Under 10%
Rand E. Kruger	Director	5,000	Under 10%
Allan S. Rubin	Director	5,000	Under 10%
Arthur M. Schwartz	Director	0	0
Lowrie Management, LLLP		4,604,453	57.7%
*CEDE & Co (comprised of 24 distinct persons each holding 5% or less of VCGH stock).		1,600,852	20%

**Robert Sabes
(contemplated under the letter of intent) over 5% likely

The minutes of a special meeting of the board of directors of VCGH dated 12/5/02 reflect the board's action of setting the number of directors at seven (7) and the election of

Mr. Lowrie is married to Pamela A. Lowrie [REDACTED]
[REDACTED]
[REDACTED]

Micheal Lewis Ocello [REDACTED] (St. Louis, MO) indicates residence [REDACTED]
[REDACTED]

Mr. Ocello indicates the following employment history for the past ten years:

From 1993 to present Unique Entertainment Consultants, Inc., 6161 Clifton Oaks
Place, St. Louis MO since 1993 as the owner.

2002 to present Mr. Ocello also has been employed as a director and officer
of VCG Holding Corporation, which owns and operates
nightclubs with adult entertainment.

Mr. Ocello is married to Laura Lee Ocello [REDACTED]
[REDACTED]
[REDACTED]

Donald Wayne Prosser [REDACTED] (Denver, CO) [REDACTED]
[REDACTED]

Mr. Prosser indicates that he is a certified public accountant with the following
employment history for the past ten years:

4/02 to present VCGH, 390 Union Blvd #540, Lakewood CO as Chief
Financial Officer

1/91 to present Donald W. Prosser PC, CPAs; 7260 Osceola St.,
Westminster, CO as owner/CPA.

7/89 to 4/99 Colorado Entertainment Corp. dba: Mile High Saloon,
4451 E. Virginia Ave, Glendale CA as owner, manager and
CFO.

Mr. Prosser indicates that he is not currently married and has three adult children:
Heather Prosser-Barker [REDACTED]; Robyn L. Prosser [REDACTED] and Matthew
D. Prosser [REDACTED]
[REDACTED]
[REDACTED]

VCGH is required to deliver the following to Bob Sabes: two million dollars cash; a promissory note in the amount of five million dollars; 200,000 shares of common stock, warrants/options to purchase 100,000 shares of VCGH stock, and two million dollars of VCGH preferred stock.

The LOI contains several conditions precedent to the closing on the transactions, including that all licenses, permits and approvals required for the operation of a restaurant and on-sale liquor establishment featuring adult entertainment are obtained and that a financial audit for calendar years 2001, 2002, 2003 satisfactory to the purchaser be completed. Upon the signing of the initial LOI, a good faith deposit of \$100,000.00 was deposited into an escrow account established by the legal counsel of Classic Affairs, Inc.. If under the terms of the LOI the parties fail to close the transaction, \$30,000.00 of said deposit shall become the sole property of Classic. The LOI contains a provision that in the event that the City has not approved a change in the liquor license by 4/25/04, either party may terminate the agreements.

A non-compete agreement and other common clauses are present in the LOI.

SHARE ACQUISITION DEFINITIVE AGREEMENT (PURCHASE AGREEMENT)
(** BEING DRAFTED AS OF 3/9/04 ****)**

SOURCE OF FUNDS – CASH REQUIRED AT CLOSING

As noted in the preceding section, in accordance with the terms of the Letter Of Intent to purchase, the applicant is required to pay two million dollars cash at the time of the closing on the purchase agreement. The letter presented by Troy Lowrie of VCGH dated 3/9/04 states that the funds required to complete the transaction contemplated herein will derive from the following sources:

A. Sale of Series A Preferred Shares/Convertible Promissory Notes

The applicant presented seven (7) convertible promissory notes all dated 3/8/04 in favor of the following individuals:

Thomas & Laura O'Hara Golden, CO	\$500,000.00
John H. Rosasco Hillsboro Beach, FL	\$250,000.00
Vali Lowrie-Reed, Santa Rossa, CA	\$300,000.00
Russell J. Lindsey, Littleton, CO	\$250,000.00

Phillip J. Hicks Castle Rock, CO	\$250,000.00
IS Investments, Inc. Sauget, IL	\$200,000.00
Phyllis Titello Laguna Niguel, CA	\$200,000.00

The note is at an interest rate of 7.5% per annum; the note requires interest payments to be paid to the note holder monthly beginning April 2004. Subject to the conversion provision of the note, the unpaid principal amount and interest accrued shall be paid in full to the holder of the note on June 10, 2004, the maturity date. The note contains a provision that at the option of note holder, all or any portion of the outstanding principal, accrued but unpaid interest and/or late charges may be converted into shares of VCGH series A preferred stock at a conversion price of \$10.00 per share.

In the event that each holder of a note immediately exercises his/her option to convert shares, the holder will receive fifty thousand shares or fewer of the outstanding shares of series A preferred stock offered under these promissory notes. In order for a shareholder to attain a 10% or more interest in VCGH, he/she must acquire over 800,000 shares of VCGH stock.

The applicant presented evidence of the deposit or transfer of the monies derived from these promissory notes directly in to the restricted operating account of VCGH held at Community Banks of Colorado for the purchase of Schiek's Palace Royale.

Series A Convertible Preferred Shares in the amount of 400,000 shares were authorized by VCGH as a result of an amendment dated 2/16/04 to VCGH articles of incorporation. Article X of the amended articles states that at any time after one year and prior to any authorized conversion of shares, VCGH has the right to redeem the outstanding shares of the Series A Preferred Stock at a cash redemption price of \$10.00 per share.

B. VCGH Funds

VCGH indicates that it will utilize the funds currently held in the VCG Restricted Money Market Account held at the Community Banks of Colorado, Englewood for the remaining \$50,000.00 needed to fund the contemplated transaction. A letter from David Neff, President, Community Banks of Colorado, dated 1/28/04 evidences a minimum of \$700,000.00 in liquid assets in this money market account.

The Statement of Income for the period of time 01/01/03 to 11/30/03 presented by VCGH reflects a year to date net income of \$735,487.00.

The applicant presented the appropriate documentation reflecting the source of the escrow deposit from VCGH account at Community Banks of Colorado (and ultimately from Lowrie Management LLLP), and further demonstrated that this was reversed upon receipt of the proceeds garnered via the sale of the Series A Preferred Shares of VCGH.

Thus, the applicant has presented sufficient evidence of its financial ability to close on the share acquisition definitive purchase agreement with Robert Sabes.

PREMISE LEASE AGREEMENT

Subject to the terms of the Real Property Option Definitive Agreement and the general terms found in the LOI, upon approval of this application by the City and simultaneously with the closing on the Share Acquisition Agreement, Classic Affairs Inc. shall assign its interest as the tenant in the real estate lease. Under the terms of the LOI, the Amended and Restated Lease will provide that the monthly lease will be amended to \$40,000.00 during the lease term and no percentage rent will be assessed. Further, the term of the lease will be extended to a term ten years from the date of closing on the Real Estate Option Agreement, and the lease will remain a triple net lease.

The License Division shall require that upon the closing of the transactions contemplated in this report, the applicant present a copy of the Amended and Restated Lease.

NEW CORPORATE STRUCTURE OF CLASSIC AFFAIRS, INC.

Upon approval of this application and the closing of the agreements contemplated herein, the new corporate structure of Classic Affairs, Inc. will be as follows:

Name	Position(s)	% Shares
Troy H. Lowrie	Director, President	0
Micheal L. Ocello	Director, Vice President	0
Donald W. Prosser	Director, Secretary, Treasurer	0
Albertto Fortuny	Manager	0
VCG Holding Corp.(VCGH)	Sole Shareholder	100%

As a condition of the approval of this application, the applicant shall be required to provide the following executed documents to the satisfaction of the City of Minneapolis within ten (10) business days of the closing on the asset purchase agreement:

- Amended & Restated Lease
- Real Property Option Definitive Agreement
- Classic Affairs Inc. corporate docs:
 - a. Minutes appointing new officers & directors

- b. Minutes by new shareholder affirming adoption of by-laws (maintain the restrictive legend on transfer)
- c. resignation of the current directors & officers
- d. canceled & reissued stock certificate (w/legend)
- e. VCGH corporate minutes approving stock purchase
- f. Executed promissory note
- g. Bill of Sale

OUT STATE INVESTIGATION

BUSINESS PLAN AND OPERATIONS

The applicant's business plan and separate notarized letter submitted to the License Division in support of this application indicates the following manner of operation:

The applicant's business plan indicates that the establishment will be open from 6:00 PM to 3:00 AM daily, which are the current hours of operation. The applicant indicated that it may open earlier in the day depending upon customer demand.

The applicant will maintain the current menu offered at Schiek's which consists of numerous American-style entrees ranging from \$12.95 (Salmon & Shrimp) to \$29.95 (Filet Mignon), pastas, sandwiches, appetizers, and salads.

Live entertainment will be offered on the premises consisting of semi-nude adult entertainment. The applicant indicates that the entertainment will be essentially the same as is presently offered at Schiek's and has submitted a letter stating that all genitals and genital area of the performers will be covered by an opaque substance.

At the present time, the applicant will not offer mechanical amusement devices or charitable gambling and will not sponsor sports teams.

No outdoor area will be utilized.

ORDINANCE REQUIREMENTS

The application is subject to some special as well as general ordinance requirements as follows:

Off Street Parking

The applicant is not required to provide off-street parking as these facilities are not required in the B4 zoning and central commercial districts.

POLICE DEPARTMENT REVIEW

Based on the investigation of this application, it is the opinion of the Police License Inspector, that the application be forwarded to an Administrative Law Judge to prepare findings of fact and conclusions of law. The Investigation consisted of three out of state investigative trips to visit seven clubs owned and operated by the applicant. These seven clubs were located in Denver Colorado, East St. Louis, Illinois, Indianapolis Indiana, and Louisville, Kentucky. In six of the seven clubs, numerous city and state laws were found to be broken, including offers to buy narcotics and offers of sex by prostitution from club employees.

Submitted for your consideration,

Sgt. Kent B. Warnberg, Police License Investigation Division.

Warnberg's Report

VCG Holding Corporation

Troy Lowrie is applying for a liquor license (Class A, with Sunday Sales, and Late night Entertainment). Mr. Lowrie is the main share- holder in the VCG Holding Corporation. He is a Director, Chairman and CEO of the corporation. Mr. Michael Ocello is a Director and President of VCGH. Corporation. Mr. Ocello is also the owner of Unique Entertainment Consultants. This is the company that provides most if not all of the management for these clubs.

VCGH Corporation intends to purchase 100% of Classic Affairs, Inc. DBA: Schiek's Palace Royale

For the past 20 years, Mr. Lowrie has been associated with the adult entertainment business.

Troy Lowrie has indicated that he has ownership in adult nightclubs in the following cities. The number in parentheses indicates the number of clubs that he has ownership in.

St. Louis, (5)
Indianapolis (1)
Memphis (1)
Louisville (1)
Denver (4)
Phoenix (1)

In conducting the background work on this file, I am interested the following areas. They areas are, where did the money come from? is it well documented? What is the criminal history of the main participants, and what type of management has and is in place? I.e., Has their been violations including city ordinances, along with violation of city-state/federal laws, while Lowrie/Ocello have been in charge.

I have examined the finances, and have spoken to banks in Colorado about them. It appears that the applicants are financially sound. The applicants are in the process of being listed on the AMEX. This is a 5 part process with after each successful portion of the process they (VCG) receives a letter from the American Stock Exchange. I received a copy of a letter from the AMEX dated June 7th, stating that VCG Holding Corp. has been approved for listing on the Exchange. This was their 5th and final letter. I also went through all of the paperwork that they submitted to the AMEX, and this appears to be in order.

I spoke with Detective Lee Bjork (602-262-6151) of the Phoenix PD Vice Unit. I asked him about the PT ShowClub located in Phoenix. This is one of Lowrie's newest clubs, and has only been under his ownership for less than 1 year. Det. Bjork told me that they have numerous adult entertainment clubs in the Phoenix area and this one "is run pretty clean". Bjork told me that he has visited that club, undercover, and found no violations.

He told me that their Uniform Division had written a few citations for minors consuming in the parking lot. Bjork told me that of all the clubs running now, "this one is probably one of the top three in best managed". I also spoke with Lt. Edmonson in their Vice Unit. He concurred with Det. Bjork's assessment that they have, at least so far, very few complaints with the PT ShowClub in Phoenix.

I spoke with Det. Patrick Michalec of the San Antonio PD Vice Unit. (210-227-7201), or (210-207- 2370). He told me that he usually works with the sex- crime aspect of vice. He told me that they have had problems with PT's ShowClub in the past. He told me of problems in the past with drug use by the dancers, and city ordinance violations including, some sex charges of dancers touching and sitting on customer's laps. He gave me the name/number of the Texas Sec. Of State, who I called to find out the ownership of this club. Within the past year, this club had been sold, and the new owner's name is Glenn L. Williams of San Antoine, TX. I then spoke with Special Agent Bill Allen of the T.A.B.C. He told me that when he worked the PT's ShowClub in San Antoine, he worked a public lewdness case, minors in possession case, and intoxication permitted case against PT's in San Antoine. He told me "Nothing major, but a few lewd conduct's citations, and Breach of Peace.

Allen told me that Lowrie may still have money in this club, but he is not listed as either a Director or an Officer of the club.

I have spoken with Lt. Henry Williams, the Lt. in charge of Vice at Memphis Police Department. He told me that he is "very familiar" with the PT's ShowClub located in their city. He told me that in 2003-2003 they had "many problems" with this club. Some of the problems were sex-related violations. In Memphis they have the 12" inch City Ordinance rule. That was explained to me, as the dancers can not be closer than 12" inches from the patron. This means, no sitting on the patron lap, or touching them in their private parts. Lt. Williams told me that they have had many arrests for this violation.

On one occasion he had undercover officers present in that club on amateur night. This night was advertised as a "Amateur night cunt-test". Apparently they had females on the stage, and male participants from the club would go up on stage and perform oral sex on the females in front of the audience. Numerous people were arrested for this. Lt. Williams told me that when the club opened, they were not "technically" licensed through the "beer-board", but they open anyway. When they (the management) were cited for this, the clubs attorneys descended on the Vice unit and subpoenaed all of the Vice officers personnel records, including any disciplinary action that was ever taken against any Vice Officer.

All during this time, the manager of the club was Albertto Fortuny. He is now the manager placed at the Sheiks in Mpls. I asked Lt. Williams if Fortuny was working the night that the arrests took place, and from him (Lt. Williams) looking through the files, it

appears that Fortuny was not at the club the night the arrests took place. Two months ago PT ShowClubs filed a motion in court requesting all information concerning Every case involving the ShowClub, and information on All officers in the Vice unit.

Lt. Williams then told me that after the employees were arrested; he met with Alberto Fortuny. Lt. Williams told him what had transpired, and what charges were going to be filed. Mr. Fortuny responded by saying, "I didn't know we couldn't do that"!

I asked if he thought that Alberto Fortuny was a good manager of PT's ShowClub, and he responded "Not at all, as we have had many sex related violations while he was the manager." Lt. Williams then told me that "You could find violations any night you went there". I then told Lt. Williams that Alberto Fortuny is now managing the club here.

Lt. Williams then told me that he would fax me the information from these cases. I received the faxed copies of the citations written in the months of January and February 2004.

I spoke with Detective Mitch Wilson of the Denver PD Vice unit, (720-913-6785, 720-913-6649-Nextell), concerning PT's ShowClub He told me that PT's is a very large strip-bar in Denver. This bar is divided in half by a foyer. On one side they have a full alcohol license with five stages, and the dancers can only bare their breasts. On the other side, they have an "amusement" license, which is the no alcohol side. On that side, there is full nudity. Along with three dance stages, there are the "private" booths, where the dancers can take the patrons for "private lap dances" Apparently, many of the customers drink alcohol on the alcohol side, then walk through the foyer to the alcohol free side

Det. Wilson told me that they have made numerous arrests for "Unlawful Public Decency" on the alcohol free side. Most of these arrests have been for simulated sex acts with the customers, masturbating on the customers, oral sex, groping the customers and prostitution.

Det. Wilson told me that they have had few problems on the Alcohol side, since in his opinion, "They don't want to lose their Alcohol license." Det. Wilson did say that this is all one building, with the same manager and owner. He told me that "You can probably find violations any night of the week, on the alcohol free side".

It appears that from speaking with Det. Wilson that more managerial control is used on the side where they have their alcohol license, (for fear of losing it), but it is run a lot looser on the alcohol free side.

I next spoke with Sgt. Mark Fleese, who is the Sgt. In that Vice Unit. (720-641-0955, or D-720-913-6649). He collaborated what Det. Wilson had told me about PT's. He told me that over the objections of the Police Department, PT's was given an "Amusement" license. Sgt. Fleese told me that the alcohol free side is "out of control" He highly recommended that we visit that club to observe the activity that is going on inside of it. He also told me that "within a few weeks, enforcement action will be taken against them". Sgt. Fleese informed us that they have been going into the clubs, observing violations, and then documenting them.

I spoke with John Gallagher, of the Glendale Police Dept. He is a newly retired Lieutenant from that department. He now is the Training Coordinator for that department. He told me that Troy Lowrie has owned the Penthouse Club for just over a year. He told me that they have had "very few problems" with that club, since it is upscale, and they do a good job of keeping the riff-raff out. He told me that the area that they have their alcohol license, they only allow top nudity, but upstairs where there is No alcohol allowed, they allow full nudity. John knew about the problems at PT's in Denver, and told me that he was aware of the two different sides, and the problems that they were having. He told me that most of the problems fell back on who the manager was, and how much control he had over the employees

On May 14th through the 16th, Sgt. Andrew Schmidt of the Downtown CRT and myself traveled to Denver to investigate this case. We met with Sgt. Mark Fleese, of the Denver PD Vice Unit. Their unit was working on a John detail, and we observed how they ran it. On Friday night, Sgt. Schmidt and myself went to the Penthouse Centerfold Club, located at 4451 E. Virginia, Glendale, CO. Phone 303-322-1717.

When we entered the bar, we were each charged a \$10.00 cover charge. We were seated at a table on the main floor. From this location, I could see three topless stages on the main floor. An employee came up to us. He was dressed in a sports coat. He identified himself as "one of the floor managers". Sgt. Schmidt asked him what was upstairs, and we were told, "That's our private club area". We were then told that he would give us a tour of the upstairs, if we wanted it. We were told that corporate memberships were \$1500.00 a year, or a one-time fee of \$500.00. That would get us up to the VIP area for the night. We agreed to a tour. While we were waiting to be brought upstairs, I saw a dancer open her "G" string numerous times and let a man put his hand down over her vagina, and then put money in the "G" string. I also saw a dancer let both a female and a male patron suck on her breast. After this, the female dancer put her hands under the female patron's blouse, and fondled her breasts. While this was happening, I saw another floor manager, (male, wearing the same type/color sports coat), standing within 10 feet of the incident. It appeared to me that he was also watching this activity, and at no time did the manager approach either the dancer or the patrons to tell them that this activity was not allowed.

We then went upstairs, and entered a large room that was overlooking the dance floor. There were smoked glass windows in the front part of the room, so that viewing the floor below us was easy, but no one from the lower floor could see up into the VIP area.

In the far corner, was a closed door. The floor manager told us that after you "pick your girl", you can go back for private lap dances. I asked him what you were allowed to do, and he told me "That's between you and your girl". He said that topless dances were \$20.00, and nude dances were \$30.00, then you can "Tip" the girl after that. He then told me, "We don't allow alcohol behind the door, or in the booths, that way, the girls can be fully nude".

There were numerous high-backed stuffed chairs, a fireplace, taxidermy stuffed animals and a high backed wooden bar. We were then brought to a closed door, and were told, "When you become a member, you can have private dances with the girl of your choice in a private booth". We were also told that we would have to spend \$100.00 a table on liquor. We acted interested, and got them to agree to "only" pay \$285.00 to get in. This got us one bottle of champagne.

We were then met by a dancer by the name of Jackie. She sat at our table, and started to drink the champagne. Jackie then told me that the "boss" Troy Lowrie was in the club the night before, to "Celebrate his birthday". She then told me that he was telling everybody how he was "opening clubs all over". Jackie then asked me if I wanted a dance. I told her that the bottle of champagne was expensive, so I only bought a topless dance for \$20.00. She then took me back to the VIP dance area. As we entered the hallway, I saw a nude dancer sitting on a customer's lap grinding away, simulating a sex act. The male had both of his hands on the bottom of the dancer, squeezing her buttocks. I sat down on a couch, and the dancer took off her top, but left her bottoms on, since I didn't pay for that. She then performed a dance, and then asked me "if I wanted anything else". I told her that I was low on cash, so declined her offer. At no time did I see any floor managers or security walk through the booths, to see what was going on inside of them. The dance was then over, and I paid her.

We left the club at 0145 hours. There were still people left in the VIP area drinking when we left. The main floor was empty, and I saw an uniformed Sgt. from the Glendale Police Department standing by the front door.

On 05/15/04, Sgt. Schmidt and I went to PT's World Famous Showclub at 1601 Evans Ave., Phone-303-934-9135 in Denver CO. When we came through the front door, we walked straight ahead and each paid a \$10.00 cover charge. The attendant behind the counter told us that on one side was a bar and dance area, that was topless only, and the other side was totally nude and alcohol free.

I first entered the totally nude side and saw two large raised dance stages. I saw men sitting next to the stages on chairs. At one point I saw a man with a bill of money

sticking out of his mouth. The dancer slid on her back up to the man and put her legs up on his shoulders. By doing this, he was able to stick his face in her groin area and leave the money. After he had deposited the money, she wrapped her legs around his neck and shook her body, causing his face to be pulled into her groin area.

Their were floor managers present who were watching this and none of them stopped this act or told the patrons that they could not do this.

Two female dancers came up to me and asked me if I wanted to see both of them dance. They told me that I was getting "a deal" for only \$50.00. I agreed to this. I was then led to a half moon shaped booth.

There was a "floor manager" wearing a sports coat, very similar to the type that I had seen the previous night at the Centerfold club, who was standing at the end of the row where the booths were located.

There were approximately 8 booths on each side, with the front or openings of the booths facing away so that the customers could not see in the chairs. As I was walking to the chair, I looked in the booth next to me. I saw a nude dancer sitting on a male. From the way she was moving up and down, the movement of her legs, and the sounds being emitted from her mouth, it appeared to me that this couple was having intercourse. Both of the dancers then disrobed. The taller one then sat on my lap, with her back to my face, started to grind around in a circular motion. The second female then started to lick and suck on the first ones nipples. She then went down on the first one and licked her vagina. During this time, the first one told her to stick it her tongue in deeper. It appeared that she did this.

They finished the dance, and asked me if I wanted another one. I told them "No", and paid them.

At no time during the dance did the "floor manager" walk in front of the booths to check or observe what activity was going on in them. From where he was standing, he had to know when the booths were occupied. If he had walked in front of the booths, he would have seen the couple next to me having intercourse.

Sgt. Schmidt and I then each paid \$5.00 and went upstairs to the Voyeur's room. From this room you could look down and watch the people on the stages and dance floor. There was also a large video screen that allowed us to watch the floor show from upstairs.

Sgt. Schmidt and myself then went downstairs and left the business.

It appears that what we observed in Denver, violated Section 38-157. Public Indecency. Both Sgt. Schmidt and I observed violations of section (b), 3, -Insertion of one (1) or more fingers or other objects into the vagina or anus, (4), Masturbation, (5), Caressing or fondling of the genitals of another person, (6), Patently offensive representations or

imitations of sexual intercourse, masturbation or excretory functions accompanied by exhibition of the genitals. (7), Lewd fondling or caressing of the body of another person. (Sec. 157 1-7).

On May 26, 2004 I received numerous faxes from Lt. Henry Williams, of the Memphis PD Vice Unit. His phone number is 901-577-1304. He sent me 29 reports/violations that occurred during the months of Jan-Feb. 2004. Most of these violations were for dancers taking their bottom garments off, and exposing their vagina. This is illegal per their Prohibited sexual or pornographic conduct provisions. It appears that this occurred many times in full view of the management and nothing was done to stop or curtail this activity. From other reports, it appears that patrons were allowed to touch and fondle the breasts of the dancers. This also is in violation of the "12" rule, which states that no patron can be closer than 12" from the patron.

I next spoke with Sgt. Steven Johnson of the St. Claire County Sheriff's Office. (P-618-277-5204), He told me that Roxy's in Brooklyn, IL is "A boatload of trouble". He told me that at the Platinum Club, they have hot tubs. He said that there are cameras, but the girls know where the cameras are, and they put certain customers in the tubs where the cameras can't monitor their actions. He has had reports of sex taking place in the hot tubs. He knew of the arrests that have previously been made there, and told me about a few of them. He also referred me to the Illinois State Police, white-collar crime unit. I called that unit at P-618-346-3990, and spoke with Mr. John Schuster. Mr. Schuster was previously employed as an agent for the IRS. He told me that he worked on the clubs owned by Troy Lowery's father Hal, in the St. Louis area. Numerous indictments were handed down, including to Hal, but Hal did not do any federal time. This operation was fined 1 Million dollars for the crimes committed. This operation was run out of the strip clubs, which had massage parlors attached to them. This is where the money laundering took place. These clubs were located in Brooklyn and Sauget Il. I was told that a high majority of the small police department in both Brooklyn and Sauget work as security of the clubs, and they are the main source of revenue/tax base for these two cities. Three different officials told me not to talk to the local Police, since they will all tell me "The Clubs are Great, with no problems"!

Mr. Schuster is now a financial analyst for the Illinois State Police, white-collar crime division. Mr. Schuster told me that after this large case was finished, (he worked on it for four years), Hal turned the operation of the clubs over to his son Troy. Hal is now deceased. Mr. Schuster told me that during this investigation he had some dealings with Micheal Ocello. Mr. Ocello was at that time the area manager of the St. Louis area clubs. During this time Ocello told Schuster that "I am good friends with Art Feole". Art Feole was a noted mobster who was locked up federally under the RICO law. Feole was later interviewed in prison, and denied knowing Ocello.

Mr. Schuster then asked me to speak with Steven Clark, the Assistant U.S. Attorney who prosecuted this case. I did this. Mr. Clark told me that he is still receiving information that at two of the clubs, Roxies and the Platinum Club, they are still allowing customers to "buy the girls off the list". This list would be the list that the DJ keeps, to determine which girl is up next to dance. I was told that when they "buy off the list", one would agree to a certain amount of money that the manager stipulates, and then you take the girl off of the dance list, and you make the best "business" deal you can with her, for sexual favors.

Later I received a letter from the Chief of Police in Centreville IL, Colonel Curtis L. McCall. This is the city where PT's Show Club is located. In his letter, the Chief states that he has been Chief for "Over 9 years, and neither me or my staff has ever encountered misconduct from their operation nor have we ever had community outlash."

On 06/10/04, I met with Troy Lowrie, Michael Ochello, John Cairns of Briggs and Morgan, and Edward M. Bearman an attorney from Memphis, TN. Also in attendance was Laura Boyd of Boyd and Associates. I told them the status of this file. They gave me documents from the AMEX, stating that they have now been accepted for listing on the Exchange. Mr. Bearman also explained to me how the Bearboard runs in TN. He then told me that the citations written there were "just to generate revenue". He then told me that "all of the citations written were dismissed".

I have checked with Ms. Hodges, the Supervisor of City Court cases in Shelby County, TN. She faxed me the dispositions of the citations written on January 29th and Feb. 5th, 2004. When the dancers who were cited paid a \$61.00 court cost, the cases were dismissed with a Nolle Pros motion.

On May 11th and 12th Sgt. Schmidt, myself and an undercover Sgt. from the Illinois State Police visited Roxy's at 410 Madison St., Brooklyn. We sat and started out watching the dancers on stage. By 10:30-11:00 PM, the club had started to fill up. Before I bought a "lap" dance, I saw numerous males performing oral sex on the dancers. While this was occurring, there were floor managers walking around. At no time did the floor managers tell the patrons to stop performing oral sex on the dancers. I also saw one patron lick the anus of one of the dancers. After a few more dancers were on the stage, the initial dancer was up next on the floor that I was sitting by. The same dancer came backed in front of the guy sitting to my left, she reached behind her and spread open her butt cheeks, and he again licked out her anus. One of the floor managers was also watching this, and did not tell the patron to stop it.

A short time later "Jasmine" approached me and asked if I wanted a lap dance. I told her that this would be ok with me. She then brought me back to one of five half moon shaped private booths. There were five of these booths in a row. There were three side by side, an isle, then the remaining two. "Jasmine" led me to the middle booth of the first three. She told me that it was \$40.00 a song/dance, but she would give me "the special", 3 dances for \$100.00. I agreed to this.

"Jasmine" then took my shirt off. I asked her if she ever does anything more. She told me that she would do "a blowjob" for \$100.00, but if I wanted sex, I would have to pay the DJ to buy her off the list, then she would be free to leave and meet me somewhere. I asked her how much that would cost, and she told me "\$300.00, but no anal sex". She then told me that I would have to pay the DJ \$500.00 to buy her off the list. I told her that I didn't have that much money with me. I asked her how much of the money she gets to keep, and she told me "half". She told me that she has to pay the DJ for all the songs that she dances to. I then told her that someone is making some good money here. She then told me that this was Micheal Ocello. She said, "He's the boss". I asked her if he ever comes around, and she told me, "Yah, but he only takes out the hotties, the ones with the fake boobs".

When the three dances were over I left the middle booth and looked into the booth directly to the left of the one I was in. I saw a blond dancer who I had watched earlier in the night, performing oral sex on a white male, approximately 45 years old, wearing a St. Louis Cardinals baseball shirt with the number #5 on the front of it. It was light enough that I could see that she was performing oral sex on him, not just a simulated sex act. I also saw that he had his penis fully exposed outside of his pants.

After this, a bachelor party came into the club. They had been there awhile, drinking, when all of the groom's friends chipped in and paid two dancers to "dance" with the to be groom. The two female dancers got the groom to be up on the stage and started to undress him. They took everything off except his blue underwear. They then started to poke, and touch his groin area, saying, "If you get hard, you buy the bar a round". There were probably over 200 people in the club then. They could not get him "excited", so they ripped his underwear off. They then put the torn underwear around his neck. The two dancers then had the groom get down on all fours, on his hands and knees, in a doggie position. They then started to spank his butt with their hands. One of the dancers took the guy's belt off of his pants, doubled it over and spanked him on the butt with the belt. It should be noted that we heard a loud "crack" every time the belt hit his butt. The other dancer then took the buckle of the belt, and stuck it up the groom's anus. By the look on the groom's face, the belt buckle appeared to penetrate his anus. She pulled it out, and gave the belt back to him. At no time during this "show" did any one of the floor managers attempt to stop it.

We then walked across the street to the Platinum Club, located at 213-215 Madison Ave., Brooklyn, IL. We each paid a \$10.00 cover charge to get in. Inside this club were three main dance floors, with the VIP area being upstairs. I asked for a tour upstairs, and was given one, by a "Tour Guide". I was told by one of the dancers, that you have to pay \$50.00 to get upstairs, then you have to buy drinks for the dancer. I was told that the hot tub was \$350.00. I asked what you could do in the hot tub, and was told, "You can finger me, and I can give you a hand-job, but we can't have sex in there". She then walked me

to a small room, which had beads hanging from the doorway. This room also had a 4' wall between the hallway and the bedroom. Behind the wall was a bed. She again told me, "You can finger me, and I can give you a hand-job, but no sex". She said that this was the same price as the hot tub. I told her that I would think about it. There was a bar located in the corner just past the "bedroom", approximately 15' from it. A little later I went to that bar, and walked past it towards the bedroom. I saw a white male lying on his back on the bed. His pants were on the floor next to the bed, and there was a totally nude dancer laying on top of him, moving up and down in a rhythmic manner consistent with having sex. At no time did I see management ever walk by to see what was going on in the bedroom.

On 06/12/04, we went to PT's Showclub at 60 Four Corners Lane, Centreville, IL 62207. There was also a \$10.00 cover charge to get in. There are 4 raised stages at this club, along with an upper raised area with tables, chairs, and a dance floor. This area was reserved for "Swingers". This club had an MC, (Master of Ceremonies). This was a White Male about 55-60 years old. All during the night, he would be walking around narrating what he saw, or he would be advertising upcoming contests that were to be held later that evening.

About 2230 hours he started to announce a "Pussy eating" contest. The first contest was held on stage #2. I saw 4 female dancers totally nude pulling a "train". The first dancer was laying on her back, with the second dancer performing oral sex on her. The third dancer laid behind the second dancer with the fourth dancer performing oral sex on her. All during this time, the MC would make comments, like "This is the best pussy eating contest ever".." "Look at them go". One of the dancers then walked to the edge of the stage, and took a female who was sitting on one of the chairs up on the stage. They then took off her blouse, and started sucking on her breasts. The participant then joined the dancers in performing oral sex on one of the other dancers.

The second "Pussy Eating" contest was then held on stage #3. Four female dancers, with each of them taking turns performing oral sex on each other. One of the dancers stuck her fingers up the anus of one of the other dancers, and the MC said, "Hey guys, look at that butt hole play". The MC then said "Everyone put some dollars in their hand, and when I count to three, throw them up on the stage to pay the dancers for the contest" Many dollar bills were then thrown up on the stage. It appeared that the "MC" was then promoting acts of prostitution.

During the night, I saw numerous incidents where dancers had oral sex performed on them by male patrons. One dancer from the Philippines, stood over a male who was sitting in a chair and he then performed oral sex on her. She later told Sgt. Schmidt, that was the best oral sex I've ever had done on me. The MC then asked, "Who wants to get their Dick sucked?" A loud cheer went up from the club. The MC then announced that they would be having a "Dick Sucking" contest later on in the night. This was announced numerous times.

Many times during the night, I saw dancers go to patrons sitting in chairs, and if they were men, stick their hands down the mans pants and touch him, or they would do the same to some of the women there.

Up in the "Couples Only" section of the club, was where most of the swingers were located. On that dance floor were people in various stages of undress. In one of the corners of the "Swingers" stage, I saw a white male sitting on a chair. Sitting on top of him was a white heavysset female; totally nude have sex with him. She got up, and another white female in a green dress walked up to him, got out of her dress and she also was then totally nude. She then sat on the male's lap, straddling him, and they had sex. The other two individuals who were at the club with me also saw this. All during this time, there was security from the club sitting next to the swingers dance floor. He was within 20' of the couples having sex on the chair. At no time did he get out of his chair and tell them to stop. He was halfway between the couple that was having sex, and us.

In the restroom was a club attendant paid by the club. His job was to hand you towels and sell sundries that were on the counter. I saw a sign advertising Viagra. It said "\$15.00". I asked him if this was for a pack of them, and he told me "No, that's the price per pill". I did not buy any from him, but he was selling the prescription drugs to anyone who wanted them.

Between the three clubs that we visited, both Sgt. Schmidt and myself got offers for prostitution. (5 different times).

From what the citations were written for in Memphis, TN, the dancers at the PT's ShowClub, violated State Code, Section 4.82. Prohibited sexual or pornographic conduct, specifically,

- (1)
 - a. No Person shall perform acts of or acts which simulate:
 1. Sexual intercourse
 2. The touching, caressing or fondling of the breasts, buttocks, anus, or genitals; or
 3. The displaying of the public hair, anus, vulva or genitals.

At PT's ShowClub in Centreville, Roxies and the Platinum Club, all in the East St. Louis area of Illinois, it appears that numerous state laws were broken in our presence. These were

720 ILCS 5/11-9 (from Ch. 38, par. 11-9)

(1) An act of sexual penetration or sexual conduct as defined in Section 12-12 of this code; or

(2) A lewd exposure of the body done with the intent to arouse or to satisfy the sexual desire of the person

(b) "Public place" for purposes of this section means any place where the conduct may reasonably be expected to be viewed by others.

Sec. 11-14. Prostitution.

(a) Any person who performs, offers or agrees to perform any act of sexual penetration as defined in Section 12-12 of this Code for any money, property, token, object, or article or anything of value, or any touching or fondling of the sex organs of any person by another person, for any money.... commits an act of prostitution.

Sec. 11-14.1. Solicitation of a sexual act.

(a) Any person who offers a person not his or her spouse any money, property, token object, or article or anything of value to perform any act of sexual penetration as defined in Section 12-12 of this Code, or any touching or foundling of the sex organs of one person by another person for the purpose of sexual arousal or gratification, commits the offense of solicitation of a sexual act.

On July 6th through 8th, Sgt. Schmidt and myself traveled to Indianapolis Indiana, and Louisville Kentucky to observe clubs owned by this ownership group. Our first stop was Indianapolis. We met three Officers and a Sergeant from the Indianapolis Police Dept.

At approximately 10:00 P.M., all of us went to the PT's Showclub, located at 7916 Pendleton Pike, Lawrence, In. We entered through the front door and each paid a cover charge. Upon entering, I saw a large bar located to my direct left, with 4 dance stages in the main room. Off to the left was what appeared to be a dining room with tables and chairs. In this room was two more dance stages, for a total of six stages. It appeared that this club would hold 400-500 patrons.

At the rear of the main room which we were in was located a "private dance area". This consisted of 8-10 semi-private half moon shaped booths. In the middle of this area were two glass type coffee tables. This was the area for setting your drinks on, while the lap danced was being conducted.

As the evening progressed, a blond white female asked me if I wanted a lap dance. I told her that this would be O.K. She told me that it was \$30.00 a song for a dance. I agreed to this. During these lap dances, the dancer sat on my lap, grinding up and down, and in a

circular motion, simulating a sex act. She would then pull her "G" string down, revealing her vagina. This dancer also stuck her finger up in her vagina, in a rapid motion simulating having sex. I believe that this dancers name was "Misty".

Later in the evening I had a lap dance from a white female who had long dark curly hair. She also told me that dances were \$30.00. She had finished a few dances and asked me "If I wanted anything more". We then started to talk about how much it would cost to have sex. She told me that she got off of work at 0200, and that she could then meet me somewhere. I asked her how much this would cost, and she told me "\$400.00 will get you anything you want, including anal sex". When the dance ended, I told her that I would find her at the end of the night, which I didn't do, since I already had the offer for sex.

During the four plus hours that we were at the club, I saw numerous male floor managers. They were all dressed in a burgundy color vest. From the vantage point where I was sitting, I had a clear view of the entrance to the "Private dance area". At no time during the night did I see any of the floor managers enter the "private dance area". While I was in that area, no manager walked in to see what was transpiring, between any dancer and the person that she was dancing with.

I also spoke with Sgt. Schmidt, and he noted that he did not see a floor manager go into the "private dance area" all night long, and no manager came in while he was receiving dances.

On July 7th, we visited the PT's Showclub in Louisville, KY. The address is 227 East Market.

Sgt. Schmidt and I entered and paid a cover charge. This club seemed smaller than the club in Indianapolis, with this club having 5 stages. When I entered the bar, I noticed that the main bar was directly to left of the main entrance. A smaller bar was located at the rear of the club. Also in the rear of the club was the area for "private dances". I noticed that during the time we were at the club a floor manager was located back by the "private dance" area. I did see him walk through and look into the "private" booths many times. When ever there were dancers in the booths, he walked in to observe the actions.

Of the seven clubs we visited, this was the first club that a floor manager actually went and looked into the private booths to see what was happening. Towards the end of the evening, I saw a female patron take her blouse off and then she laid on one of the stages. It appeared that she was encouraged to do this by one of the dancers. Shortly after this, a floor manager came and told the customer that she had to put her blouse back on, or else she would have to leave the club. This was the only club that I saw the club enforce this rule.

I had lap dances from three different dancers at that club. None of them brought up the issue of "doing anything else". In the private dance area, they enforced the "do not touch rule".

Schmidt's Report

STATEMENT OF SGT. SCHMIDT #6362:

On 05/14/04, Sgt. Kent Warnberg and I visited the Penthouse Club, formerly known as PT's Gold Club, located at 4451 E. Virginia, Glendale, CO phone 303/322-1717 as part of an investigation into the operation of the PT's clubs.

We arrived at the club and I saw that a Glendale Police Sgt. was employed by the club to work in full uniform at the door. We entered the club and paid a \$10 cover charge. The club had an open area on the main floor that had two bars, three stages for topless dancing, and numerous tables and chairs around the stages. On the northwest corner of the club were stairs that led up to a nude dancing area with tables and chairs. On the northeast corner I saw another set of stairs that led to the VIP area.

Sgt. Warnberg and I sat at a table on the main floor area. I watched the dancer on the nearest stage and saw that she was exposing her vagina to customers even though this was the topless dancing area. I watched another stage and saw the dancer unbuckle the belt and open the pants of a female customer. The dancer stuck a dollar bill down into the female customer's underwear and then used her mouth to go inside of the female customer's underwear and retrieve the bill.

A floor staff person walked by and I told him that we were businessmen from Minnesota and we wanted to know about the club. The floor man said that we should get a VIP membership so we could go upstairs to the VIP area. I asked why and he explained that it was nicer, there was a humidor of fine cigars, top shelf alcohol, and the girls would do "a lot more" up in the VIP area. I asked the price and he told me a VIP membership was \$1,500 for a year. I asked if I could purchase a one-night membership. The floor man said that was possible and he invited us to the VIP area to show us around.

We went up the stairs to the VIP area. The west wall is entirely glass allowing the VIP members to watch the main floor stages. However, the glass is tinted so customers on the main floor cannot see into the VIP room. The VIP room had several tables and high-backed chairs that concealed the people in the chairs. I was introduced to a VIP waitress named JACKIE. JACKIE led me to a solid door and said that the VIP dance area was behind the door. Topless dances were \$20 and nude dances were \$30. I went into the area and saw that there were approx. 4 or five loveseats separated by walls and curtains so no one could see the other loveseats when they were in one of the seats.

I went back to the table at the VIP area and asked the floor man what a one-night membership would cost. He told me it was a minimum of a \$500 alcohol bill. I asked if he had worked at the club very long and he told me he had been at the club for two months. He then informed me he had worked at the PT's club in San Antonio, TX before he came to Colorado. The floorman told me that he knew Tony Parker from the San Antonio Spurs because he saw Parker intoxicated in the San Antonio club and was going to throw him out because he was under age. When the floor man was told that Parker played for the Spurs, he was allowed to stay. The floor man said they took care of athletes. I told the floor man he had a great job and I asked if any athletes came to this club. The floor man said the Denver Nuggets players like to come to the club and they take care of them.

The floor man told us to have a drink and think about paying the VIP fee. I then spoke to the waitress JACKIE and asked if we could negotiate the fee since there was only two of us and I wasn't drinking. JACKIE said if we purchased a bottle of Dom Perignon champagne for \$350 we could stay. I continued to negotiate and they agreed to let us stay in VIP for purchasing a \$275 bottle of Perrier Jouet champagne.

Jackie sent a dancer up to our table to sit by me. The dancer said that if I tipped the DJ \$40-\$50 she could be taken out of the dance rotation so she could stay with me in VIP. I agreed and gave a \$50 fee. The dancer then took me to the VIP dance area. We walked to one of the back loveseats. As we passed one of the loveseats, I saw a dancer completely nude grinding on a customer's lap. The customer was squeezing the dancer's buttocks.

I sat down on the loveseat and the dancer disrobed. The dancer licked her nipples and was grinding on my groin area. I asked the dancer what the rules were and she said that I wasn't being "naughty enough". I asked how naughty I could be and she asked if I wanted to "get off" while we were on the loveseat. I asked what we could do and what it would cost and she told me it depended on how good of a time I wanted to have. I paid for the dance and returned to the table.

I asked JACKIE how late the club was open and she told me they kicked the customers out at 0130 but that VIP could stay later. Sgt. Warnberg and I stayed in VIP until about 0145 hours and then we got up to leave. The main floor had been emptied of customers but there were still customers in VIP drinking alcoholic beverages. We left the business.

On 5/15/04, Sgt. Warnberg and I went to PT's World Famous Showclub at 1601 W. Evans Ave. phone 303/934-9135 in Denver, CO. We entered the front door, which led to a booth where I paid the \$10 cover fee. To the left was the main club with a bar and a dance area. To the right was the all-nude dance area.

I entered the all-nude dance area and saw that there was a small stage with numerous chairs around the stage. To the north of the stage area was a room for lap dances. The room was filled with large chairs about the size of a loveseat. The chairs had high backs and covers in a half-egg shape similar to a tilt-a-whirl amusement ride. The chairs were all facing away so customers could not see in the chairs.

grind on my groin area. They ran their nipples over my mouth and rubbed each other's breasts. They also rubbed each other's vaginas and appeared to perform oral sex on each other. One dancer whispered to me that if I wanted to tip extra money I could really have fun. After the dance, I paid the dancers and stood up. I was able to look into the chair next to me and I saw that the male customer was rubbing the vagina of the nude female dancer. At no time did I see any staff member walk through the chair area to monitor activity.

I went to the bar area and I saw stairs going to an upper level. A dancer told me that this was the Voyeur's room and there was a \$5 fee to gain access. I paid the fee and I was given a wristband. I went upstairs and saw several tables, chairs, couches, a dance floor, and a bar on the north end. The west side of the room was a half wall about four feet high that allowed customers to see the main floor stages. There was also a large video screen that allowed customers in the Voyeur's room to see what was happening on the main stage.

I saw a female employee dancing with two females on the dance floor in the Voyeur's room. The female employee was rubbing the breasts of the female customers. She was also reaching up under their skirts rubbing their buttocks and vaginal area. After the song, the female employee came to me and said, "That was a fucking hot show. You should tip me." She then solicited money from other customers for her performance. I then saw a male customer standing approx. five feet from the bar. Numerous employees were nearby. The male reached hand up under the skirt of the female. He was moving his arm up and down and appeared to be penetrating the female with his finger. He would then remove his hand, lick his finger, and put it back up under her skirt appearing to penetrate her again. No employee stopped this activity.

I then went downstairs with Sgt. Warnberg and left the business.

STATEMENT OF SGT. SCHMIDT #6362:

On 6/11/04, I went to Roxy's Club in Brooklyn, IL with Sgt. Kent Warnberg and Trooper [REDACTED] of the Illinois State Police. Upon entering Roxy's, I paid the cover fee and noticed that the full-alcohol bar was right inside the doors. The business was one level with 4 small stages approx. 8 or 10 foot square surrounded by chairs and several small tables and chairs scattered throughout. On the back wall of the business there was a shower stall with clear glass doors. On the other sides were small privacy booths.

I sat at a small table and observed that the dancers would dance completely nude. They would allow customers to lick and suck their nipples on stage. I also saw several customers licking the vagina and anus of dancers on the stage. All of these acts were in plainview of customers and employees and were done in exchange for small cash tips from \$1-\$5.

I asked a dancer about the private booths and I was told the dances were \$30 each. I had a dancer take me into a private booth for dances. The booths had three walls with the opening against the back wall of the business. The walls were approx. 6 feet high. A small chair/bench was at the back of the booth. At no point did I ever see any employee check on dancers in the booths. As I walked into my booth, I saw a dancer and a customer in the next booth. The customer was licking the dancer's breasts and penetrating her vagina with his finger. I spoke with the dancer in my booth and asked how much we could do in the booth. The dancer told me for \$100 I could "eat her pussy until she came". For \$300, we could have intercourse. I asked if someone would see us. She explained that the procedure was that she would pull her g-string to the side and then open my zipper and remove my penis without pulling down my pants. This was how intercourse was performed in the club.

I asked if the dancer could come to my hotel room for sex instead of having sex in the club. The dancer provided a cell phone number and said she would come to my room for \$300 and have sex with me.

Later in the evening, a male was pulled onto the stage for his bachelor party. The male had his pants removed by a dancer. Two dancers removed his belt and ripped his underwear off. They spanked him with the belt and then stuck the belt buckle in his rectum in exchange for money thrown onto the stage.

After observing this conduct in Roxy's, I walked across the street to the Platinum club. This club was a main floor with small stages and a bar in the center. A second level that was a circular balcony also had a bar. I spoke with the bathroom attendant and told him I had just come from Roxy's and witnessed a wild event involving a bachelor party. The attendant replied, "Did they stick a beer bottle in his ass? They usually do that."

I went to the upper level and I was told a \$20 fee was required to access services upstairs. The services consisted of couch dances, private dances, hot tub dances, and bed dances. I noticed an area containing several couches, an area with covered booths, several small rooms with large hottubs, and one room with a bed. I watched a dancer take a male into the room with the bed. When they went inside, the lights in the room are dimmed so no one can see what is occurring without looking into the room through the door. No employee checked on the dancer while she was in the room with the customer.

I spoke to a dancer who told me that private booth dancers were a minimum of \$50, hot tubs were \$370 and up, and the bed was \$370 and up. I asked what I was allowed to do in the hot tub. The dancer told me I could penetrate her vagina with my fingers and she would give me handjob until I ejaculated. In the bed, we could have oral sex. I asked if we could have intercourse and she said that if I wanted that she could come to my room. She told me she would have sex with me at my hotel for \$500.

I then took a dancer to the covered booth. I observed a customer performing oral sex on the dancer in the next booth. No employee monitored the booths. After leaving, Trooper [REDACTED] informed me the bathroom attendant offered to sell him cocaine.

On 6/12/04, I went to PT's in Centerville with Sgt Warnberg and Trooper [REDACTED]. After paying the cover, I saw this was also a one-floor business. A bar was in the center. An elevated and darkened private area was closed off for couples only. Small stages with female dancers were on one wall. On the end was a small stage with a male dancer.

I observed the dancers placing customers' hands on the breasts. I also observed customers licking the vaginas of dancers on stage. The emcee announced they would have a pussy eating contest on stage and a dick-sucking contest. On three separate occasions, I observed female customers brought on stage, stripped naked and then told to lie down while dancers performed oral sex on them. The emcee cheered them on and encouraged customers to give them more money. A female customer was also digitally penetrated in the anus by a dancer on stage while emcee yelled, "Let's see some backdoor action!"

I went to the private dance area that consisted of private booths inside a small back area. The dances were \$30. The first dancer told me that the couples VIP area gets wild and people have sex. The dancer also agreed to come to my hotel room to have sex. She said we would discuss price over the phone and she gave me a cell phone number to call her. Another dancer in the private area told me, "I just had my pussy eaten on stage by a customer and he was pretty good at it!" She also told me that sex occurred in the couples VIP area. She said she would come to my hotel room for sex for \$200. I spoke to a third dancer whose actions seemed like she was under the influence of a drug. Through my training and experience, I believed she was on ecstasy. I asked her and she said she was "flying on x". I asked if she had anymore, and she said someone gave her some in the club and she didn't have any more to give me.

I watched the couples VIP area as best as I could and I saw at least two different couples having intercourse and several customers in various other types of sex acts including oral stimulation and digital penetration.

Throughout the night, the emcee continued to encourage more "pussy eating contests" on stage and kept announcing a "dick sucking contest" would occur later.

On 7/6/04, I entered PT's in Indianapolis, IN with Sgt. Warnberg and several members of the Indianapolis Police Dept. Vice Unit. After paying the cover, I entered and saw that the club was one story with 3 circular stages surrounded by tables and chairs. In one corner of the club there was a couch dance area. This area was a room off of the main floor. Inside this room were several love seats positioned around the walls. These love seats have sides and tops that extend approx. 5 feet high providing privacy from anyone on the sides of the love seat.

I went to the private couch dance area with one of the dancers. After paying for the dance, the dancer informed me that there was a camera in the room. She pointed out which couches provided protection from the camera so we could, "Get away with more." During this dance, the dancer penetrated herself with her finger in the vaginal and anal areas. She removed her finger and asked me if I wanted to "taste her". The dancer then said she would masturbate for me until she "came". The dancer then proceeded to masturbate in the love seat. After masturbating, she asked me, "Do you want me to rub my cum in your mustache?" I replied no. I asked if I she was available to go back to my hotel room for sex. She said she had to leave shortly but that she had a friend that could go to my room and provide prostitution services.

Later in the evening, I took another dancer back to the private dance area. Again, this dancer pointed out what couches provided protection from the camera. This dancer would grab my penis over my jeans and rub it and bite it. I asked if she was available to come to my hotel room. She said she wasn't, but pointed out another dancer in the private area and said that she does prostitution with customers. Later, I pointed out this female to Sgt. Warnberg and he was able to obtain an offer of prostitution from this female.

At no point, did I see any club employee go into the private dance area to monitor activity.

On 7/7/04, I entered PT's in Louisville, KY with Sgt. Warnberg. After paying the fee, I saw that the club area was one level with 3 stages and tables and chairs around the stages. In the back of the club were several of the covered love seats along the wall. In this club, there was an employee monitoring the love seats. I also observed the employee tell customers to keep their hands off of the dancers.

Later in the evening, I saw a female customer licking the breasts of a dancer on the stage. The female customer then removed her top and exposed her breasts and rubbed her breasts. A club employee told the female to put her top back on but she was not removed from the club.

7/6/04 - Received
original

Glamp's Summary of Warnberg + Schmidt's Reports

GLENDALE, COLORADO-THE PENTHOUSE CLUB

Sgt. Schmidt

Page 1

-Paragraph 3

- Genital exposure in topless bar.
- Money into customer's underwear. Retrieval with mouth.

-Paragraph 8

- Dancer grinding on a customer's lap.
- Customer squeezing the dancer's buttocks.

Paragraph 9

- Dancer licking nipples.
- Dancer grinding on undercover officer.

Sgt. Warnberg

Page 4

Paragraph 4

- Dancer exposing vagina and allowing a customer to place his hand over her vagina in topless area of club.
- Dancer allowing customer to suck on her breast.
- Dancer fondling female customer's breasts while manager watched.

Page 5

Paragraph 4

- Dancer grinding on a customer's lap in a simulated sex act.
- Customer squeezing the dancer's buttocks.
- No employees monitoring the booth.

DENVER, COLORADO-PT'S WORLD FAMOUS SHOWCLUB

Sgt. Schmidt

-Page 2

Paragraph 1

- Rubbed nipples over the undercover officer's mouth.
- Rubbed each other's vagina and appeared to perform oral sex on each other.
- Customer rubbing the vagina of a nude female dancer.

Paragraph 3

- Dancer rubbing the breasts of female customers.
- Dancer reaching under the skirts of the customers and rubbing their buttocks and vaginas.
- Dancer requesting money for her actions.

-Male customer appearing to perform digital penetration on a female at the bar.

Sgt. Warnberg

Page 6

Paragraph 1

-Dancer pulling customer's face into her groin area.

Paragraph 4

-Intercourse between customer and dancer.

-Dancer grinding on the officer's lap while the second dancer licked the first dancer's nipples.

-This dancer also licked the other dancer's vagina.

Paragraph 6

-No employee monitoring this behavior.

BROOKLYN, ILLINOIS ROXY'S

Sgt. Schmidt

Page 1

Paragraph 2

-Dancers allowing customers to suck and lick nipples.

-Dancers allowing customers to lick vagina and anus of dancers.

Paragraph 3

-Dancer allowing customer to lick breast and digitally penetrate.

-Dancer making offer of oral sex for \$100.

-Dancer making offer of sexual intercourse for \$300.

-No employees checking on private booths.

Paragraph 4

-Offer of sex for \$300 at off site hotel.

Paragraph 5

-Male bachelor party guest having pants removed, whipped with belt and buckle stuck in his rectum while on stage.

Sgt. Warnberg

Page 8

Paragraph 5

-Males performing oral sex on the dancers.

-Dancer allowing customer to lick her anus.

-Manager witnessing this and allowing it to occur.

Page 9

Paragraph 1

- Dancer offering oral sex for \$100 and telling officer how to arrange for intercourse for \$800.

Paragraph 2

- Dancer performing oral sex on a customer.

Paragraph 3

- Dancers ripping off customer's underwear on stage.
- Whipping of customer with his belt.
- Sticking the belt buckle in his anus.
- Mangers did not attempt to stop this.

BROOKLYN, ILLINOIS-PLATINUM CLUB

Sgt. Schmdt

Page 1

Paragraph 6

- Bathroom attendant inquiring about a beer bottle being stuck in the bachelor party guests' rectum.

Paragraph 7

- No employees checking on dancers in private rooms.

Paragraph 8

- Offer of digital penetration and manual stimulation for \$370 in a hot tub.
- Offer of oral sex in a bed for \$370.
- Offer of intercourse in officer's hotel room for \$500.

Paragraph 9

- Customer performing oral sex in a both.
- No employees monitoring the booths.
- Bathroom attendant offering to sell State Trooper cocaine.

Sgt. Warnberg

Page 9

Paragraph 4

- Dancer offering to give manual stimulation and allow digital penetration for \$350 in the hot tub.

Page 10

Paragraph 1

- Dancer offering to give manual stimulation and allow digital penetration for \$350 in a room with a bed.
- Dancer and customer having sex in this room.
- No employee monitoring this room.

CENTERVILLE, ILLINOIS-PT'S WORLD FAMOUS SHOWCLUB

Sgt. Schmidt

Page 1

Paragraph 11

- Customers placing their hands on dancers breasts.
- Announcement of a cunalingus and felatio contest on stage.
- Female customers being stripped naked and having oral sex performed on them while emcee cheered and asked for money.
- Dancer performing anal digital penetration while being encouraged by the emcee.

Paragraph 12

- Dancer offering to go to officer's hotel room for sex in exchange for money.
- Another dancer offering to go to officer's hotel room for sex for \$200.
- Dancer bragging about receiving oral sex on stage.
- Dancer talking about sex occurring in the couples VIP areas.
- Dancer high on ecstasy.

Paragraph 13

- Sale of Viagra in the bathroom for \$15.

Page 2

Paragraph 1

- Customers in the couples VIP area engaged in various sex acts.

Paragraph 2

- Emcee continuing to announce cunalingus and felatio contests.

Sgt. Warnberg

Page 10

Paragraph 3

- Emcee announcing cunalingus contest.
- Dancers performing oral sex on each other on stage.
- Dancer sucking on female customer's breasts.
- This customer being involved in the above contest.

Paragraph 4

- A second cunalingus contest being held.
- Dancers performing oral sex on each other.
- Dancer performing anal digital penetration on stage.
- Emcee requesting customers provide money for this contest.

Paragraph 5

- Customers performing oral sex on dancers.
- Emcee announcing a felatio contest.

Page 11

Paragraph 1

- Dancers reaching in customer's pants.

Paragraph 2

- People having sex in the couples only section of the club in view of security.

Paragraph 3

- Restroom attendant selling Viagra for \$15.

LAWRENCE, INDIANA-PT's WORLD FAMOUS SHOWCLUB

Sgt. Schmidt

Page 1

Paragraph 2

- Dancer pointing out couches that are protected from the cameras.
- Dancer masturbating during a private dance with the officer.
- Dancer willingness to arrange prostitution services.

Paragraph 3

- Dancer pointing out couches that are protected from the cameras.
- Dancer rubbing officer's penis and biting it.
- Dancer pointing out another dancer that would be willing to provide prostitution services.

Paragraph 4

- No employee monitoring the private dances.

Sgt. Warnberg

Page 13

Paragraph 1

- Dancer grinding up and down on the officer's lap in a circular motion, simulating a sex act.
- Dancer revealing her vagina during this lap dance.

-Dancer masturbating during this lap dance.

Paragraph 2

-Dancer agreeing to sex with the officer for \$400 after she was done working.

Paragraph 3

-Managers not monitoring private dance area.

Changes within VCG Holding Corp. and/or the Agreement with Classic Affairs, Inc.

Changes in the Corporate Structure

Officers

Donald Prosser has resigned from the Board of Directors (VCG Holding Corp.). Mr. Prosser remains the corporate Chief Financial Officer (CFO).

Marty Grussin, Attorney, has been added to the Board of Directors (VCG Holding Corp.)

Clubs

Sold

PT's Phoenix
All Stars Sports
PT's Memphis

Added

Penthouse Phoenix
Diamond Cabaret
Tabu

Direction as it relates to the Corporate Mission

With the addition of Tabu, VCG Holding Corp. has demonstrated a diversification that enables our customer based to be expanded outside of the traditional clientele.

Changes in the Application/Agreement

Management

Larry McGough will stay on as the manager. Alberto Fortuney is no longer considered for any position with the Minneapolis project.

Personnel

It is our intention to retain as much of the current personnel as are willing to stay. This club is operating at the optimum efficiencies and no changes or redirections are needed.

Financial Structure (Ownership Ratios)

No major changes from the original agreement

Changes in the corporate policies as it relates to the operational function in Minneapolis

As a result of the Warnberg report issued in Minneapolis, VCG Holding Corp legal representation hired a third party organization to conduct an review of the conduct at the clubs in question.

Installation of camera systems has been added to all clubs to ensure more consistent monitoring of employee conduct.

In Denver, a former vice officer was hired to report club activities directly to the ownership bypassing the management group to ensure efficiency and accuracy.

Glamp's questions to VCG

In addressing the below questions and concerns, please address the following:

- 1) Was a policy in place regarding the listed behavior at the time of the City's inspection, and if so what was the policy?
- 2) Were any policy changes made between the time of the City's inspection and the present, and if so what were the changes?
- 3) Are there any policies currently in place that would address the behavior listed below during the City's inspection?
- 4) What steps were taken to correct the below listed behaviors that occurred during the City's inspection?
 - Regarding the above numbers 1-4 please address policy related questions and changes that may have occurred on both a corporation-wide basis and an individual-club basis.
 - If the below listed behavior was legal in a given jurisdiction, please responded as such.

Glendale, Colorado-The Penthouse Club

- 1) What was the policy regarding physical contact between employees and customers?
 - a) Was contact allowed?
 - b) Were dancers allowed to remove their bottoms and expose their genitalia in all areas of the club?
 - c) Were dancers allowed to simulate sexual acts with customers, including those involving physical contact?
 - d) Were customers allowed to touch the dancers, including oral contact by the customers?
 - e) Were dancers allowed to fondle female customers' breasts?
- 2) Did management actively monitor activities in all areas of the establishment?
 - a) According to policy, how was management or other employees to respond if the above activities were seen?

Denver, Colorado-PT's World Famous Show Club

- 1) What was the policy regarding physical contact between employees and customers?
 - a) Was contact allowed?
 - b) Were dancers allowed to simulate sexual acts with customers, including those involving physical contact?
 - c) Were dancers allowed to have sexual intercourse with customers?
 - d) Were dancers allowed to touch customer's breasts, buttocks, or genitalia?
 - e) Were customers allowed to touch the dancers?
 - i) Did this contact include oral contact by the customers?
 - ii) Did this contact include customers touching the dancers' breasts, buttocks or genitalia?
 - iii) Were the dancers allowed to initiate the above contact?
 - f) Were dancers allowed to touch each other in a sexually suggestive way?
 - i) Would the above contact include simulated or actual cunnilingus?

- 2) Did management actively monitor activities in all areas of the establishment?
 - a) According to policy, how was management or other employees to respond if the above activities were seen?

Brooklyn, Illinois-Roxy's

- 1) What was the policy regarding physical contact between employees and customers?
 - a) Was contact allowed?
 - b) Were customers allowed to touch the dancers?
 - i) Did this contact include oral contact by the customers?
 - ii) Did this contact include customers touching the dancers' breasts, buttocks or genitalia?
 - iii) Were the dancers allowed to initiate the above contact?
 - c) Were dancers allowed to disrobe customers?
 - i) Was this allowed in areas open to viewing by all customers?
 - ii) Was this allowed in areas deemed to be semi-private or private?
 - d) Were dancers allowed to have sexual relations with the customers in the establishment, including fellatio and anal penetration?
- 2) Were dancers allowed to make offers of sex (intercourse and oral) in exchange for money?
 - i) The proposed sexual relation would occur on site.
 - ii) The proposed sexual relation would occur off site.
- 3) Did management actively monitor activities in all areas of the establishment?
 - a) According to policy, how was management or other employees to respond if the above activities were seen?

Brooklyn, Illinois-Platinum Club

- 1) What was the policy regarding physical contact between employees and customers?
 - a) Was contact allowed?
 - b) Were customers allowed to have sexual relations with the dancers in the establishment, including cunnilingus and intercourse?
- 2) Were dancers allowed to make offers of sex (intercourse and oral) in exchange for money?
 - a. The proposed sexual relation would occur on site.
 - b. The proposed sexual relation would occur off site.
- 3) Were employees allowed to sell narcotics in the establishment?
- 4) Did management actively monitor activities in all areas of the establishment?
 - a) According to policy, how was management or other employees to respond if the above activities were seen?

Centerville, Illinois-PT's World Famous Showclub

- 1) What was the policy regarding physical contact between employees and customers?
 - a) Was contact allowed?
 - b) Were dancers allowed to disrobe customers?
 - a. Was this allowed in areas open to viewing by all customers?
 - b. Was this allowed in areas deemed to be semi-private or private?
 - c) Were customers allowed to touch the dancers?

- a. Did this contact include oral contact by the customers?
- b. Did this contact include customers touching the dancers' breasts, buttocks or genitalia?
- c. Were the dancers allowed to initiate the above contact?
- d) Were customers allowed to have sexual relations with each other in the club?
- e) Were dancers allowed to have sexual relations with the customers in the establishment, including cunnilingus and anal penetration?
- f) Were dancers allowed to touch each other in a sexually suggestive way?
 - a. Would the above contact include simulated or actual cunnilingus or fellatio?
 - b. Would employees be able to encourage the above acts in the form of a contest while acting as an emcee in the club?
 - (1) Would the emcee be able to request customers give money for the dancers' participation in such a contest?
 - (2) Would customers be allowed to participate in such a contest?
- 2) Were dancers allowed to make offers of sex (intercourse and oral) in exchange for money?
 - a. The proposed sexual relation would occur on site.
 - b. The proposed sexual relation would occur off site.
- 3) Were employees allowed to sell narcotics in the establishment?
- 4) Did management actively monitor activities in all areas of the establishment?
 - a) According to policy, how was management or other employees to respond if the above activities were seen?

Indianapolis, Indiana-PTs World Famous Showclub

- 1) What was the policy regarding physical contact between employees and customers?
 - a. Was contact allowed?
 - b. Were dancers allowed to touch customer's genitalia?
 - c. Were dancers allowed to simulate sexual acts with customers, including those involving physical contact?
- 2) Were dancers allowed to masturbate as part of their performances?
- 3) Were dancers allowed to make offers of sex (intercourse and oral) in exchange for money?
 - a. The proposed sexual relation would occur on site.
 - b. The proposed sexual relation would occur off site.
- 4) Did management actively monitor activities in all areas of the establishment?
 - a. According to policy, how was management or other employees to respond if the above activities were seen?



HOLDING CORP.
An American Stock Exchange Company
AMEX: PTT

RECEIVED AUG 18 2006

16 August 2006

Councilwoman Lisa Goodman
City of Minneapolis City Hall
350 South Fifth Street
Room 307
Minneapolis, Minnesota 55415

RE: VCG Holding Corp./Classic Affairs, Inc.

Dear Councilwoman Goodman:

In 2004 we presented the City of Minneapolis with an application to become the new/sole shareholder of Classic Affairs, Inc., which currently holds a valid Class A liquor license. During the course of our application, we complied with the application process to the best of our ability, but we ultimately determined that we could not adequately address the questions and concerns raised in his Sgt. Warnberg's report in the time frame built into our agreement with the owners of Classic Affairs. We therefore withdrew our application in order to allow us to properly address the issues raised by Sgt. Warnberg and City Council, with the intention of revisiting the matter at a later date.

While we are continuing from this point with a focus on the future rather than the past, I feel the need to address a few points in Sgt. Warnberg's report in order to promote a mutual understanding, and hopefully amicable, if not positive, relations from here on out.

1) Sgt. Warnberg suggested that VCG Holding Corp. and its clubs were on the brink of indictments, violations and closure, yet this has not occurred. To the contrary, VCG has not been cited for any liquor or business license violations in the two years since his report. VCG Holding, in fact, has acquired two new licenses in Denver and Phoenix. VCG Holdings has a reputation in the industry and law enforcement as a clean operation.

2) Sgt. Warnberg's seemingly personal mission focused media attention on his report and or businesses again a year later, which attracted the attention of law enforcement. Despite the renewed scrutiny, our clubs passed muster with flying colors, prompting some law enforcement agencies and individuals to vouch for our long history of compliance with applicable laws and regulations.

3) We feel Sgt. Warnberg's attention to VCG Holdings was out of line with his treatment of other clubs attempting to open in Minneapolis. He spent \$10,000 and traveled from coast to coast in an "attempt" to compare and analyze the local regulations against that of the City of Minneapolis, while not subjecting other national operators like Deja-Vu and Rick's Cabaret to this type of investigation. We do not mind scrutiny, but expect a level playing field.

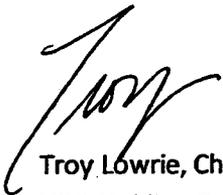
Our positive experiences elsewhere make this report more puzzling. Why do we have good relationships with municipalities across the country and in diverse regulatory climates but not Minneapolis? We believe Sgt. Warnberg did not accurately represent our business operations, and now that he has been reassigned, we wish to approach the City of Minneapolis with a fresh start.

I am attaching a summary of the changes to VCG Holding Corp. and the agreement with Classic Affairs, Inc. Our general intention is to acquire this club for our financial portfolio, and therefore do not foresee any major changes in its operation. We believe the club is well run, and intend to keep as much of the personnel as are willing to stay. Larry McGough, will remain as manager. Mr. McGough has been managed Classic Affairs for approximately 11 yrs with a sterling record of accomplishment and order.

We invite you to approach our application with due diligence, but hope you will treat us fairly. We have demonstrated a commitment to compliance with legal guidelines, and in fact implement policies that go above and beyond expectations in order to promote smooth operations, a safe work environment, and positive relationships with our communities. We feel a fair assessment of our fitness for the Minneapolis community will yield a positive outcome, and look forward to an application process free of the acrimony that plagued our relationship two years ago.

Thank you for your consideration and please feel free to communicate with John Soto (303.809.7686), our governmental liaison, to address any questions and/or concerns.

Respectfully,



Troy Lowrie, Chairman/CEO
VCG Holding Corp.

TL/JSJ

Attachments

cc: Douglas Kress, Aide to Councilwoman Goodman

GARCIA AND ASSOCIATES, P.A.

ATTORNEYS AND COUNSELORS AT LAW
401 SECOND AVENUE SOUTH, SUITE 632
MINNEAPOLIS, MN 55401

November 21, 2006

Ricardo Cervantes
Department of Consumer Services and Licenses
Deputy Director
350 South 5th Street, Room 1C
Minneapolis, MN 55415

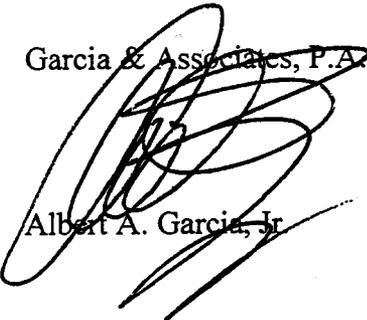
Lt. Travis Glampe
City of Minneapolis
Police Department
Licensing Investigation Division
350 South 5th Street, Room 1A
Minneapolis, MN 55415-1314

Dear Gentlemen:

Enclosed please find the responses of VCG to the initial questions posed regarding their anticipated liquor license. If there are still initial concerns that could serve as a barrier to successful application, my client would like to address them prior to their application and your investigation. However, if your concerns are such that might result in conditions on a successful application, then obviously we can discuss them during the application/investigative process. Furthermore, my client would like to once again discuss the application process and the scope of the investigation process after you have had an opportunity to review their responses.

Cordially,

Garcia & Associates, P.A.



Albert A. Garcia, Jr.

Cc: VCG



15 November 2006

John Soto, Governmental Liaison
VCG Holding Corp.
390 Union Boulevard, Suite 540
Lakewood, Colorado 80228

Lt. Travis Glampe
City of Minneapolis
Police Department
Licensing Investigation Division
350 South 5th Street, Room 1A
Minneapolis, MN 55415-1314

Re: Questions and Concerns Letter dated October 19, 2006

Dear Lt. Glampe;

Thank you for your willingness to provide us with an opportunity to address the concerns and issues raised during our 2004 application for licensing with the City of Minneapolis. As we have discussed, our primary goal at this point is to settle any outstanding issues so that we may determine our next steps free from the unnecessary animosity that hindered our last application.

VCG Holding is one of the largest management companies in the adult entertainment industry, with 13 clubs in 9 cities. This distinction attracts a great deal of scrutiny wherever we go, as evident in the City of Minneapolis's previous reaction to our application.

While our interest in new communities sometimes inspires uneasiness among city officials, and a fear that we may introduce a nefarious element to their communities, they almost universally find the opposite to be the case. Unlike most independently owned clubs that tend to operate in the shadows, our high profile requires that we operate above reproach, and maintain positive working relationships with the communities in which we work.

As a result, VCG abides by rules and procedures that far exceed industry standards, and that which is required by law. First, as a company with holdings in multiple jurisdictions, we are one of the few in the industry that employs a network of public policy professionals. Part of my job is to know the laws governing our business in each of our jurisdictions, and I rely on paid consultants in each jurisdiction as well as my own due diligence to monitor local regulations so we may adjust club policy accordingly.

Second, VCG is committed to federal labor standards above and beyond what is required. The entire management team, from executives to club management, receives extensive and ongoing training in the areas of Equal Employment Opportunity (EEO), Training for Intervention Procedures (TIPS), and Occupational Safety and Health Administration (OSHA) standards. Many of us are also certified trainers in these areas.

This may not seem relevant to the matter at hand, but should serve as an indication of our commitment to the health and safety of our employees. Strict company policy dictates that we offer a safe working environment for our employees, and as part of this "zero tolerance" policy, take great lengths to prevent our employees from compromising their own health and safety in the course of performing their jobs.

The result of these, and other, practices is an operating environment that defies the industry stereotype. Instead, we work hard to be a "good neighbor" in every market in which we enter, and typically have pleasantly surprised those who had initially viewed us with skepticism.

In conclusion, it should be reiterated that the investigation of 2004 did inspire us to initiate an internal audit to confirm the effectiveness and efficiency of our policies and procedures, and an independent third party found no violations, and verified that our policies are having the effect that we desired. Furthermore, our renewed focus encouraged the installation of additional cameras in multiple locations to enhance enforcement capability.

While we respect the need for an investigation as part of the application process, we feel the 2004 investigation was flawed in some way so as to reflect an inaccurate portrayal of our compliance record. It is common for law enforcement agencies to perform random spot inspections of our facilities, and if the portrayal in the 2004 report was accurate, the types of serious violations described would have been detected elsewhere. To the contrary, we have an exemplary compliance record, and have acquired three additional licenses. In addition, a representative from the local jurisdiction was present in all of the investigative visits in question, yet at no time were follow up violations reported locally.

I have attached a discussion of the specific questions outlined in your query. I would also be glad to follow up with you on any additional questions you may have. Again, thank you for your time and attention to this matter. I look forward to long and lasting working relationship.

Respectfully,

John Soto, Governmental Liaison
VCG Holding Corp.

Prologue

To clarify the terminology used in the following sections, management staff members are addressed as “directors,” and dancers” are identified as entertainers. The function of our facilities is to sell a fantasy within the guidelines of the law.

Sometimes that fantasy entails a simple conversation with a beautiful woman without the pressures that often accompany such situations. Other times the fantasy involves more of an erotic theater. At times in which involve playful conversation or erotic dance that, again, is more theater than reality. In all cases, our product is seduction, and our entertainers are trained and experienced in the art of offering a theatrical presentation that leaves guests with the perception that they experienced more than actually occurred.

It should also be noted that unlike the state of Minnesota, all the operations listed below involve entertainers that are independent contractors. This is an important distinction, as independent contracts do not have the same employment conditions as that of employment agreements. This is an important note as we discuss the boundaries as they are set forth in their contractual agreement with the clubs, and enforced by our directors.

From reading the following, I hope you will note that we have clubs in multiple jurisdictions, and therefore must abide by several sets of laws and regulations. This is important because I hope to demonstrate that we are committed to shaping club policy around the laws of the jurisdictions in which we operate, and that we do not have a “one size fits all” company policy on these matters that we try to impose on all of our clubs.

When we make an acquisition, we use the existing club policy as a baseline, and consult our experience and expertise to enhance compliance within the existing framework. We can do this because the type of club we are attracted to, are those with successful business models. A large part of a successful business model, in our estimation, is the ability to demonstrate compliance with local laws and regulations.

This should offer peace of mind in knowing that a VCG Holding acquisition of Sheikhs will cause no change in the operating policy toward compliance with the laws and regulations of Minneapolis and Minnesota. If anything, we will use our experience in multiple jurisdictions to alter enforcement policy on the side of efficiency and transparency.

For comparison, we see Sheikhs as the following:

Minneapolis, Minnesota -- Sheikhs

Official Business Name
Classic Affairs

Governing Board
State of Minnesota
City of Minneapolis

Type of License
Liquor
Liquor

Clientele
40 + Average Age

White Collar

80/20 Male/Female

Glendale, Colorado -- The Penthouse Club

Official Business Name
Glendale Restaurant Concepts LP

Governing Board
State of Colorado
City of Glendale

Type of License
Liquor
Liquor

Clientele
40 + Average Age

White Collar

70/30 Male/Female

1. What was the policy regarding physical contact between employees and customers?

We permit superficial contact that allows our guest to feel welcome in our establishment. This may consist of a handshake or polite hug upon arrival, or the friendly touch of an arm or leg during conversation. Our staff may also use an armrest or customer's leg as a place to sit. They are instructed regarding the boundaries of this interaction, and several managers patrol the general areas to enforce this policy.

a. Was it allowed?

Superficial contact, as outlined above, is permitted.

b. Were dancers allowed to remove their bottoms and expose their genitalia in all areas of the club?

No. State law prohibits complete nudity in areas where alcohol is served. Some clubs do not serve alcohol, and are therefore able to offer nude entertainment, and others limit the amount of exposure allowed in order to acquire a liquor license.

The Penthouse Club contains a separate area in the north end of the building, on the second level where nudity is allowed, but alcohol is not, in compliance with the law. To access this area, guests have already passed through a screening process that has determined that they are 21 years of age, and therefore eligible to be in the club.

A doorman is stationed at the door to this area to enforce the "no alcohol" requirement, protect the security of employees and guests, and enforce our zero tolerance policy for "sexual touching." Enforcement staffing of this area increases as needed, according to traffic volume.

- c. **Were dancers allowed to simulate sexual acts with customers, including those involving physical contact?**

At no time is the simulation of a sexual act allowed in this facility. It should be noted that this club sells the art of a fantasy, and at times conversations and physical touching may appear to be more dramatic than they actually are.

- d. **Were customers allowed to touch the dancers, including oral contact by the customers?**

As stated earlier, Entertainers are instructed on the boundaries of superficial contact: the extension of a hand, a hug, or the brushing of an arm. If in doubt, we instruct the entertainers to permit no customer initiated touching, and many follow this advice. At NO point is any touching beyond this point permitted, including any oral contact.

- e. **Were dancers allowed to fondle female customers' breasts?**

No. Sexual touching is not permitted. Our zero policy requires expulsion for the offending customer, and termination of the entertainers' contract with the club for breach of contract violations.

2. **Did management actively monitor activities in all areas of the establishment?**

Our management is required to remain visible and active in enforcement of company policy. We also have cameras installed within this facility that enables management to monitor several locations when their responsibilities take them into the office. In addition to our club management, a roaming supervisor adds support to our management staff in this endeavor.

- a. According to the policy, how was management or other employees to respond if the activities were seen?

Club policy establishes a chain of command to mitigate any violation of our rules. Management and staff are required to immediately notify the supervisor upon awareness of any violation. That supervisor is responsible for immediate correction action, and is also required to contact the National Director who makes the final call on any follow-up action that may be necessary (termination, etc...)

In the event an entertainer is determined to have violated the policies and procedures of the facility, the likely scenario is that the supervisor will determine her as a breach of her contractual agreement with the club, and she would be asked to remove herself from the facility. If the violation involved an employee, the supervisor will determine the appropriate employment action.

In either scenario the National Director is likely consulted to determine necessary action.

Denver, Colorado – PT's World Famous Show Club

Official Business Name Denver Restaurant Concepts LP	Governing Board State of Colorado City & County of Denver City & County of Denver	Type of License Liquor Tavern/Cabaret/Food Business/Amusement
Clientele 40 + Average Age	Mix of Blue/White Collar	50/50 Male/Female

1. What was the policy regarding physical contact between employees and customers?

Like the policy of the Penthouse Club, we permit superficial contact that allows our guest to feel welcomed in our establishment. This may consist of a handshake or polite hug upon arrival, or the friendly touch of an arm or leg during conversation. Our staff may also use an armrest or customer's leg as a place to sit. They are instructed regarding the boundaries of this interaction, and several managers patrol the general areas to enforce this policy.

a. Was contact allowed?

Superficial contact, as outlined above, is permitted.

b. Were dancers allowed to simulate sexual acts with customers, including those involving physical contact?

At no time is the simulation of a sexual act allowed in this facility. It should be noted that this club sells the art of a fantasy, and at times conversations and physical activity may appear to be more than what is actually occurring.

c. Were dancers allowed to have sexual intercourse with customers?
NO

d. Were dancers allowed to touch customers' breasts, buttocks or genitalia?

NO. It should be noted that this facility attracts a customer base that reflects a ratio of 50/50 men to women, and therefore the guest dynamic is slightly different. If a female guest decides to expose her breasts and/or buttocks, she is allowed to do so, on a platform that extends 12 inches above ground in an area of the stage. At no time, is her genitalia allowed to be exposed. These requirements are required within the topless with alcohol side of the establishment.

e. Were customers allowed to touch the dancers?

Customers are allowed to touch dancers in the superficial manner described above. Anything more will likely result in expulsion from the club. Private dance areas are tightly monitored, and our policy on touching is strictly enforced.

i. Did this contact include oral contact by the customers?

Oral contact is not permitted.

ii. Did this contact include customers touching the dancers' breasts, buttocks or genitalia?

No

f. Were dancers allowed to initiate this type of contact?

No

i. Would the above contact include simulated or actual cunnilingus?

n/a

2. Did management actively monitor activities in all areas of the establishment?

Our management is required to remain visible and active in enforcement of company policy. We also have cameras installed within this facility that enables management to monitor several locations when their responsibilities take them into the office. In addition, a roaming supervisor adds support to our management staff in this endeavor.

- a. According to policy, how was management or other employees to respond if the above activities were seen?

Club policy establishes a chain of command to mitigate any violation of our rules. Management and staff are required to immediately notify the supervisor upon awareness of any violation. That supervisor is responsible for immediate correction action, and is also required to contact the National Director who makes the final call on any follow-up action that may be necessary (termination, etc...)

In the event an entertainer is determined to have violated the policies and procedures of the facility, the likely scenario is that the supervisor will determine her as a breach of her contractual agreement with the club, and she would be asked to remove herself from the facility. If the violation involved an employee, the supervisor will determine the appropriate employment action.

In either scenario the National Director is likely consulted to determine necessary action.

Brooklyn, Illinois – Roxy's

Official Business Name
RCC LP

Governing Board
State of Illinois
Village of Brooklyn

Type of License
Liquor
Business & Liquor

Clientele
25 – 45 Average Age

No Collar

90/10 Male/Female

1. What was the policy regarding physical contact between employees and customers?

The state of Illinois employs a "home rule" system of governance of adult entertainment policy, which means local municipalities are vested with the authority to determine the laws that cover facilities in their jurisdiction. The community standards and liquor licensing provisions established by the City of Brooklyn permit more contact than the laws in other jurisdictions in which we operate, therefore contact between entertainer and guest is more apparent.

a. Was contact allowed?

Yes, contact is allowed within the boundaries of the law.

b. Were customers allowed to touch the dancers?

Contact is allowed when initiated by the entertainer.

i. Did this contact include oral contact by the customers?

Oral defined as kissing is allowed; other form of oral contact such as cunnilingus is not allowed.

ii. Did this contact include customers touching the dancers' breasts' buttocks or genitalia?

Contact can include the customer contact with the buttocks and breasts but genitalia are not permitted.

iii. Were the dancers allowed to initiate the above contact?

Entertainers in this jurisdiction are able to initiate some superficial touching, but the genitalia exceed the permitted boundaries.

c. Were dancers allowed to disrobe customers?

At times, this club hosts bachelor parties that enlist the club to offer a "special" dance, one that includes the bachelor being presented on stage with a dancer or two who perform a theatrical presentation. Within this performance, the bachelor can be disrobed to his bottoms, but at no time are the bachelor's genitalia exposed. The disrobement of his shirt and pants is for the theatrical comic value alone.

i. Was this allowed in areas open to viewing by all customers?

Yes.

ii. Was this allowed in areas deemed to be semi-private or private?

Yes, it should be noted that this facility does not have true private rooms with doors but rather booths that enable our staff to consistently monitor the dance activity. These areas give a sense of perceived privacy.

d. Were dancers allowed to have sexual relations with the customers in the establishment, including fellatio and anal penetration?

Absolutely NOT, this conduct is illegal, and therefore a strictly enforced company policy. Violation of this policy is grounds for immediate termination of their contractual agreement with the club.

2. Were dancers allowed to make offers of sex (intercourse and oral) in exchange for money?

Absolutely NOT

a. The proposed sexual relation would occur on site

n/a

b. The proposed sexual relation would occur off site

n/a

3. Did management actively monitor activities in all areas of the establishment?

Our management is required to remain visible and active in enforcement of company policy. We also have cameras installed within this facility that enables management to monitor several locations when their responsibilities take them into the office. In addition to our club management, a roaming supervisor adds support to our management staff in this endeavor.

According to policy, how was management or other employees to respond if the above activities were seen?

Club policy establishes a chain of command to mitigate any violation of our rules. Management and staff are required to immediately notify the supervisor upon awareness of any violation. That supervisor is responsible for immediate correction action, and is also required to contact the National Director who makes the final call on any follow-up action that may be necessary (termination, etc...)

In the event an entertainer is determined to have violated the policies and procedures of the facility, the likely scenario is that the supervisor will determine her as a breach of her contractual agreement with the club, and she would be asked to remove herself from the facility. If the violation involved an employee, the supervisor will determine the appropriate employment action.

In either scenario the National Director is likely consulted to determine necessary action.

Brooklyn, Illinois – Platinum Club

Official Business Name
Platinum of Illinois, Inc.

Governing Board
State of Illinois
Village of Brooklyn

Type of License
Liquor
Business & Liquor

Clientele
25 – 40 Average Age

No Collar

90/10 Male

1. **What was the policy regarding physical contact between employees and customers?**

The state of Illinois employs a "home rule" system of governance of adult entertainment policy, which means local municipalities are vested with the authority to determine the laws that cover facilities in their jurisdiction. The community standards and liquor licensing provisions established by the City of Brooklyn permit more contact than the laws in other jurisdictions in which we operate, therefore contact between entertainer and guest is more apparent.

- a. **Was contact allowed?**

Yes, contact is allowed within the boundaries of the law.

- b. **Were customers allowed to have sexual relations with the dancers in the establishment, including cunnilingus and intercourse?**

NO

2. **Were dancers allowed to make offers of sex (intercourse and oral) in exchange for money?**

NO

- a. **The proposed sexual relation would occur on site?**

n/a

- b. **The proposed sexual relation would occur off site?**

n/a

3. Were employees allowed to sell narcotics in the establishment?

No, narcotics are absolutely prohibited on the premises of any of our clubs, unless prescribed to treat a specific medical condition afflicting the user. (i.e. bipolar disorder, etc...). We take this policy very seriously, and conduct canine sweeps and locker searches, both randomly and when probable cause warrants this type of action, to enforce this zero tolerance policy.

4. Did management actively monitor activities in all areas of the establishment?

Our management is required to remain visible and active in enforcement of company policy. We also have cameras installed within this facility that enables management to monitor several locations when their responsibilities take them into the office. In addition to our club management, a roaming supervisor adds support to our management staff in this endeavor.

a. According to policy, how was management or other employees to respond if the above activities were seen?

Club policy establishes a chain of command to mitigate any violation of our rules. Management and staff are required to immediately notify the supervisor upon awareness of any violation. That supervisor is responsible for immediate correction action, and is also required to contact the National Director who makes the final call on any follow-up action that may be necessary (termination, breach of contract, etc...)

In the event an entertainer is determined to have violated the policies and procedures of the facility, the likely scenario is that the supervisor will determine her as a breach of her contractual agreement with the club, and she would be asked to remove herself from the facility. If the violation involved an employee, the supervisor will determine the appropriate employment action.

In either scenario the National Director is likely consulted to determine necessary action.

Centreville, Illinois – PT's World Famous Show Club

Official Business Name Cardinal Management LP	Governing Board State of Illinois City of Centreville	Type of License Liquor Liquor
Clientele 25 – 50 Average Age	Blue Collar	70/30 Male/Female

1. What was the policy regarding physical contact between employees and customers?

The state of Illinois employs a "home rule" system of governance of adult entertainment policy, which means local municipalities are vested with the authority to determine the laws that cover facilities in their jurisdiction. The community standards and liquor licensing provisions established by the City of Centreville permit more incidental contact than the laws in other jurisdictions in which we operate, therefore contact between entertainer and guest is more apparent.

a. Was contact allowed?

Yes, contact is allowed within the boundaries of the law.

b. Were dancers allowed to disrobe?

Yes, as per the nature of the business, this club does allow for entertainers to disrobe while on stage and while in private dance areas

i. Was this allowed in areas open to viewing by all customers?

Yes

ii. Was this allowed in areas deemed to be semi-private or private?

Yes

c. Were customers allowed to touch the dancers?

Within the state of Illinois, the jurisdiction enables local home rule to apply the governing for liquor licensed operations in which there is a more liberal approach to our industry, while the acts of prostitution and the act of sexual intercourse are clearly not allowed. Contact is allowed, therefore, the contact between a guest and the entertainer is more apparent.

- i. **Did this contact include oral contact by the customers?**

Oral defined as kissing is allowed; other form of oral contact such as cunnilingus is not allowed.

- ii. **Did this contact include customers touching the dancers' breasts, buttocks or genitalia?**

The touching of an entertainer is allowed. However, we, in strict compliance with local law, do not permit touching of genitalia.

- iii. **Were the dancers allowed to initiate the above contact?**

It is our policy that any contact is initiated by our entertainers, thereby enabling our directors to more easily enforce the boundaries of conduct.

- d. **Were the customers allowed to have sexual relations with each other in the club?**

This club offers an erotic atmosphere, and attracts the type of clientele that easily grows amorous. We allow contact within the limits of the law.

- e. **Were dancers allowed to have sexual relations with the customers in the establishment, including cunnilingus and anal penetration?**

No

- f. **Were dancers allowed to touch each other in a sexually suggestive way?**

Dancers are allowed to touch each other in a sexually suggestive way, to the point of performing an erotic show for the customers. This is not to be confused with actual sexual acts. These types of performances are choreographed to cause the viewer to "see" more than actually occurs. We strictly enforce a company policy that complies with the law.

- i. **Would the above contact include simulated or actual cunnilingus or fellatio?**

NO, never.

- ii. **Would employees be able to encourage the above acts in the form of a contest while acting as an emcee in the club?**

An emcee is expected orchestrate a "party-like" atmosphere. At times that requires him to facilitate various types of performances. While sexual acts are sometimes spoken of over the public address (pa) system, "act" in this circumstance is more like a comical dramatization than an attempt to portray an actual simulation. . Like many facets of this business model, the theatrical aspect is an important element to the creation of ones' fantasy

1. **Would the emcee be able to request customers give money for the dancers' participation in such a contest?**

Absolutely, these entertainers are independent contractors, and are therefore performing based on their gratuity.

2. **Would customers be allowed to participate in such a contest?**

At times the contests involve the participation of a guest (male or female) and they are encouraged to participate.

2. **Were dancers allowed to make offers of sex (intercourse and oral) in exchange for money?**

No

- a. **The proposed sexual relation would occur on site?**

n/a

- b. **The proposed sexual relation would occur off site?**

n/a

3. **Were employees allowed to sell narcotics in the establishment?**

No

4. **Did management actively monitor activities in all areas of the establishment?**

Our management is required to remain visible and active in enforcement of company policy. We also have cameras installed within this facility that enables management to monitor several locations when their responsibilities take them into the office. In addition to our club management, a roaming supervisor adds support to our management staff in this endeavor.

- a. According to policy, how was management or other employees to respond if the above activities were seen?

In the event an entertainer is determined to have violated the policies and procedures of the facility, the likely scenario is that the supervisor will determine her as a breach of her contractual agreement with the club, and she would be asked to remove herself from the facility. If the violation involved an employee, the supervisor will determine the appropriate employment action.

In either scenario the National Director is likely consulted to determine necessary action.

Indianapolis, Indiana – PT's World Famous Show Club

Official Business Name
Indy Restaurant Concepts, Inc.

Governing Board
State of Indiana

Type of License
Beer, Wine & Liquor

Clientele
30 – 50 Average Age

Mix of Blue/White Collar

60/40 Male

1. What was the policy regarding physical contact between employees and customers?

We permit superficial contact that allows our guest to feel welcome in our establishment. This may consist of a handshake or polite hug upon arrival, or the friendly touch of an arm or leg during conversation. Our staff may also use an armrest or customer's leg as a place to sit. They are instructed regarding the boundaries of this interaction, and several managers patrol the general areas to enforce this policy.

i. Was contact allowed?

Superficial contact, as outlined above, is permitted.

ii. Were dancers allowed to touch customer's genitalia?

No

iii. Were dancers allowed to simulate sexual acts with customers, including those involving physical contact?

No

2. Were dancers allowed to masturbate as part of their performances?

No.

3. Were dancers allowed to make offers of sex (intercourse and oral) in exchange for money?

NO

a. The proposed sexual relation would occur on site?

n/a

b. The proposed sexual relation would occur off site?

n/a

4. Did management actively monitor activities in all areas of the establishment?

Our management is required to remain visible and active in enforcement of company policy. We also have cameras installed within this facility that enables management to monitor several locations when their responsibilities take them into the office. In addition to our club management, a roaming supervisor adds support to our management staff in this endeavor.

i. According to policy, how was management or other employees to respond if the above activities were seen?

Club policy establishes a chain of command to mitigate any violation of our rules. Management and staff are required to immediately notify the supervisor upon awareness of any violation. That supervisor is responsible for immediate correction action, and is also required to contact the National Director who makes the final call on any follow-up action that may be necessary (termination, etc...)

In the event an entertainer is determined to have violated the policies and procedures of the facility, the likely scenario is that the supervisor will determine her as a breach of her contractual agreement with the club, and she would be asked to remove herself from the facility. If the violation involved an employee, the supervisor will determine the appropriate employment action.

In either scenario the National Director is likely consulted to determine necessary action.

2007 Investigation

Classic Affairs Inc. dba; Shieks Palace Royal

115 South 4th Street, Mpls., MN.

Minneapolis Police Department
License Inspection Division

File: 12034
Ward: 7

CONFIDENTIAL

Minneapolis Police Department
(Not for Public Release)

APPLICANT:

Classic Affairs, Inc.
DBA: Sheik's Palace Royale
115 South 4th Street

**LICENSES CURRENTLY
HELD:**

On Sale Liquor Class A w/Sunday Sales, Tobacco
dealer, 2:00 a.m. license.

DATE OF APPLICATION:

January 31, 2007

INSPECTOR:

Linda Roberts

NOTICE TO RESIDENTS:

Neither Notice Nor Public Hearing is Required

PURPOSE OF APPLICATION:

The existing licensee, Classic Affairs Inc., requests
approval of a new 100% shareholder (VCG Holding
Corporation), and new directors, officers.

**APPLICATION FOR APPROVAL OF VCG HOLDING CORP. AS SOLE
SHAREHOLDER OF CLASSIC AFFAIRS, INC.**

This application involves the purchase of 100% of the outstanding and issued stock of Classic Affairs, Inc. (the current licensee) by VCG Holding Corp (VCGH), a publicly-traded company. With the approval of this application, VCGH will become the parent company and sole shareholder of Classic Affairs, Inc., the liquor licensee.

VCG Holding Corp. (VCGH) is a Colorado corporation registered and incorporated with the Colorado Secretary of State's office on 11/14/90 (incorporation file #19981004295 C) and presented evidence that it is a corporation in good standing in the State of Colorado.

VCGH filed their initial registration statement with the U.S. Securities and Exchange Commission (SEC) on 9/10/02. On May 13, 2003, VCGH filed amendment no. 3 to Form SB-2 Registration Statement with the SEC and achieved status as a publicly traded corporation. The prospectus of even date details the initial company offering of 2,436,778 shares of common stock held by individual security holders as of that date and up to 700,000 shares of common stock reserved for issuance under the company's stock option and bonus plan.

The articles of incorporation of VCGH authorize the issuance of 50,000,000 shares of common stock and 1,000,000 shares of preferred stock as well as up to 700,000 shares of common stock reserved for issuance under the company's stock option and bonus plan.

VCGH has received the approval for acceptance onto the American Stock Exchange (AMEX) and is now publicly traded under the symbol PTT.

VCGH names the following Officers and Directors:

<u>Name</u>	<u>Position(s)</u>
Troy H. Lowrie	Director, Chairman, CEO
Michael L. Ocello	Director, President
Donald Prosser	Assistant Secretary, CFO
Mary E. Bowles-Cook	Secretary, Asst. Treasurer
Robert J. McGraw, Jr.	Director
Rand E. Kruger	Director
Allan S. Rubin	Director
Edward Bearman	Director
Martin Grusin	Director

Troy Houston Lowrie ([REDACTED] Denver, CO) indicates residence at 6729 Bear Point Trail, Golden, CO since 09/00. Prior to this he indicates residence at 900 S. Wiley Court, Superior, CO from 9/95 to 9/00.

Mr. Lowrie indicates the following employment history for the past ten years:

01/02 to present	Lowrie Investment Management Inc., 390 Union Blvd. #540, Lakewood CO as a consultant and VCG Holding Corporation (same street address), as a director & officer
07/95 to present	Lowrie Management LLLP, 390 Union Blvd. #540, Lakewood CO as a consultant
1984 to present	Stockholder/owner, director, officer and/or manager in/of various businesses, typically holding on-sale liquor licenses with adult entertainment: Western County Clubs (WCCI – publicly-traded) held licenses in Indianapolis, St. Louis & Tucson under the trade name of A Little Bit Of Texas and other licenses throughout Indiana, Illinois, Tennessee, Texas, Kentucky, Colorado, Missouri, South Carolina, and Nevada, a fair number of which are/were operated under the trade name of PT's Snow Club.

Based upon the application submitted by VCGH, Mr. Lowrie presently has an interest in approximately fifteen (13) other licensed venues throughout the U.S.. Mr. Lowrie also has interests in many of the real properties leased by these licensed venues.

Mr. Lowrie is married to Pamela A. Lowrie (nee: Griffin, [REDACTED], Alice, TX), and he has two minor children. Mr. Lowrie's 2005 joint US individual tax return reflects an adjusted gross income of \$881,216.00; Mr. Lowrie's personal financial statement reflects a net worth of \$11,865,045.00, unaudited.

Michael Lewis Ocello ([REDACTED] St. Louis, MO) indicates residence at 6161 Clifton Oaks Place, St. Louis, MO since 1996. Prior to this he indicates residence at 9827 Sappington Road, St. Louis, MO from 1990 to 1996.

Mr. Ocello indicates the following employment history for the past ten years:

From 1993 to present Unique Entertainment Consultants, Inc., 6161 Clifton Oaks Place, St. Louis MO since 1993 as the owner.

2002 to present Mr. Ocello also has been employed as a director and officer of VCG Holding Corporation, which owns and operates nightclubs with adult entertainment.

Mr. Ocello is married to Laura Lee Ocello ([REDACTED], St. Louis, MO), and he has one minor child. Mr. Ocello's 2002 joint US individual tax return reflects an adjusted gross income of \$372,907.00; Mr. Ocello's joint personal financial statement reflects a net worth of \$1,828,700.00, unaudited.

Donald Wayne Prosser ([REDACTED] Denver, CO) indicates residence at 4225 E. Mexico Ave. #1206 Denver, CO since November 2001. Prior to this time he indicates residence at 9683 S. Golden Eagle Ave., Highlands Ranch, CO from May 1996 to 2001.

Mr. Prosser indicates that he is a certified public accountant with the following employment history for the past ten years:

4/02 to present VCGH, 390 Union Blvd #540, Lakewood CO as Chief Financial Officer

1/91 to present Donald W. Prosser PC, CPAs; 7260 Osceola St., Westminster, CO as owner/CPA.

7/89 to 4/99 Colorado Entertainment Corp. dba: Mile High Saloon, 4451 E. Virginia Ave, Glendale CA as owner, manager and CFO.

Mr. Prosser indicates that he is not currently married and has three adult children: Heather Prosser-Barker ([REDACTED]), Robyn L. Prosser ([REDACTED]), and Matthew D. Prosser ([REDACTED]). Mr. Prosser's 2002 US individual tax return reflects an adjusted gross income of \$83,217.00; Mr. Prosser's personal financial statement reflects a net worth of \$1,021,418.00, unaudited.

APPLICATION FOR NEW DIRECTORS & OFFICERS OF CLASSIC AFFAIRS INC.

Upon approval of this application, it is the intention of the parties that Robert Sabes resign his present offices of director and officer(s) of Classic Affairs, Inc.

The applicant has indicated that upon the acquisition of Mr. Sabes' shares of Classic Affairs Inc. by VCGH, Troy Lowrie, Michael Ocello, and Donald Prosser will be the individuals elected by VCGH/Classic Affairs Inc. as the new directors and officers of the licensee.

PREMISES MANAGER:

The on-site manager will continue to be Larry McGough

VENUES OWNED BY VCGH

As of 4/23/07 the applicant indicates that VCG Holding Corp., as the parent company of the licensee, operates the following nightclubs:

Colorado

Club Inferno
Diamond Cabaret
Penthouse
PT's Appaloosa
PT's All Nude
PT's Show club
Tabu

Indiana

PT's Show club

Kentucky

PT's Show club

Illinois

PT's Brooklyn
PT's Centerville
PT's Sports
Roxy's
Penthouse

North Carolina

The Men's Club of Raleigh

LETTER OF INTENT TO PURCHASE

The applicant presented a Letter Of Intent (LOI) executed 1/3/07 by and between Robert W. Sabes, Classic Affairs Inc, and JFS Desert Fountain, LLC as sellers and VCG Holding Corp. (VCGH) as purchaser. The LOI presents the terms which shall be incorporated into definitive agreements to purchase all of the issued and outstanding shares of Classic Affairs Inc. and the real property at 115 South 4th Street owned by JFS Desert Fountain.

The LOI sets forth the purchase price of the share acquisition at 6 million dollars, which is to be paid by wire or certified funds at closing. The LOI sets forth the purchase price of the real property at 115 4th Street South at \$4 million, payable by wire or certified funds at closing.

The LOI contains several conditions precedent to the closing on the transactions, including that all licenses, permits and approvals required for the operation of a restaurant and on-sale liquor establishment featuring adult entertainment are obtained and that a financial audit for calendar years 2005 and 2006 to the purchaser be completed. A non-compete agreement and other common clauses are present in the LOI.

SOURCE OF FUNDS – CASH REQUIRED AT CLOSING

As noted in the preceding section, in accordance with the terms of the Letter Of Intent to purchase, the applicant is required to pay ten million dollars cash at the time of the closing on the purchase agreement. VCGH is a publicly traded company and is subject to approval and review by the Security and Exchange Commission. The applicant has presented sufficient evidence of its financial ability to close on the share acquisition definitive purchase agreement with Robert Sabes.

NEW CORPORATE STRUCTURE OF CLASSIC AFFAIRS, INC.

Upon approval of this application and the closing of the agreements contemplated herein, the new corporate structure of Classic Affairs, Inc. will be as follows:

Name	Position(s)	% Shares
Troy H. Lowrie	Director, President	0
Michael L. Ocello	Director, Vice President	0
Donald W. Prosser	Director, Secretary, Treasurer	0
Larry McGough	Manager	0
VCG Holding Corp. (VCGH)	Sole Shareholder	100%

As a condition of the approval of this application, the applicant shall be required to provide the following executed documents to the satisfaction of the City of Minneapolis within ten (10) business days of the closing on the asset purchase agreement:

1. Classic Affairs Inc. corporate documents:

- a. Minutes appointing new officers & directors
- b. Minutes by new shareholder affirming adoption of by-laws (maintaining the restrictive legend on transfer of shares is not required in this case)
- c. resignation of the current directors & officers
- d. canceled & reissued stock certificate
- e. VCGH corporate minutes approving stock purchase
- f. Bill of Sale

BUSINESS PLAN AND OPERATIONS

The applicant's business plan and operating conditions agreement submitted to the License Division in support of this application indicates the following manner of operation:

The applicant's business plan indicates that the establishment will be open from 5:00 PM to 2:00 AM daily, which are the current hours of operation. The applicant indicated that it may open earlier in the day depending upon customer demand.

The applicant will maintain the current menu offered at Sheik's which consists of numerous American-style entrees ranging from \$12.95 (Salmon & Shrimp) to \$29.95 (Filet Mignon), pastas, sandwiches, appetizers, and salads.

Live entertainment will be offered on the premises consisting of semi-nude adult entertainment. The applicant indicates that the entertainment will be essentially the same as is presently offered at Sheik's and has submitted a letter stating that all genitals and genital area of the performers will be covered by an opaque substance.

At the present time, the applicant will not offer mechanical amusement devices or charitable gambling and will not sponsor sports teams.

A small outdoor area will be utilized as a customer and employee smoking area. This area is located on a raised staircase near the double doors on the Northwesterly end of the building on the 4th Street South frontage.

ORDINANCE REQUIREMENTS

The application is subject to some special as well as general ordinance requirements as follows:

Class A/B Security Agreement The applicant has met with Sgt. Nelson of the 1st Precinct and has signed the standard Class A & B Security Agreement.

Minneapolis Environmental Health Food Sanitation Division

Samuel Sun of the Minneapolis Environmental Health Food Sanitation Division has certified that the kitchen, equipment and the proposed menu comply with applicable ordinance requirements, and that there is a certified food manager for the kitchen operations.

Plan Review

No structural changes or remodeling at/to the licensed premises are contemplated at this time.

Notice

This application is subject to the notice requirements found under chapter 362. The applicant presented evidence of written notice of this application to Council Member Goodman's office and the DMNA.

Public Hearing

Because this is an application for a new shareholder, directors, officers, and on-site manager of an existing licensee, no notice or public hearing is required.

Off Street Parking

The applicant is not required to provide off-street parking as these facilities are not required in the B4 zoning and central commercial districts.

POLICE DEPARTMENT REVIEW

It is the opinion of the Police License Inspector that the applicants appear to meet the minimum requirements as set forth by the City Ordinance.

Lt. Travis Glampe
May 1, 2007

Classic Affairs, Inc., 115 South 4th Street
DBA: Sheiks Palace Royal
On Sale Liquor Class A with Sunday Sales
and 2:00 a.m. license

LICENSE ADDENDUM AGREEMENT

This Agreement is entered in to this 25 day of April, 2007, by and between Classic Affairs, Inc. (the "Applicant") and the City of Minneapolis (the "City").

WHEREAS, the Applicant has applied to be the operator of a Class A On-Sale Liquor License to be operated at 115 south 4th Street; and

WHEREAS, the City Council has expressed concern with regard to permitting so-called adult entertainment on the licensed premises; and

WHEREAS, the Applicant desires to provide adult entertainment which requires a Class A On-Sale Liquor License; and

WHEREAS, with the additional restrictions and obligations on the Applicant's part recited below, the City Council will look more favorably upon the application of Applicant; and

WHEREAS, the Applicant agrees to operate under and fully perform the obligations set out hereunder;

NOW, THEREFORE, in consideration of the City granting the Applicant permission to operate a Class A On-Sale Liquor License at the premises at 115 South 4th Street, agrees as follows:

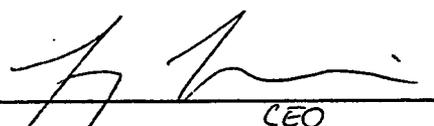
1. The Applicant will not allow any activities to occur on its premises which include or involve nude dancing, exposed genitals, genitals covered with non-opaque substance, revealing or inappropriate employee attire, lap or couch dancing where there is sexual contact or simulated sexual conduct, use of a hot tub or other bathtub fixtures for customer use, mud wrestling or wrestling in any other substance, employee wrestling with customers or with other employees or individuals, sexual contact (whether clothed or unclothed) or sexually suggestive touching, and other similar types of activities.

2.

The Applicant agrees to abide by all the provisions of all applicable ordinances and laws governing the Applicant's business, including those ordinances and laws enacted subsequent to the Applicant's submission or approval of it's application for a Class A On-Sale Liquor license, which shall include any ordinance pertaining to adult entertainment on the licensed premises. In event of a conflict between the provisions of said ordinance and this License Addendum Agreement, the ordinance shall control. The applicant further agrees not to distribute, or hire others to distribute, handbills, flyers, or business advertising cards to the public on any public right of way, open air plaza, open air parking lot or ramp, or near sporting event or convention facilities in the City of Minneapolis. Further, no entertainer or promoter providing entertainment services at the Licensee's establishment shall distribute or post handbills in Minneapolis that advertise events at the business.

3. Violation of the terms of paragraph 1 above shall provide a basis for suspension, revocation or denial renewal of the City's consent for Applicant to operate the Class A Liquor License. Sanctions may also include administrative fines.

4. All parties hereto agree that this Agreement is specifically enforceable and that in any litigation involving this Agreement, no defense will be raised as to its enforceability.

By  CEO
Date 4-25-07

For And On Behalf Of Classic Affairs, Inc.

CITY OF MINNEAPOLIS By 
Licenses and Consumer Services

Date 4/25/07

GARCIA AND ASSOCIATES, P.A.

**ATTORNEYS AND COUNSELORS AT LAW
401 SECOND AVENUE SOUTH, SUITE 632
MINNEAPOLIS, MN 55401**

January 9, 2007

Ricardo Cervantes
Department of Consumer Services and Licenses
Deputy Director
350 South 5th Street, Room 1C
Minneapolis, MN 55415

Re: VCG Purchase of Classic Affairs

Dear Mr. Cervantes:

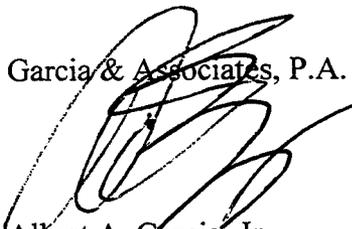
Enclosed please find the application for purchase of Classic Affairs by VCG Holding Corporation. Also enclosed please find the required \$10,000.00 for the necessary investigation.

If you have any further questions, need clarification, or need further information, all inquires should be directed to my office and/or John Soto of VCG.

Thank you for your anticipated cooperation.

Respectfully,

Garcia & Associates, P.A.



Albert A. Garcia, Jr.

GARCIA AND ASSOCIATES, P.A.

ATTORNEYS AND COUNSELORS AT LAW

250 MARQUETTE AVENUE

MINNEAPOLIS, MN 55401

January 26, 2007

Lt. Travis Glampe
City of Minneapolis
Police Department
Licensing Investigation Division
350 South 5th Street, Room 1A
Minneapolis, MN 55415-1314

Re: Classic Affairs Stock Acquisition/New Owner

Dear Lt. Glampe:

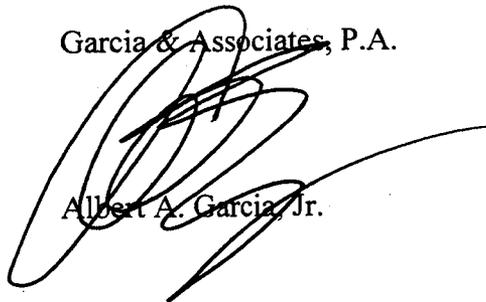
I wish to advise you that my client, VCG, Troy Lowrie, have made acquisition of the stock of Classic Affairs Inc. My client truly appreciates the time you spent with us in our two meetings. We also appreciate the time and resources you have committed to address the application in the time period we addressed in our last meeting. I anticipate having for you in short order the contract VCG uses in other jurisdictions with its independent contractors. As you are aware, in Minnesota the entertainers are formal employees of the company. Nevertheless, we look forward to discussing with you the appropriate conduct of our employees, the expectations and standards of VCG and the City of Minneapolis and any appropriate conditions that we can all agree on that will ensure that our employees act consistent with the law and demonstrate the high standards of conduct that VCG demands for all their employees.

Secondly, in keeping with our discussions we look forward to discussing with you the potential venue's you will be visiting in your investigation. In that regard, we will be forwarding to you our frank and direct response to a previous report that we have discussed in our meetings.

We look forward to continuing positive working relationship of the new owners of Classic Affairs and the City of Minneapolis.

Respectfully Submitted,

Garcia & Associates, P.A.

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Albert A. Garcia, Jr.

Cc: VCG

Inspection report, VCG Holding Corp.
Grant Wilson, Manager, licenses and Consumer Services
March 29th, 2007 to April 1, 2007

Diamonds Cabaret, 1222 Glenarm, Denver, Co.

On March 29, 2007, at 10:15 p.m. we entered the Diamonds Cabaret and each paid a 10:00 cover. We sat at a table in the center of the club. Basically this club does dollar dances at multiple table height stages where customers place money on the table/stages and the dancer then dances close to your table. To fit in with other patrons we placed dollar bills on the stage near our table and the dancers would then dance near our side of the stage. The dancers would each do about three songs and then rotate stages. Two dancers sat at our table and offered us lap dances in a separate room. This room had multiple love seats where the dancer would give private lap dances. This area was very open to view and it is unlikely that sexual acts would be conducted there. We each purchased a lap dance from each of the two dancers. The private dances consisted of the dancers disrobing to a g-string and dancing in front of the customer with some minor sitting on the lap, placing their breasts near the customer face, but no real sexual contact. A manager walked through this room and appeared to be monitoring the activity there. We asked if additional services were available and they said that they have a VIP area that costs \$250.00 plus you have to buy a dancer at a rate of \$100.00 per hour. I asked a dancer named Stormy if additional sexual services were available in this area. She said no, just that you could spend a longer time with a dancer for private lap dances. We chose not to expend the money to view the VIP area as there was little indication that sexual acts could occur there. We left at 12:15 p.m. My general opinion of this establishment is that it was very well run, supervised by several managers, and there was no indication of illegal acts.

Penthouse club at 4451 Virginia Ave. in Glendale, Co.

At 1:00 a.m. on 3-29-07 we arrived by taxi at the Penthouse club at 4451 Virginia Ave. in Glendale, Co. This club charged a 10.00 cover charge. This club consisted of two separate areas. The main area consisted of small stages where patrons could sit at chairs and place dollars on the stage. We split up in this club and each were asked by separate dancers if we wanted a nude lap dance. Separately we each were taken to a separate room that does not permit the possession of beverage alcohol. This apparently was so that they could dance nude per local the local laws. The private nude dance area consisted of a maze of love seats that allowed some privacy. The dance consisted of the dancer disrobing to a nude state and then performing a dance with some sitting on the lap, placing their breasts near my face but not touching. The dancer would position themselves on your lap so that you could view the uncovered vagina. There was some sexual contact in that the dancer would sit on your lap and simulate sexual intercourse with minor circular motions. The dancer did not touch me in any other sexual manner with her hands, etc. We left the premises at 1:45 with the impression that the beverage alcohol club was operated very well and within common guidelines, however, the non

alcohol area provided slightly greater sexual contact in the form of a lap dance with groin to groin touching when the dancers sat on your lap.

PT's All Nude, 3480 Galena Ave., Denver, Co.

We arrived at PT's All Nude Club at 10:00 p.m. on 3-30-07. We sat at a table between two stages. This is a non-alcoholic club, that provided all nude entertainers. The club had several stages and two private couch dance areas. Customers could sit next to the stages and place dollar bills on the stage and the dancers would then perform near the patrons who had put dollars on the stage. Private couch dances were available for \$25.00 per song. I agreed to a private couch dance with one dancer and was led to an area that was semi-private; however other patrons or staff could easily observe the activity in other couch areas. The dance consisted of the dancer disrobing to a nude state and then dancing in front of you, sitting on your lap, placing their breasts near your face. Little if any sexual contact or simulated sexual grinding was conducted. A second dancer was taken to the other private couch dance area and the activity was similar with no sexual contact. I asked the dancer if extra services were available in other parts of the club or off site, she indicated that we do not do that here. We left the club at 11:30 p.m.

PT's Show Club, 1601 Evans Ave, Englewood, Co.

We arrived at the PT's Show Club at 11:50 p.m. We found that the club was very crowded due a special event in progress related to a tattoo artist competition. This club had an on sale liquor license, and permitted smoking on site. Three or four stages were being operated with semi-nude dancing. One of the stages provided male dancers. Unlike other clubs inspected, this club had many female patrons. A private couch dance area was available on the 2nd floor, however the area was very open and visible to the common areas of the club. No sexual contact was observed by any dancers, employees, or patrons. We left this club at 1:00 a.m.

PT's Showclub, 213 Madison St., Brooklyn, Ill.

We arrived at PT's Brooklyn at 9:45 a.m. on March 31st, 2007. The cover charge was 8.00. The dancers had a common routine in this establishment in that they would provide dollar type dances, fully nude on stages surrounded by chairs. Customers would place a dollar or two on the stage and the dancer would dance near that customer. In several dollar dances that I witnessed, and experienced, the dancer would disrobe to a nude state and either sit or kneel in front of a customer and purposefully place the customer's hands on the dancer's breast as if giving permission to fondle the dancer's breasts. Another common move was that the dancer would sit on the stage and place one leg on each side of the customers head and then place her vagina within close proximity of the customers face. It was common to see the female dancers use their finger to masturbate when in this position. In at least two instances the male customers were able to bury their faces in the vagina and anal area of the dancer. I witnessed a male customer brought on stage and laid on his back. A dancer placed one of the customers dollar bills on his lips and the dancer used her nude vagina to sit on the customers face and pick up the dollar bill with

her vagina. This same dancer then sat on top of the male customers groin area and performed heavy sexual contact grinding and rubbing of groin areas simulating sexual intercourse. In a dollar dance that I received at this stage the black female dancer took my hands and placed them on her breasts and encouraged me to fondle them. She later took my hands and placed them on her rear bottom area. The same dancer came off the stage and straddled my lap and moved in a grinding sexual manner simulating sexual intercourse. This dancer then sat on the edge of the stage in front of me and grabbed my groin area with her hands in a massaging manner. This same dancer then laid on the stage and placed her head in my lap, put her lips on my groin area and began to hum for approximately 3 seconds. A second dancer disrobed on stage and again followed the same routine of kneeling in front of the customer, taking the customers hands and placing them on her breasts and buttocks. Also this dancer put her legs on each side of the customers head and placed her vagina near the face of the customers. While in this position the dancers would use their finger to masturbate. This dancer also retrieved a dollar bill from a customer's mouth with her vagina and worked her body in a circular motion so as to imitate, or actually perform oral sex with the patron. All of this activity was performed in the main room of the club and was visible to all patrons, employees and managers. A lap dance was purchased in this club and I was taken to a semi-private area with loveseats. This lap dance consisted of the dancer disrobing to a g-string and dancing in front of me and on my lap. Some heavy groin to groin pressure was performed to imitate sexual intercourse. The dancer placed my hands on her breasts so as to indicate permission to do so. I saw no managers in this area during this dance. We left this club at 11:00 p.m.

Roxy's, 410 Madison St., Brooklyn, Ill.

We arrived at Roxy's at approximately 11:10 p.m. on March 31st, 2007. We paid \$8.00 for a cover charge and sat at chairs near a common dance stage. I could observe that all of the dancers did the same routine for patrons at the stages who had placed dollar bills on the stage. The dancers would disrobe to a nude state and then take the customers hands and place them on their breasts, and buttocks, and then place their legs on each side of the customers head so that their vagina was directly next to the patrons face. While in this position it was common to see the female dancers use their fingers to masturbate. This activity was conducted in the main room of the club and was visible to all patrons, employees, and managers. A dancer asked if I would like a private dance and I was lead to a small room with about six loveseats in it. This dancer disrobed and gave me instructions that I could touch her breasts and buttocks for the regular \$25.00 lap dance price, but if I wanted to touch her vagina it would cost me an additional \$100.00. I indicated that I was not interested in that. The lap dance consisted of the dancer disrobing to a nude state on sitting on my lap facing me and doing a continual groin to groin circular motion dance so as to imitate sexual intercourse. I asked the dancer if they had an area where we could do more activities together she indicated no. No managers checked this room during the time I was in there. We left this club at 12:00 midnight.

PT's Showclub, 4 Corners Lane, Centerville, Ill.

We arrived at PT's Showclub at 1:00 a.m. on 4-1-07 and paid an \$8.00 cover charge. This club was featuring multiple female dancers on three stages and male dancers on one stage. This club was also hosting a special couple's night where a special seating area and dance floor was reserved for their use. The stages were equipped with chairs so that patrons could sit directly next to the stage and place dollar bills on the stage. A common routine was performed in that the dancers would disrobe to a nude state and then allow the patrons to touch their breasts and buttocks. The dancers would then place their legs on each side of the patrons head so that their vagina was directly next to the patrons face. On several occasions I witnessed the dancers using their fingers to masturbate while they had their vagina near the patrons face. On two occasions I witnessed female patrons seated at a stage get their shirts taken off by the female dancers so that the patron's breasts were completely exposed. The dancers would also touch the breasts with their hands and place the nipples in their mouth. In one of these situations the female patron was placed on her back on the stage with a dollar bill in her mouth and a nude female dancer sat on the patrons face and retrieved the dollar bill with her vagina. The dancer in this situation then laid on the patron in a reverse position which was intended to imitate a sexual position where oral sex could be performed on both the patron and the dancer at the same time. I witnessed two female dancers working on one stage where in a nude state they actually performed oral gratification on each other at the same time. This activity included the dancers using their tongues to lick and penetrate each others vaginas at the same time. This was done in front of all patrons, employees, managers, and the DJ who was encouraging all of this activity. This night also featured a wet t-shirt contest for patrons. Twelve patrons volunteered to put on a club provided tank top t-shirt and have water poured down the front. The audience would then judge the best wet t-shirt by applause. During the contest the participants would remove the t-shirt and the dancers would rub and suck the patron's breasts. In several cases the contest participants would remove their pants to reveal panties or g-strings to the audience. The winner of this wet t-shirt contest won a \$100.00 cash prize. At the male dancer stage I observed a female patron walking behind a male dancer with her hands between his legs holding his covered testicle sack. On a couch near the entrance to the seating area reserved for couples only I saw a black male patron laying with a black female patron. The female patron had her blouse open and breasts exposed and the male patron was aggressively fondling them. One female patron got up on a stage where two club dancers were performing. This patron removed all of her clothes except a g-string and danced for two or three songs. Other patrons were placing dollar bills in the g-string to the point that she had to remove the money as there was not room for more. All of this activity was conducted in plain view of many patrons, employees, and managers. At no time did I see a manager ask anyone to discontinue any questionable activities. We left this club at 3:00 a.m.

The activities observed at the Illinois establishments appear to be in violation of Illinois Statute:

(720 ILCS 5/11-9) (from Ch. 38, par. 11-9)

Sec. 11-9. Public indecency.

(a) Any person of the age of 17 years and upwards who performs any of the following acts in a public place commits a

public indecency:

- (1) An act of sexual penetration or sexual conduct as defined in Section 12-12 of this Code; or
- (2) A lewd exposure of the body done with intent to arouse or to satisfy the sexual desire of the person.

Breast-feeding of infants is not an act of public indecency.

(b) "Public place" for purposes of this Section means any place where the conduct may reasonably be expected to be viewed by others.

(c) Sentence.

Public indecency is a Class A misdemeanor. A person convicted of a third or subsequent violation for public indecency is guilty of a Class 4 felony.

(Source: P.A. 91-115, eff. 1-1-00.)

(720 ILCS 5/11-14) (from Ch. 38, par. 11-14)

Sec. 11-14. Prostitution.

(a) Any person who performs, offers or agrees to perform any act of sexual penetration as defined in Section 12-12 of this Code for any money, property, token, object, or article or anything of value, or any touching or fondling of the sex organs of one person by another person, for any money, property, token, object, or article or anything of value, for the purpose of sexual arousal or gratification commits an act of prostitution.

(b) Sentence.

Prostitution is a Class A misdemeanor. A person convicted of a second or subsequent violation of this Section, or of any combination of such number of convictions under this Section and Sections 11-15, 11-17, 11-18, 11-18.1 and 11-19 of this Code is guilty of a Class 4 felony. When a person has one or more prior convictions, the information or indictment charging that person shall state such prior conviction so as to give notice of the State's intention to treat the charge as a felony. The fact of such prior conviction is not an element of the offense and may not be disclosed to the jury during trial unless otherwise permitted by issues properly raised during such trial.

(c) A person who violates this Section within 1,000 feet of real property comprising a school commits a Class 4 felony. (Source: P.A. 91-274, eff. 1-1-00; 91-498, eff. 1-1-00; 91-696, eff. 4-13-00.)

<http://www.ilga.gov/legislation/ilcs/documents/072000050K11-14.htm>

(720 ILCS 5/11-14.1)

Sec. 11-14.1. Solicitation of a sexual act.

(a) Any person who offers a person not his or her spouse any money, property, token, object, or article or anything of value to perform any act of sexual penetration as defined in Section 12-12 of this Code, or any touching or fondling of the sex organs of one person by another person for the purpose of sexual arousal or gratification, commits the offense of solicitation of a sexual act.

(b) Sentence. Solicitation of a sexual act is a Class B misdemeanor.

Inspection Report, VCG Holding Corp.

Statement of Officer David Rodriguez Sr. #6083
Minneapolis Police Department License Investigation Division
For the Period March 29, 2007 to April 1, 2007

I was assigned to accompany and assist Mr. Grant Wilson, Manager, License and Consumer Division for the City of Minneapolis in conducting an investigatory check regarding several clubs owned and operated by VCG Holding Corp in Denver CO. and East St Louis, IL.

On Thursday March 29, 2007 Mr. Wilson and I flew to Denver, CO. to begin our investigation. At approximately 2215 hours this same date we went to Diamonds Cabaret located at 1222 Glenarm, Denver, CO. Upon entering the club we were required to pay a \$10 cover charge and went into the main entertainment area which had three stages. There were two small round stages and one long stage approximately 3/4th the length of the main entertainment area. We sat down midway along the main center stage and ordered something to drink. While waiting for our drinks we observed that patrons were placing dollar bills on the stage in front of the dancers. At which the dancer would dance in front of the patron for several seconds focus only on that specific patron during that time she would lean on the patron's shoulders and place their breast near their face without touching them. then move on.

After a short time two of the dancers came to our table and sat with us and after some small talk offered to perform a lap dance (private dance) in a separate room located just off of the main entertainment area. The room had several love seats where the dancer would perform the lap dance. The room was large and open as well as being very well lighted so everyone could see one another. We both paid for lap dances from each of the dancers. When the dancers began to dance they undressed leaving only their g-string on. During the dance the dancers did sit on the lap slightly and put their breast close to the patrons face without making physical contact. During the dances a floor manager did enter the room and looked around as if monitoring the room activity then walked out.

The dancers were asked if any other services were available. They said they had a VIP area that would cost \$250 to get into plus you had to buy a dancer for \$100 an hour. When asked if any special favors were provided or available in the VIP area they said "no" just one on one lap dances for the hour and more alone time.

It should be noted that at no time did I observe any illegal drug activity or any other illegal activities in the entertainment area or restrooms. We then left the club at approximately 0015 hours

On Friday March 30, 2007 at approximately 0100 hours Mr. Wilson and I went to the Penthouse Club located at 4451 Virginia Avenue, Glendale, CO. Upon entering the

club we were required to pay a \$10 cover charge and went into the main entertainment area. The club consisted of several small stages with chairs around them as in the previous club. As I entered the main area I noticed several patrons sitting around the stages placing dollar bills on the stage at which time the dancer would come over and dance in front of the patron. The patron would then simulate placing money in a g-string and the dancer would take the money in her hand and throw it on the stage and move on to the next patron.

I was then approached by a dancer and asked if I would like a dance and I agreed. She took me by the hand and escorted to a separate area with several love seats out of view from the main area. After sitting down and the music started the dancer undressed completely and began her dance. She would dance up close to me placing her breasts close to my face without touch me. She would then straddle my lap and simulate as if having sex. She would also bend over exposing her vagina. During the entire dance the dancer repeated the same movements and did touch me slightly by putting her hands on my shoulders but made no contact of a sexual nature. A second dance was performed by an other dancer with basically the same type of actions.

It should be noted that at no time did I observe any illegal drug activity or any other illegal activities in the entertainment area or restrooms. We then left the club at approximately 0145 hours.

On this same date at approximately 2200 hours Mr. Wilson and I went to PT's All Nude, located at 3480 Galena Avenue, Denver, CO. Upon entering the club I was required to pay a \$15 cover charge and we went into the main entertainment area. It should be noted that the club is non-alcoholic which allows the dancers to dance totally nude.

Upon entering the club I observed several stages just as in the previous club with several patrons sitting around the stages placing dollar bills on the stage and the dancers dancing in front of them. During the dance the dancers would touch and lean on the patrons shoulders and place their breast near their face without touching them. They would also lay on the stage on their backs and expose their vagina. They would do this for each patron that placed money on the stage.

I was approached by a dancer and asked I would like a lap dance and I agreed. I was taken to a semi-private area however we could still be seen by other patrons and workers. The dancer undressed completely and performed her dance. During the dance she would hold on to my shoulders and place her breast close to my face without touching me then she would sit on my lap moving back and forth as if performing a sexual act without any real physical contact. She would also bend over and move in such ways to expose her vagina. A second dance was performed later by another dancer that performed basically in the same manner. I did ask both of the dances if they ever dated or partied with any of the customers they both said "no" I then asked if they would be available to come back to my hotel room for a price and do a private dance, they both said "no".

It should be noted that at no time did I observe any illegal drug activity or any other illegal activities in the entertainment area or restrooms. We then left the club at approximately 2330 hours.

On this same date at approximately 2350 hours Mr. Wilson and I went to PT's Show Club, located at 1601 Evans Avenue, Englewood, CO. Upon entering the club we were required to pay a \$10 cover charge and we went into the main entertainment area. The club had a special event this date regarding a tattoo artist competition. The club had four stages with dancers dancing while the tattoo competition was going on in the center of the entertainment area. One of the stages had male dancers with several female patrons sitting around the stage putting dollar bills in the dancers g-string.

The club was extremely crowded but we were able to walk around and observe patrons in the club. Even the private dance area was able to be observed without any problems and we observed no inappropriate sexual activity. It should also be noted that at no time did I observe any illegal drug activity or any other illegal activities in the entertainment area or restrooms. We then left the club at approximately 0100 hours.

On Saturday March 31, 2007 at approximately 2145 hours Mr. Wilson and I went to PT's Show Club, located at 213 Madison Street, Brooklyn, ILL. Upon entering the club we were required to pay a \$10 cover charge and we went into the main entertainment area. Upon entering I observed two stages and another area that had couches in a circle. All of these areas had dancers that were totally nude dancing. After walking around for a couple of minutes we sat at a table near the stages and watched the patrons sitting around the stages. While sitting at the table I observed a couple of the patrons putting dollar bills on the stage. The dancer would then come over to the patron and dance in front of him on the stage then she would sit on the edge of the stage and place her hands on each side of the patrons face and pull him toward her breasts and rub them against his face and on a couple of occasions I saw her put her nipples in the patrons mouth. She would take the patrons hands and put them on her breasts and allow him to rub and fondle them freely. The dancer would then slide off of the stage and onto the patrons lap and begin grind back and forth as if performing a sexual act as well as continuing to put her breast against his face and mouth. The dancer would also slide back onto the stage then she would stretch out her legs and place them on the patron's shoulders and pull him toward her vagina which was exposed. The dancer performed these same acts on every patron that would place money on the stage. At this point we moved to the first stage just inside the entrance way and placed some dollar bills on the stage. At this point the dancer came over to where I was sitting and performed the same acts with me previously mentioned. I was then approached by another dancer and asked if I would like a lap dance and I agreed. The dancer took me by the hand and walked me toward a stairway located to the rear of the club. While walking the dancer told me that the dance would be \$50, \$10 for the bouncer at the top of the stairs and \$40 for the dance. Once in the private dance area the dancer undressed and again she danced and performed the same acts I had observed earlier.

It should be noted that at no time did I observe any illegal drug activity in the entertainment area or restrooms. We then left the club at approximately 2300 hours.

On this same date at approximately 2350 hours Mr. Wilson and I went to Roxy's, located at 410 Madison Street, Brooklyn, ILL. Upon entering the club we were required to pay a \$10 cover charge and we went into the main entertainment area. Upon entering I observed three stages with dancers dancing. All three stages had patrons sitting around them putting dollar bills on the table. The dancers would then come over to the patron and dance in front of them on the stage then they would sit on the edge of the stage and place her hands on each side of the patrons face and pull him toward her breasts and rub them against his face and on a couple of occasions I saw them put her nipples in the patrons mouth. They would then take the patrons hands and put them on their breasts or buttocks and allow him to rub and fondle them freely. The dancer would then slide off of the stage and onto the patrons lap and begin grind back and forth as if performing a sexual act as well as continuing to put their breasts against the face and mouth. The dancer would also slide back onto the stage then they would stretch out her legs and place them on the patron's shoulders and pull him toward their vagina which was exposed. The dancer performed these same acts on all of the patrons that would place money on the stage. A dancer approached me and asked if I wanted a lap dance and I agreed. We went to a small room with just a few love seats. The dancer began to dance with music and undressed. Once undressed she would sit on my lap and grind back and forth on my groin area simulating a sexual, at the same time she would take my hands and put them on her buttocks then on her breasts allowing me to rub and fondle her freely. On a couple of occasions she bent over opened her mouth and put her mouth on my groin area moving up and down as if she were performing oral sex. Once the dance was over I did ask if it were possible to have some more private away from the managers for a price. She said she couldn't do that.

It should be noted that at no time did I observe any illegal drug activity or any other illegal activities in the entertainment area or restrooms. We then left the club at approximately 2400 hours (midnight).

On Sunday April 1, 2007 at approximately 0100 hours Mr. Wilson and I went to the PT's Showclub located at 4 Corners Lane, Centerville, ILL. Upon entering the club we were required to pay a \$10 cover charge and went into the main entertainment area. As we entered the club it was extremely crowded and was difficult to make your way through but once inside I observed four stages three of which had female dancers dancing and one had a male dancer dancing. The club was also hosting a couple's (Swingers) night. The area designated for the couples was roped off and reserved for their use only. As we continued walking around the club we I observed one stage that had a female patron laying on her back on the stage with her breasts exposed and the female dancer fondling her breasts and sucking on her nipples. We then found a table near the stage where I had

observed the female patron on stage. After sitting down I was able to observe the male patrons putting dollar bills on the stage the dancer would then come over to the patron and dance in front of them on the stage then she would sit on the edge of the stage and place her hands on each side of the patrons face and pull him toward her breasts and rub them against his face and on a couple of occasions I saw them put her nipples in the patrons mouth. They would then take the patrons hands and put them on her breasts or buttocks and allow him to rub and fondle them freely. The dancer would then slide off of the stage and onto the patrons lap and begin grind back and forth as if performing a sexual act as well as continuing to put their breasts against the face and mouth. The dancer would also slide back onto the stage then she would stretch out her legs and place them on the patron's shoulders and pull him toward their vagina which was exposed. The dancer performed these same acts on all of the patrons that would place money on the stage.

I also observed other female patrons being laid on the stage and having their tops either pulled off or opened up exposing their breasts and being fondled. On a couple of occasions I observed a couple of these same females laid back on the stage and the dancer being totally nude at this point lay on top of the female patron and place her mouth on the patrons groin area through her pants as if performing oral sex. I also observed two female dancers (workers) that were nude and dancing on the stage. One of the dancers then laid on her back and the other dancer laid on top of the other and they began to perform oral sex on each other so the crowd could watch and cheer them on.

The club also featured a wet t-shirt contest in addition to the couple's night. The prize for the winner of the t-shirt contest was \$100 cash. There were approximately twelve or thirteen contestants, all of which had water poured on them by a patron from the audience that paid \$10 to pour the water. Once the contestant was wet the audience judged the best wet t-shirt by applause. During this time the contestants would remove their t-shirt and the dancers would fondle and suck on the contestant's breast. Several of the contestants removed their pants showing their panties or g-string and on a couple of occasions the contestants removed all of their clothing and were completely nude. Shortly after the contest one of the contestants got on stage with two of the dancers and removed all of her clothing except her g-string and began to dance. While dancing patrons began to put money into her g-string.

I was also approached by a dancer and asked I wanted a lap dance and I agreed. She walked us through the crowd to an area that was sectioned off into little cubes slightly wider than a single standing chair. Once in the cube the dance undressed and performed her dance. She sat on my lap and made a back and forth grinding motion as if she was sex. She then took my hands and put them on her breasts and buttocks and said that I could do what I wanted. She then took her breasts and pressed them against my face as well as putting her nipples to my lips. I asked her if she would be available to date for a price back at my hotel room, she stated she couldn't because she in a relationship but that she would if she wasn't involved with someone.

As we were on our way out we observed a couple laying on a couch near the area that was reserved for couples only. The female was lying on her back with her breasts exposed and the male was lying with her on his side and fondling her breasts.

It should be noted that all of the activities we observed were conducted in plain sight of all the patrons and employees. At no time did we see a manager or other employees ask anyone to stop any of the activities and could be questionable. We then left the club at approximately 0300 hours.

any money, property, token, object, or article or anything of value to perform any act of sexual penetration as defined in Section 12-12 of this Code, or any touching or fondling of the sex organs of one person by another person for the purpose of sexual arousal or gratification, commits the offense of solicitation of a sexual act.

(b) Sentence. Solicitation of a sexual act is a Class B misdemeanor.

(Source: P.A. 91-696, eff. 4-13-00.)

City of Denver --

Sec. 38-157. Public indecency.

- (a) It shall be unlawful for any person to perform an act of public indecency.
- (b) Any person commits public indecency who performs any of the following in a public place or where the conduct may reasonably be expected to be viewed by members of the public:
 - (1) An act of sexual intercourse;
 - (2) An act of deviate sexual intercourse;
 - (3) Insertion of one (1) or more fingers or other object into the vagina or anus;
 - (4) Masturbation;
 - (5) Caressing or fondling of the genitals of another person;
 - (6) Patently offensive representations or imitations of sexual intercourse, masturbation or excretory functions accompanied by exhibition of the genitals;
 - (7) Lewd fondling or caressing of the body of another person.

(Code 1950, § 802.11)

State law references: Public indecency, C.R.S. 1973, 18-7-301.

18-7-301: Public indecency.

- (1) Any person who performs any of the following in a public place or where the conduct may reasonably be expected to be viewed by members of the public commits public indecency:
 - (a) An act of sexual intercourse; or
 - (b) An act of deviate sexual intercourse; or
 - (c) A lewd exposure of the body done with intent to arouse or to satisfy the sexual desire of any person; or
 - (d) A lewd fondling or caress of the body of another person.
- (2) Public indecency is a class 1 petty offense.

City official contacts made on VCG Investigation:

Raleigh, NC.

Raleigh Restaurant Concepts, Inc. dba; "The Men's Club"

It was reported that the Men's Club was a new acquisition for VCG. License Official James Brown indicates that this entity is a recent licensee at this location and background checks were completed. etc. Licenses for wine and beer, amplified sound, and food were granted. Approved by Police, Fire, and Alcohol Beverage Commission. At the time of reporting this establishment has a license in good standing.

Louisville, Kentucky

It was reported the PT's Showclub in Louisville was added after their 2004 application for the Minneapolis license. License Official, Mary indicates that Kentucky Restaurant Concepts, Inc is a valid liquor license holder, approved by Police and Alcohol Beverage Commission, no violations on file.

Denver, Co.

License Official Connie indicates that all of the VCG Holding outlets in Denver have valid licenses with no violations on file.

Letters of good standing received from the following Cities:

Centerville, Ill

Sauget, Ill

Brooklyn, Ill

**City of Centreville
Police Department**

Colonel Larry Wynn, Chief of Police



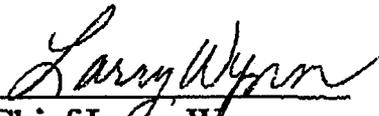
April 10, 2007

To Whom It May Concern

The PT's organization has operated a club in our community for several years. We have found Micheal Ocello, President of PT's and his management to be open and cooperative.

They operate a legal business and are in good standing with our law enforcement officials and the community in general.

Respectfully


Chief Larry Wynn



Sauget Police Department

2897 Falling Springs Road • Saugel, IL 62206 • 618-332-6500 •

PATRICK K. DELANEY
CHIEF OF POLICE

April 10, 2007

To Whom It May Concern:

The PT's organization has operated two clubs in our community for several years. We have found Michael Ocello, the President of the company and their management to be very open and cooperative. They operate legal businesses and are in good standing with our law enforcement officials and the community in general.

Please feel free to contact me with any inquires that you may have.

Respectfully,

Patrick K. Delaney
Chief of Police

**VILLAGE OF BROOKLYN
312 SOUTH FIFTH STREET
LOVEJOY (BROOKLYN), IL 62059
(618) 271-8424 FAX:(618) 271-7910**

**Nathaniel O'Bannon III
Mayor**

**Wendell Marshall
Clerk**

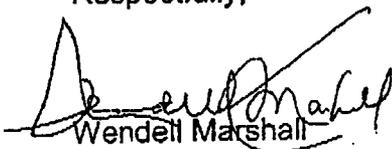
April 10, 2007

To Whom It May Concern:

The PT's organization has operated two clubs in our community for several years. We have found Micheal Ocello, the President of the company and their management to be very open and cooperative. They operate legal businesses and are in good standing with our law enforcement officials and the community in general.

Feel free to contact me with any inquires that you may have.

Respectfully,


Wendell Marshall



STATE OF ILLINOIS LIQUOR CONTROL COMMISSION

07-1A-0075228

License Number

Rod R. Blagojevich - Governor

Irving J. Koppel - Chairman

IN ACCORDANCE WITH LIQUOR CONTROL
ACT OF 1934, THIS CERTIFIES THAT:

IRC LP.
PENTHOUSE VIP
1401 MISSISSIPPI AVE

SAUGET, IL 62201

ST. CLAIR

HAS PAID ALL FEES
AND IS ISSUED A
LICENSE IN THE
FOLLOWING CLASS:

RETAILER
ON PREMISE

ISSUE DATE:

01/11/2007

Effective: 01/11/2007

THIS LICENSE
EXPIRES ON:

12/31/2007

THIS LICENSE MUST BE FRAMED AND HUNG IN PLAIN VIEW
IN A CONSPICUOUS PLACE ON THE LICENSED PREMISES

IBT: 2932-9507

THIS LICENSE NOT TRANSFERABLE
AS TO PRINCIPAL

AMU

E- 111818

SPECIAL EVENT LICENSE/SPECIAL USE PERMIT -- EVENT DATE(S) AND TIMES



If From/To Dates above are NA, then please discard that portion of the license.

COVER CHARGES AND THE HAPPY HOUR LAW

In order to be in compliance with the Illinois 'Happy Hour Law', retail licensees may not impose a cover charge unless the fee goes towards the cost of off-setting entertainment costs. For example, licensees may not charge a cover of \$3.00, and then provide all-you-can-drink beer.

Licensees can, however, bring in special entertainment such as a band, and charge a cover fee. There cannot be any drink specials attached to the cover cost. All drink specials must run from open 'til close, and be available to all customers.

If you have any questions about these rules, or any aspect of the Illinois Liquor Control Act, call 312/814-2206 in Chicago, or 217/782-2136 in Springfield.

PENTHOUSE VIP
1401 MISSISSIPPI AVE

SAUGET, IL 62201-

MAILING ADDRESS





State of Illinois

No. 3

LICENSE

\$ 250.00

TO SELL ALCOHOLIC LIQUOR AT RETAIL

By Authority of the Village of SAUGET

License is Hereby Granted to IRC L.P. d/b/a/ PENTHOUSE VIP

to Sell Alcoholic Liquor at Retail

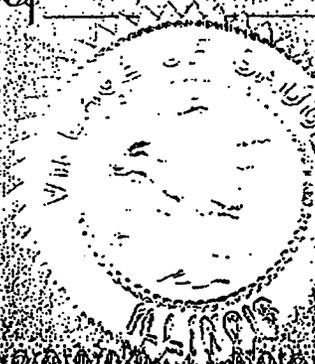
CABARET

(KIND AND CLASSIFICATION OF LICENSE)

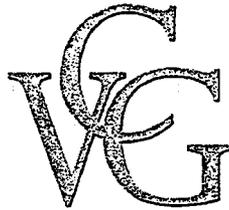
at No. 1401 Mississippi Avenue in said Village until the 31st day
of December A. D. 2007, subject to the provisions of all Ordinances

now in force and that may hereafter be passed by said Village.

Witness the hand of the President of the Board of Trustees and the
Corporate Seal thereof, this 9th day of January A. D. 2007



Attest: Janece S. Delaney
VILLAGE CLERK PRESIDENT BOARD OF TRUSTEES



HOLDING CORP.
An American Stock Exchange Company
AMEX: PTT

RECEIVED AUG 18 2006

16 August 2006

Councilwoman Lisa Goodman
City of Minneapolis City Hall
350 South Fifth Street
Room 307
Minneapolis, Minnesota 55415

RE: VCG Holding Corp./Classic Affairs, Inc.

Dear Councilwoman Goodman:

In 2004 we presented the City of Minneapolis with an application to become the new/sole shareholder of Classic Affairs, Inc., which currently holds a valid Class A liquor license. During the course of our application, we complied with the application process to the best of our ability, but we ultimately determined that we could not adequately address the questions and concerns raised in his Sgt. Warnberg's report in the time frame built into our agreement with the owners of Classic Affairs. We therefore withdrew our application in order to allow us to properly address the issues raised by Sgt. Warnberg and City Council, with the intention of revisiting the matter at a later date.

While we are continuing from this point with a focus on the future rather than the past, I feel the need to address a few points in Sgt. Warnberg's report in order to promote a mutual understanding, and hopefully amicable, if not positive, relations from here on out.

- 1) Sgt. Warnberg suggested that VCG Holding Corp. and its clubs were on the brink of indictments, violations and closure, yet this has not occurred. To the contrary, VCG has not been cited for any liquor or business license violations in the two years since his report. VCG Holding, in fact, has acquired two new licenses in Denver and Phoenix. VCG Holdings has a reputation in the industry and law enforcement as a clean operation.
- 2) Sgt. Warnberg's seemingly personal mission focused media attention on his report and or businesses again a year later, which attracted the attention of law enforcement. Despite the renewed scrutiny, our clubs passed muster with flying colors, prompting some law enforcement agencies and individuals to vouch for our long history of compliance with applicable laws and regulations.

3) We feel Sgt. Warnberg's attention to VCG Holdings was out of line with his treatment of other clubs attempting to open in Minneapolis. He spent \$10,000 and traveled from coast to coast in an "attempt" to compare and analyze the local regulations against that of the City of Minneapolis, while not subjecting other national operators like Deja-Vu and Rick's Cabaret to this type of investigation. We do not mind scrutiny, but expect a level playing field.

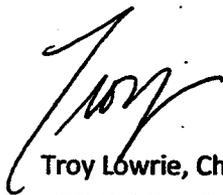
Our positive experiences elsewhere make this report more puzzling. Why do we have good relationships with municipalities across the country and in diverse regulatory climates but not Minneapolis? We believe Sgt. Warnberg did not accurately represent our business operations, and now that he has been reassigned, we wish to approach the City of Minneapolis with a fresh start.

I am attaching a summary of the changes to VCG Holding Corp. and the agreement with Classic Affairs, Inc. Our general intention is to acquire this club for our financial portfolio, and therefore do not foresee any major changes in its operation. We believe the club is well run, and intend to keep as much of the personnel as are willing to stay. Larry McGough, will remain as manager. Mr. McGough has been managed Classic Affairs for approximately 11 yrs with a sterling record of accomplishment and order.

We invite you to approach our application with due diligence, but hope you will treat us fairly. We have demonstrated a commitment to compliance with legal guidelines, and in fact implement policies that go above and beyond expectations in order to promote smooth operations, a safe work environment, and positive relationships with our communities. We feel a fair assessment of our fitness for the Minneapolis community will yield a positive outcome, and look forward to an application process free of the acrimony that plagued our relationship two years ago.

Thank you for your consideration and please feel free to communicate with John Soto (303.809.7686), our governmental liaison, to address any questions and/or concerns.

Respectfully,



Troy Lowrie, Chairman/CEO
VCG Holding Corp.

TL/JSJ

Attachments

cc: Douglas Kress, Aide to Councilwoman Goodman

Changes within VCG Holding Corp. and/or the Agreement with Classic Affairs, Inc.

Changes in the Corporate Structure

Officers

Donald Prosser has resigned from the Board of Directors (VCG Holding Corp.). Mr. Prosser remains the corporate Chief Financial Officer (CFO).

Marty Grussin, Attorney, has been added to the Board of Directors (VCG Holding Corp.)

Clubs

Sold

PT's Phoenix
All Stars Sports
PT's Memphis

Added

Penthouse Phoenix
Diamond Cabaret
Tabu

Direction as it relates to the Corporate Mission

With the addition of Tabu, VCG Holding Corp. has demonstrated a diversification that enables our customer based to be expanded outside of the traditional clientele.

Changes in the Application/Agreement

Management

Larry McGough will stay on as the manager. Alberto Fortuney is no longer considered for any position with the Minneapolis project.

Personnel

It is our intention to retain as much of the current personnel as are willing to stay. This club is operating at the optimum efficiencies and no changes or redirections are needed.

Financial Structure (Ownership Ratios)

No major changes from the original agreement

Changes in the corporate policies as it relates to the operational function in Minneapolis

As a result of the Warnberg report issued in Minneapolis, VCG Holding Corp legal representation hired a third party organization to conduct an review of the conduct at the clubs in question.

Installation of camera systems has been added to all clubs to ensure more consistent monitoring of employee conduct.

In Denver, a former vice officer was hired to report club activities directly to the ownership bypassing the management group to ensure efficiency and accuracy.

GARCIA AND ASSOCIATES, P.A.

ATTORNEYS AND COUNSELORS AT LAW
401 SECOND AVENUE SOUTH, SUITE 632
MINNEAPOLIS, MN 55401

November 21, 2006

Ricardo Cervantes
Department of Consumer Services and Licenses
Deputy Director
350 South 5th Street, Room 1C
Minneapolis, MN 55415

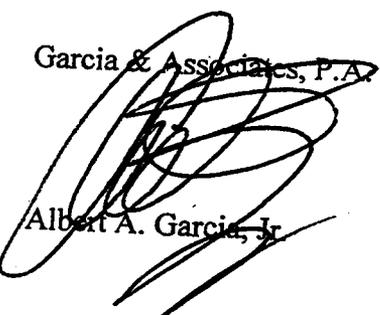
Lt. Travis Glampe
City of Minneapolis
Police Department
Licensing Investigation Division
350 South 5th Street, Room 1A
Minneapolis, MN 55415-1314

Dear Gentlemen:

Enclosed please find the responses of VCG to the initial questions posed regarding their anticipated liquor license. If there are still initial concerns that could serve as a barrier to successful application, my client would like to address them prior to their application and your investigation. However, if your concerns are such that might result in conditions on a successful application, then obviously we can discuss them during the application/investigative process. Furthermore, my client would like to once again discuss the application process and the scope of the investigation process after you have had an opportunity to review their responses.

Cordially,

Garcia & Associates, P.A.


Albert A. Garcia, Jr.

Cc: VCG

BUSINESS OVERVIEW

Introduction

VCG Holding Corporation is in the business of owning, managing and acquiring, nightclubs which provide premium quality live adult entertainment, and upscale restaurant and beverage services in a first class environment targeting affluent patrons. The Company's management team has over 50 aggregate years of experience in successfully owning and operating first class nightclubs and has in-depth knowledge of the industry. The Company currently owns and operates seven nightclubs.

VCG's business consists of two segments: owning and operating adult nightclubs, and the contract management of adult nightclubs. The management of adult nightclub segment is operated through its wholly owned subsidiary, IEC, which currently manages sixteen adult nightclubs seven of which are owned by VCG. The remaining nine nightclubs are owned or controlled by VCG's Chairman and CEO, Troy H. Lowrie. The Company expects that IEC will manage all clubs owned by VCG and that IEC will pursue opportunities with third party owners to manage additional nightclubs.

VCG Owned Nightclubs

Management believes maximum profitability is obtained from owning and operating only first class adult entertainment nightclubs, which attract an affluent clientele. The following features distinguish VCG's first class entertainment nightclubs:

Facilities. The facilities are within ready access to the principal business, tourist and/or commercial districts in the metropolitan areas in which they are located. Both the exterior of the buildings and the interior design and decor of the clubs provide the appearance and atmosphere of an upscale restaurant. The facilities have state of the art sound systems, theater-quality lighting and professional stage design. Some facilities have a VIP Room. This is a separate area of the club accessible only to those who purchase annual memberships. The VIP Room provides an elegant, quiet atmosphere with its own restaurant featuring a more upscale food menu. The VIP Room is particularly conducive to business entertaining.

VCG's clubs range in size from 7,000 sq. ft. to 16,000 sq. ft. with the average size being approximately 10,000 sq. ft.

Professional On-Site Management. The facilities are managed by persons who are highly experienced in the restaurant hospitality industry. The managers are responsible for maintaining the overall quality of the nightclubs and, specifically: (i) providing attentive customer service; (ii) supervising all personnel, including kitchen staff, bartenders, security, waitresses, disc jockey's and performers; and (iii) maintaining the facility as a clean, inviting, safe and comfortable place to visit.

Food and Beverage Operations. The food and beverage operations meet the high standard of business entertaining provided by an upscale restaurant. An experienced chef is responsible for staffing and operating the food service and an experienced bar manager is responsible for staffing and operating the beverage service. The food menu ranges from buffet lunch service to fine dining for both lunch and dinner. The beverage menu ranges from domestic and imported beer to fine wines, champagne and premium liquors.

Entertainment. The facilities provide premium quality female performers. The highest standards are maintained for appearance, attitude, demeanor, dress and personality. The entertainment encourages repeat visits, increases the average length of a patron's stay and attracts customers to a late night destination, all of which creates increased revenue.

Each of VCG's seven adult entertainment nightclub businesses is held in a separate, wholly-owned subsidiary and the related real estate and leases are held by a fourth wholly-owned subsidiary.

VCG currently owns and operates adult entertainment nightclubs in Denver (three clubs), St. Louis, Memphis, Indianapolis and Phoenix.

Operations

VCG manages its nightclub operations through its wholly-owned subsidiary, IEC. IEC has more than twenty years of experience in managing adult entertainment nightclubs and currently has sixteen clubs under management including VCG's seven current clubs. The Company's Chairman and CEO, Mr. Lowrie, and its President-COO, Mr. Ocello are affiliated with the other nightclubs managed by IEC. IEC has approximately 75 employees.

The principal employees of IEC have been with that company for four to 20 years and they are highly experienced in this industry. IEC is responsible for all aspects of club management, administration and accounting. Among other things, IEC is responsible for the following:

- Recruiting, hiring, training and supervision of on-site management;
- Implementing club operating policies and standards and monitoring compliance;
- Establishing and maintaining accounting and inventory controls and record keeping for the clubs;
- Negotiating all contracts including those with vendors and suppliers, and particularly food and beverage;
- Developing and implementing, advertising, marketing and promotional programs;
- Developing and maintaining relationships with local authorities, vendors and area businesses; and
- Monitoring and maintaining the quality and performance of each club.

Through this centralization of management, VCG is able to realize a substantial reduction in management expense that would otherwise be incurred.

All nightclubs managed by IEC, including those clubs owned by VCG, pay their proportionate share of IEC's general operating and administrative expenses for all of the nightclubs managed by IEC. These expenses do not include the direct operating expenses of each of our nightclubs, which include: food and beverage operations, employee payroll, advertising, entertainment and maintenance of facilities.

Compliance Policies and Controls

IEC has developed compliance policies for nightclub operations aimed at assuring that the operations of each club are conducted in conformance with local, state and federal laws. In keeping with the upscale nightclub environment, IEC does not use visible security, but rather persons who act in a host capacity to address and resolve situations in which a customer's behavior may be inappropriate.

credit card transactions and food and beverage inventory. These controls also help to maintain the accuracy of VCG's operating and accounting records. In particular, IEC has developed sophisticated software programs to capture operating information and generate reports for efficient management and control of the nightclub. Analysis of the information provided enables IEC to detect atypical variances from expected operating results based on historical activity.

Marketing

During the past 20 years operating nightclubs, IEC has developed a results-proven, cost-efficient marketing program. The clubs are marketed as a safe and upscale environment for adult entertainment. The marketing strategy is to attract new customers, to increase the frequency of visits by existing customers and establish a higher level of name recognition. The marketing program includes advertising in travel and hospitality magazines, print advertising, billboards with distinctive graphics and taxi cab reader boards. The target market is the business-convention traveler local professionals and business people. In addition, IEC conducts various promotion activities throughout the year to keep the club's name before the public. In order to promote a good community reputation, the clubs actively sponsor and participate in local charitable events and make contributions to local charities.

The ability to attract new patrons to a nightclub for the first time is critical to a nightclub's success. Promotions, advertising and specials are the typical means of marketing a nightclub. Newspaper and magazine coupons are often used to attract new customers. Professional sporting events are a natural advertising venue, including ticket-stub drink vouchers and other advertising, including aerial banners at outdoor events.

VCG focuses on acquiring and marketing upscale gentlemen's clubs in areas that are not market saturated and already receptive to well managed adult gentlemen's clubs. Adult entertainment nightclubs tend to group together by location. When clubs are within relatively close proximity, regular customers are more likely to try a new club. A significant marketing benefit for VCG will be its ownership of multiple clubs in multiple cities, which will enable VCG to obtain brand name recognition for its first-class adult entertainment nightclubs. Management believes VCG is well positioned both financially and managerially to continue to grow in the adult entertainment industry. By expanding into other locations in other cities and states, VCG will have the opportunity to realize the benefits of both economies of scale and name recognition marketing.

Employees and Independent Contractors

As of September 30, 2004, VCG and its subsidiaries had approximately 875 employees in food and beverage capacities. VCG has twenty executive personnel that are a part of IEC. VCG's employees are not members of a union and VCG has never suffered a work stoppage. The performers providing entertainment in the nightclubs are not employees of VCG. They are self-employed independent contractors who work at VCG's nightclubs on a non-exclusive basis. The performers pay VCG a fee for providing the facilities for them to perform. The performers' source of revenue is tips from nightclub patrons.

Trademarks

The PT's® name and logo are trademarks registered with the United States Patent Trademark Office. The Company has been granted a license to use the trademarks by Lowrie Management, LLLP, an affiliate of VCG. There is currently no fee for the license. Any future fees will be reviewed for fairness by, and be subject to the approval of a majority of independent directors. Until then, and is currently the case, any such fee will be at a price the fairness of which will be established by

an independent valuation.

The Company has entered into an agreement with Penthouse International Inc. in which the Company has obtained exclusive rights to license and use the Penthouse name in seven states for the development of adult nightclubs. The terms of the agreement include an upfront fee on a per location basis and a monthly recurring fee that is subject to reduction should Penthouse International fail to produce its Penthouse magazine.

INDUSTRY BACKGROUND

Overview

For years, sexual content has been continually increasing in the media – including movies, television, magazines, newspapers, and the Internet. Capitalizing on this opportunity, businesses that were not previously involved in the industry have now become major providers of adult entertainment. These include hotel chains, cable and satellite television companies, national video store companies and long distance telephone carriers.

Public acceptance and demand for the premium quality adult entertainment nightclubs have become common in both cities and suburbs throughout the United States as there is an increasingly open and healthy attitude toward sexuality. There is a strong existing and developing market among businessmen, professionals and other affluent persons for first-class adult entertainment nightclubs.

According to *Forbes* magazine (May 23, 2001), as the adult entertainment industry has become more socially acceptable, it has grown to an \$11 billion market and **"Adult entertainment businesses can expect to see their market capitalizations at least triple over the next five to seven years."**

The social acceptance and accelerating growth in adult entertainment includes adult entertainment nightclubs, particularly first class adult entertainment nightclubs, which are popular among affluent customers for social and business entertainment.

The demographic market for adult entertainment nightclubs is substantial as nightclubs appeal to men of all age groups. Within this market, there are two general categories of nightclubs, each having distinct differences in entertainment quality, atmosphere and food service. On the lower-end are "strip clubs" which typically have small facilities and a low-grade atmosphere. These clubs generally cater to a blue-collar clientele, have limited or non-existent food service and a small number of entertainers who are not of the caliber of the upper-scale clubs. The upper-scale clubs are termed "gentlemen's clubs." These clubs are characterized by their large facilities and featuring dozens of entertainers on any given night. They offer a variety of entertainment such as sports on television monitors, billiard tables, VIP rooms and specialty acts. Their target market/audience is a more affluent clientele of businessmen and professionals for whom gentlemen's clubs are increasingly becoming a viable and attractive entertainment option. In addition, they are no longer limited to providing evening entertainment; daytime operations are also growing, particularly during the lunch hour. Food is prepared by an on-site chef and the menu typically offers a wide variety of entrees and appetizers. Most clubs provide a buffet at least once a week as a promotion special.

Competition

The adult entertainment nightclub industry is very competitive with respect to price, location and quality of (i) the facility, (ii) entertainment, (iii) service and (iv) food and beverages. Further, the industry is especially sensitive to ever-changing and unpredictable competitive trends, which cannot be easily predicted.

VCG has many competitors in the metropolitan areas in which its nightclubs are located as well as areas in which they intend to expand. Some competitors have substantially greater financial resources and a longer history of operations than the nightclubs currently owned by VCG. Changes in customer preferences, economic conditions, demographic trends and the location, number of and quality of competing nightclubs could adversely affect the Company's business, as could a shortage of experienced local management and hourly employees. Management believe the Company's nightclubs enjoy a high level of repeat business and customer loyalty due to our upscale restaurant atmosphere, food quality, premium entertainment, perceived price-value relationship and efficient service.

Government Regulations

Adult entertainment nightclubs are subject to ever changing local, state and federal regulation. The Company's business is regulated by local zoning, local and state liquor licensing, local ordinances and state and federal time place and manner restrictions. The adult entertainment provided by the Company's nightclubs has elements of speech and expression and, therefore, enjoys some protection under the First Amendment to the United States Constitution. However, the protection is limited to the expression, and not the conduct of an entertainer.

BUSINESS STRATEGY

VCG's goal is to become the leader in the first-class adult entertainment nightclub industry. To this end, VCG has developed a proven growth strategy forged from the combined experience of its senior management team. VCG plans to consolidate first class adult entertainment nightclubs in both existing and new markets and increase their profitability by leveraging economies of scale in management, operations and marketing.

Management believes that there is a significant opportunity for industry consolidation as there are many profitable first class clubs, which are available for acquisition on favorable terms. Management also believes in acquiring established nightclubs in existing locations in order to avoid the substantial costs and risks associated with building and licensing nightclubs in new locations with no existing customer base. The adult entertainment nightclub industry is highly fragmented with most nightclub owners owning only one club. Adult entertainment nightclubs are rarely advertised for sale; but rather, their availability is made known through word-of-mouth within the industry. VCG, through its extensive contacts in the industry, is aware of numerous nightclubs that are for sale throughout the United States. Typically, these nightclubs become available for sale because of owners reaching retirement age, increased operating expenses causing decreased profitability, and inability or unwillingness to commit capital in order to upgrade older nightclubs.

In VCG's professional opinion, there are many opportunities to create clusters of nightclubs in desirable markets. This approach not only limits the competition within a certain market, but also allows VCG to target different demographic segments within a certain geographic area and better leverage marketing and operations synergies as well. In evaluating acquisition opportunities in new markets, VCG will exercise its potential, over time, to build competitive clusters in as many

markets as financial and managerial resources will allow. The Company will analyze a number of factors which it believes are important to its success, including: purchase price of property, the potential for consolidation of other properties in the market, the opportunity for operational efficiencies and increased cash flow through streamlined operations, and the general economic conditions of the market. VCG's acquisition strategy contemplates the ongoing evaluation of existing nightclubs and their relocation, upgrade or sale if they do not satisfy the Company's operating objectives.

Of paramount importance to delivering impressive cash flow results is the leveraging of operating synergies and the careful, yet tough management of operating expenses. VCG believes that the benefits of consolidation - namely, centralized management, more efficient operations, less costly overhead, and increased market recognition and identity of the clubs under shared name branding, will increase the current profitability of these nightclubs. Moreover, all levels of the Company's management are charged with the justification of all operating expenses. Management is always looking for ways to operate more efficiently and less expensively in all areas of nightclub operations.

Company and nightclub senior management have utilized these principals over many years with proven success. Corporate and nightclub management are in general agreement on these basic values and strategies, which creates a consistent and unified environment throughout the organization.

MANAGEMENT

The Company's management team brings a wealth of experience in the industry with aggregate experience of over 50 years. Leading the team is Troy H. Lowrie, the Company's Chairman and CEO. Mr. Lowrie has been managing and operating adult entertainment nightclubs for over 20 years and has owned or managed over eighteen clubs during his career. The Company also has a diverse and extremely strong Board of Directors whose members take an active role in the Company. Management has invested both cash and assets of approximately \$6 million in the Company.

Officers and Directors

Troy H. Lowrie has been Chairman of the Board of the Directors of VCG since April 2002 and was appointed Chief Executive Officer in November 2002. Mr. Lowrie has been President of Lowrie Management, LLLP, a Colorado limited liability limited partnership, which owns and operates adult entertainment nightclubs, since 1996. Mr. Lowrie has been an owner and President of International Entertainment Consultants, Inc., ("IEC"), since 1982, a company engaged in the business of managing adult entertainment nightclubs. Over his career, Mr. Lowrie has by ownership or management been affiliated with eighteen adult entertainment nightclubs including all PT's® Showclubs; Diamond Cabaret, St. Louis; Gold Club, and Shotgun Willies, Denver; The Platinum Club, St. Louis; and Olympic Gardens, Las Vegas. From 1992 to 1996, Mr. Lowrie was president of Western Country Clubs, Inc. a public company specializing in large country western bars with live music and operated as "A Little Bit of Texas." From 1996 to 1998, Mr. Lowrie was president of New Millenium Media, Inc. a public company which sells rotating print advertising equipment and full movement video billboards. Mr. Lowrie received a Masters degree in finance and securities from the University of Denver in 1988 and a Bachelor's degree in general business from Fort Lewis College in 1986.

Michael L. Ocello has been a director and President and Chief Operating Officer of VCG since April 2002. Mr. Ocello has been President of Unique Entertainment Consultants, Inc., of St. Louis, Missouri, a management company that specializes in the management of nightclubs, since 1995. Mr. Ocello has been affiliated with IEC since 1982. He is currently the President of VCG's IEC subsidiary. Over his career, Mr. Ocello has by ownership or management been affiliated with

eighteen adult entertainment nightclubs including all PT's® Showclubs; Diamond Cabaret, St. Louis; Gold Club, and Shotgun Willies, Denver; The Platinum Club, St. Louis; and Olympic Gardens, Las Vegas. He is President of the Association of Club Executives (ACE national), President of the Illinois Club Owners Association and a Board member of the Indiana Nightclub Association. Mr. Ocello attended the United States Military Academy West Point from 1979 to 1981 and the University of Missouri, Kansas City from 1977 to 1978.

Donald W. Prosser, CPA has been a director and Chief Financial and Accounting Officer of VCG since November 2002. As a consultant to the Company, Mr. Prosser has worked for VCG and has served as outside accountant for affiliated entities of Mr. Lowrie. Mr. Prosser has been a certified public accountant since 1975 and is licensed in the state of Colorado. Mr. Prosser was Senior Manager of two national certified public accounting firms, Fox and Company (1975-83) and Pannell Kerr Forester (1984-91) Mr. Prosser also was the managing director of an American Express Tax and Business Services unit in the Colorado region (1992-96). In addition to the accounting business Mr. Prosser was owner and operator of an adult entertainment nightclub (Mile High Saloon) in Denver, Colorado from 1994 until 1999. He also started as a part-time consultant and later became Chief Financial Officer and a director of three public companies: Chartwell International, Inc. (1997-99), a company in the business of publishing high school athletic information and recruiting services; Anything Internet Corporation (1999-2000), a company in the business of selling computer equipment and internet services; and NetCommerce, Inc. (2001-2002), a company in the business of selling of internet services. Mr. Prosser attended the University of Colorado from 1970 to 1971 and Western State College of Colorado from 1972 to 1975, where he earned a Bachelor's degree in both accounting and history (1973) and a Masters degree in accounting - income taxation (1975).

Mary E. Bowles-Cook has been Secretary and Treasurer of VCG since April 2002. Ms. Bowles-Cook was office manager of Titello & Associates, Inc., a bookkeeping firm in Denver, Colorado, from 1985 to September 2002. Ms. Bowles worked for International Entertainment Consultants, Inc. from 1981 to 1985 in administration, continues to serve as the Secretary-Treasurer of that company, and has been the office manager since October 2002. From 1993 to 1996, Ms. Bowles was Secretary-Treasurer of Western Country Clubs, Inc., a public company where she was responsible for administration. She received a Business Administration and Management Degree from Regis University in 1999 and an Associate Degree in Business Administration from Arapahoe Community College in 1996.

Robert J. McGraw, Jr., CPA has been a director of VCG since November 2002. A certified public accountant since 1982, Mr. McGraw is president of McGraw and McGraw CPA PC of Westminster, Colorado. Mr. McGraw's firm specializes in accounting and bookkeeping for restaurants, lounges and small businesses. The practice consists of income tax preparation, financial statement preparation, bookkeeping and small business consulting. Mr. McGraw will serve as the chairman of the audit committee and serve as a member of the compensation committee of the Board of Directors. Mr. McGraw has a Bachelor's degree from Western State College of Colorado (1977). Mr. McGraw is currently licensed in the state of Colorado and is a member of the American Institute of Certified Public Accountants and Colorado Society of Certified Public Accountants. Mr. McGraw serves on the audit committee and will serve on the compensation committee of the Board of Directors.

Rand E. Kruger has been a director of VCG since November 2002. Mr. Kruger is founding and managing partner of the law firm, Kruger, Schwartz & Morreau in Louisville, Kentucky, established in 1989. Primary areas of practice include commercial real estate and business transactions. He represents many nightclubs, restaurants and fine dining establishments, particularly with respect to licensing and related administrative law issues. Mr. Kruger will serve on the Audit Committee and Compensation Committee for the Board of Directors. Mr. Kruger has a Bachelor's degree from George Washington University (1972) and his J.D. from University of Louisville (1975). Mr. Kruger serves on the audit committee and will serve on the compensation and nominating committees of the Board of Directors.

Allan S. Rubin has been a director of VCG since November 2002. Mr. Rubin's practice is primarily

devoted to the representation of matters involving free speech, constitutional law, and complex corporate litigation, both civil and criminal. Among his clients are adult entertainment businesses. Mr. Rubin also serves as General Counsel to the Association of Club Executives of Michigan and has been a speaker at a number of Trade Association Meetings regarding matters relating to the First Amendment. Mr. Rubin received his B.A. in Criminal Justice in 1988 from Michigan State University and graduated Cum Laude from the Thomas M. Cooley Law School in Lansing, Michigan in 1990. Mr. Rubin is a member of the First Amendment Lawyers Association. Mr. Rubin serves on the audit committee and will serve on the nominating committee of the Board of Directors.