



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

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.

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]

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 Breech 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.

