IMAX CORP
Form DEF 14A
April 08, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant þ
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Check the appropriate box:
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IMAX CORPORATION
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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To our Shareholders: **April 8, 2009**

Fiscal 2008 was in many important ways an exhilarating year for IMAX Corporation. We made significant progress toward transforming the Company from one that was entirely film-based to one that is increasingly digital, and our business model from one of one-time system sales to one of more significant recurring revenues. Our 2008 financial results reflect the significant costs associated with this transformation and the near-term pressure put on revenues, as many customers elected to wait for the introduction of our digital product, which began in earnest in the second half of the year. With our focus now on the execution of our strategies and on installing systems out of our backlog of theatre signings, the largest backlog in Company history at the end of 08, and with our business transformation well underway, we believe our revenue will significantly increase in the coming year and, coupled with our emphasis on cost containment, should result in our returning to profitability in 2009.

Looking at fiscal 2008, our most important strategic achievement was the launch of our new digital technology. Our introduction of digital is driving the rapid build-out of the IMAX network by removing the historically high print costs incurred by our studio partners. As a result, digital enables us to exhibit even more Hollywood films on IMAX screens approximately 10 to 12 a year, compared to six or seven historically, and also allows for increased programming flexibility. Exhibitors will also benefit from digital through both lower installation costs and more film product, which should translate into higher revenues and greater per theatre profitability.

Our joint revenue sharing model is also contributing to the rapid build-out of our network. In a joint revenue sharing arrangement, we contribute the IMAX system which has historically cost us approximately $500,000, in return for a percentage of theatre box-office and concession revenue. Exhibitors, in turn, are able to enter the IMAX business for roughly $150,000 to $200,000 per theatre well below historical levels of between $1.5 million and $3.5 million.

Our main accomplishments in 2008 were on numerous key strategic fronts:

2008 Strategic Overview

Our IMAX digital product launched in July, on time and on budget, with 46 systems deployed in the second half of 2008 and a total of 74 in operation as of this writing. IMAX digital, coupled with our joint revenue sharing model, are the catalysts behind our record network growth, which increased 17% year-over-year, and our record commercial network growth, which increased 30% year-over-year. In addition, our backlog of 213 systems was a new high for a year-end, up 15% over last year and we have a record 10 Hollywood titles scheduled for release in 2009 in addition to our one IMAX original film.

We are very proud of, and confident in, IMAX digital. The systems are achieving reliability rates of 99.8% and we are pleased that our customers are putting IMAX digital systems into their best locations and best auditoriums.

A total of 60 IMAX projection systems were installed in 2008, by far the most installations we have ever had in a given year. We ended 2008 with a total of 351 IMAX systems in operation, compared to 299 in operation last year. This is the largest one-year increase in unit growth in our 40+ year history and we are pleased to report that even this significant increase should be eclipsed by 2009 s anticipated network growth.

We ended the year with 52 joint revenue sharing theatres compared to 11 last year. We expanded our joint revenue sharing partnerships with key exhibitors around the globe. Following our 100 theatre deal with AMC signed in December of 2007, we signed strategic joint revenue sharing arrangements with top exhibitors such as Regal Cinemas in the U.S., Hoyts Cinemas in Australia, Tokyu Cinemas in Japan, and Cineplexx in Austria. All of these new relationships position us for future growth in key markets. Also, while not a joint revenue sharing arrangement, our two-theatre system sales deal with Odeon in the UK is very important as we work to increase our penetration in Europe.

We secured $18 million in funding in May of 2008 through a private placement of our common stock with our largest shareholder, at then-market prices of $6.60 per share. We also re-negotiated our $30 million credit facility, such that we were no longer subject to any EBITDA maintenance covenants so long as we are in compliance with minimum liquidity levels.

We broadened our studio relationships, including our signing of a multi-picture deal with Walt Disney Pictures. We are now in business with virtually every major Hollywood studio. The diversification of our studio relationships creates a pipeline of potential new titles for the IMAX network that is unprecedented.

Warner Brothers *The Dark Knight*: The IMAX Experience grossed $62.5 million in the IMAX network and generated per screen averages of approximately $400,000, making it the most successful IMAX 2D Hollywood title in history. Visionary director Christopher Nolan shot six sequences of the film with IMAX cameras, the first time a director has ever used our cameras for a commercial feature film.

And we signed deals for 90 IMAX systems in 2008, in addition to the 144 systems signed in 2007. This compares to annual signings in the 20 30 range for much of the previous decade.

We firmly believe that these strategic achievements leave us poised to transform IMAX to a company with not only a compelling consumer proposition, but a compelling business proposition as well. IMAX is now firmly in a period of execution and growth. Given the rate at which we are installing new systems, the proven reliability of the systems to date, the positive feedback we are getting from our studio and exhibitor partners, and, perhaps most importantly, consumers we feel very confident about our digital roll-out thus far.

We also remain confident that we have the necessary funds to continue the planned roll-out of our digital projection systems. We ended the year with cash and cash equivalents of $27.0 million, and $10.5 million available on our credit facility.

Our year end cash position is in line with our expectations and primarily reflects our investment in joint revenue sharing theatre systems. During the year, we invested approximately $18.5 million in this initiative and our costs per joint revenue sharing system remain on plan. Our payback period on this investment is about a year and a half and we estimate a return on our investment of close to 65%, so we believe a good deal of the cash spent in 2008 should cycle back to us in 2009.

In 2009, we anticipate installing a record 90 IMAX systems from our current backlog, the vast majority of which will be systems that fall under our joint revenue sharing model. Our joint revenue sharing digital theatres drove our record network growth in 2008, and that will also be the case in 2009. Given our installation goals for the year, we continue to believe that we will have 115 to 125 joint revenue sharing systems in operation by the end of 2009, and that we will end the year with a total of approximately 440 IMAX systems in operation, a 25% increase over 2008.

Film Slate

We plan to show a record 11 titles in our network in 2009 10 Hollywood IMAX DMR® films and one IMAX original film, and we likely have room for one more in the fall. We can say with confidence that our overall line-up includes some of the most anticipated films of the year.

On January 23rd we re-released Warner Brothers *The Dark Knight* and on February 27th, we partnered with Disney for a one-week IMAX release of *The Jonas Brothers: The 3D Concert Experience*.

On February 13th, we released *Under the Sea 3D,* together with Warner Brothers, primarily in institutional settings. We are very proud of this film from an artistic and educational standpoint and it is an excellent representation of how truly immersive IMAX 3D® is. On March 6th we released *Watchmen:* The IMAX Experience*,* which is being distributed domestically by Warner Brothers and internationally by Paramount. *Watchmen* debuted on 153 IMAX screens worldwide, and generated $11.8 million domestic, or close to 12% of the domestic box office on just 2% of locations. On March 27th, we released to IMAX® theatres DreamWorks Animation s highly anticipated first 3D film, *Monsters vs. Aliens,* which will show on close to 200 IMAX 3D screens worldwide over the course of its run, the largest IMAX release in history. The movie generated $5.1 million of domestic gross box office over the first weekend in IMAX, or approximately 9% of the total on just 2% of the screens. The movie was a huge success overall and was our biggest 3D weekend in history. Our domestic per screen average of $35,682 significantly outperformed 2D and other non-IMAX 3D per screen averages.

On May 8th, we will release Paramount Pictures *Star Trek,* for a two-week run. Short runs like this are only possible because of our introduction of digital and give both us and our exhibitors much greater programming flexibility. On May 22nd, 20th Century Fox s *Night at the Museum: Battle of the Smithsonian* will be our fifth Fox film. The first *Night at the Museum* delivered $18.3 million of gross box office in IMAX, or $160,000 per screen. On June 24th, we will release DreamWorks Pictures and Paramount s *Transformers: Revenge of the Fallen.* Directed by Michael Bay, the movie features three sequences shot with IMAX cameras, similar to what Chris Nolan did for the IMAX version of *The Dark Knight*. In July, we will release an IMAX version of Warner Brothers *Harry Potter and the Half Blood Prince*. This is our fourth installment of the Harry Potter franchise, which has been very successful in IMAX. Sequences of the movie will be featured exclusively in live-action IMAX 3D, which can only be seen in IMAX theatres. We believe we will have another Hollywood title in the fall, which will then be followed by Walt Disney Pictures *A Christmas Carol*, a 3D motion capture picture starring Jim Carrey and directed by Robert Zemeckis. This will be our third Zemeckis/3D motion-capture film, having previously released *The Polar Express* and *Beowulf*, both of which were highly successful in IMAX. Finally, on December 18, 2009, we will release Academy Award® winning director James Cameron s groundbreaking 3D title, *Avatar*, in IMAX 3D. We believe that *Avatar* ranks as one of the most anticipated film projects in recent memory and having taken an early look at the movie in 3D, we are very excited about this revolutionary piece of filmmaking.

Of our 11 titles, five are 3D and come from some of the best filmmakers in the business. At a time when over 20 Hollywood movies over the next two years are scheduled to be released in 3D, our rapidly growing network is becoming an increasingly important part of the 3D movement. Couple our network growth with our historical out-performance against conventional theatre digital 3D, and the IMAX platform becomes even more important to studios and exhibitors looking to extend their reach and maximize as much upside as possible. While we are very excited about the potential of 3D, we continue to program our network with what we believe to be the best films available, whether 2D or 3D.

Much like 2008, our goal for this year is to have the bulk of our 2010 film slate finalized in 2009 so that we can continue to provide ourselves and our exhibitor partners with increased visibility, a highly prized asset in today s environment. To that end, we are hard at work on our 2010 film slate and to date have announced four titles: Walt Disney Pictures *Alice in Wonderland*: An IMAX 3D Experience, to be released on March 5th; DreamWorks Animation s *How to Train Your Dragon*, to be released on March 26; and *Shrek Goes Fourth*, scheduled for release on May 21st all of which will be in IMAX 3D. We also plan to release an IMAX original film, currently titled *Hubble*, a 3D film as well. We look forward to announcing more 2010 titles as the year unfolds.

We believe IMAX is becoming an increasingly important partner to studios and exhibitors as we work together to deliver unique, premium movie-going experiences for consumers that cannot be replicated at home. We believe our strong film slate, increasing number of digital projection systems and joint revenue sharing theatre systems should drive significant revenue growth and, coupled with our intense focus on cost containment, should result in our returning to profitability in 2009. It is for these reasons that we look to 2009 with cautious optimism, even in this challenging global economic climate.

Our significant progress and the execution of our initiatives would not have been possible without the efforts and dedication of our employees. From the development and roll-out of our digital product, to strengthening and diversifying our studio relationships, to landing deals for 234 systems over the past two years, to securing the financing to fund our ongoing joint revenue sharing system roll-out, we are grateful for their many contributions. So too are we grateful for the strong support of our shareholders and our exhibitor and studio partners, who work with us to make the immersive IMAX Experience possible.

Finally, in December 2008 we announced that, effective April 1, 2009, Rich Gelfond would become sole Chief Executive Officer, while retaining his seat on the Board, and Brad Wechsler would become our sole Chairman of the Board. This new management structure is being put in place as we continue to successfully implement our Hollywood and digital strategies and enter this new and exciting period of growth. We look forward to reporting to you on our continued progress in 2009 and beyond.

/s/ Richard Gelfond /s/ Bradley Wechsler

Richard Gelfond Chief Executive Officer	Bradley Wechsler Chairman

IMAX Corporation
2525 Speakman Drive
Mississauga, Ontario, Canada, L5K 1B1

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of **IMAX Corporation** (the Company) will be held at Stony Brook Manhattan, 2nd Floor, 401 Park Avenue South, New York, New York, U.S.A., 10016 on Wednesday, June 3, 2009 at 10:30 a.m. (the Meeting), for the purposes of:

(1) receiving the consolidated financial statements for the fiscal year ended December 31, 2008, together with the auditors report thereon;

(2) electing directors;

(3) appointing auditors and authorizing the directors to fix the auditors remuneration; and

(4) transacting such other business as may properly be brought before the Meeting or any adjournments thereof.

By Order of the Board,

/s/ G. MARY RUBY

G. MARY RUBY
Executive Vice President, Corporate Services
and Corporate Secretary

Mississauga, Ontario
April 8, 2009

Shareholders who are unable to be present at the Meeting are requested to complete and return the accompanying Proxy in the envelope provided for that purpose. Proxies must be deposited with Computershare Investor Services Inc., c/o Stock and Bond Transfer Dept., 9th Floor, 100 University Avenue, Toronto, Ontario, Canada, M5J 2Y1 or at the Corporate Headquarters of the Company noted above on or before 10:30 a.m. (Eastern Time) on Monday, June 1, 2009.

Proxy Circular
and
Proxy Statement
April 8, 2009

IMAX CORPORATION

2525 Speakman Drive, Mississauga, Ontario, Canada, L5K 1B1
tel: 905-403-6500 fax: 905-403-6540
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IMAX Corporation
2525 Speakman Drive
Mississauga, Ontario, Canada, L5K 1B1

GENERAL INFORMATION

The Annual General Meeting (the Meeting) of Shareholders of IMAX Corporation (the Company) will be held at Stony Brook Manhattan, 2nd Floor, 401 Park Avenue South, New York, New York, U.S.A., 10016, on Wednesday, June 3, 2009 at 10:30 a.m., for the purposes of: (i) receiving the consolidated financial statements for the fiscal year ended December 31, 2008, together with the auditors report thereon; (ii) electing directors; (iii) appointing auditors and authorizing the directors to fix the auditors remuneration; and (iv) transacting such other business as may properly be brought before the Meeting or any adjournments thereof.

The Notice of Annual General Meeting, this document and the form of proxy (the Proxy) will be released on or about April 8, 2009 to holders of the Company s common shares (the Common Shares).

SOLICITATION OF PROXIES BY MANAGEMENT

This proxy circular and proxy statement (the Circular) is furnished in connection with the solicitation by the management of the Company of proxies to be used at the Annual General Meeting of Shareholders of the Company to be held on Wednesday, June 3, 2009, at Stony Brook Manhattan, 2nd Floor, 401 Park Avenue South, New York, New York, U.S.A., 10016 at 10:30 a.m., and at any adjournments thereof for the purposes set forth in the accompanying Notice of Annual General Meeting of Shareholders. While management intends to solicit most proxies by mail, some proxies may be solicited by telephone or other personal contact by directors, officers or employees of the Company. Directors, officers and employees will not receive any additional compensation for such activity. The Company will, upon request, pay brokers and certain other persons who hold the Company s Common Shares for others their reasonable expenses for sending proxy materials to the beneficial owners of the Company s Common Shares. The cost of solicitation will be borne by the Company.

INFORMATION ON VOTING

Record Date for Notice of Annual General Meeting and Provisions Relating to Voting

The Board of Directors has fixed April 13, 2009 as the record date for the Meeting. Accordingly, each holder of Common Shares of record on that date is entitled to one vote for each Common Share shown as registered in the shareholder s name on the list of shareholders prepared as of April 13, 2009.

Appointment and Delivery of Proxies

The persons named in the accompanying Proxy are directors and officers of the Company. **A shareholder has the right to appoint one of the persons designated as proxy holders in the accompanying Proxy or any other person, who need not be a shareholder of the Company, to attend and act on behalf of the shareholder at the Meeting.** To exercise this right, a shareholder may either insert such person s name in the blank space provided in the accompanying Proxy, or complete another appropriate form of proxy.

Revocability of Proxies

A shareholder who has given a proxy may revoke it by depositing an instrument in writing (including another proxy) executed by the shareholder or the shareholder s attorney authorized in writing at: (i) the registered office of the Company, IMAX Corporation, 2525 Speakman Drive, Mississauga, Ontario, Canada, L5K 1B1, Attention: Corporate Secretary, at any time up to and including 10:30 a.m., Eastern Time, on the second last business day prior to the date of the Meeting or any adjournment thereof; (ii) or with the chairman of the Meeting on the day of the Meeting or at any adjournment thereof; or (iii) in any other manner permitted by law, including attending the Meeting in person.

Unless otherwise indicated, all references in this document to dollar amounts are to U.S. dollars.

All information contained in this document is at April 1, 2009, unless otherwise indicated.

Proxy and Voting by Mail or Delivery

To vote by mail or delivery, your paper Proxy must be completed, signed and returned in accordance with the instructions on the paper Proxy. To be valid, a Proxy must be dated and signed by the shareholder or the shareholder s attorney authorized in writing. The Proxy, to be acted upon, must be deposited with the Company c/o its transfer agent, Computershare Investor Services Inc., c/o Stock & Bond Transfer Dept., 9th Floor, 100 University Avenue, Toronto, Ontario, Canada, M5J 2Y1 or at the Corporate Headquarters of the Company, by 10:30 a.m. (Eastern Time) on June, 1, 2009 or 10:30 a.m. on the second last business day prior to the date of any adjournment of the Meeting.

Proxy and Voting by Telephone

To vote by telephone, call the toll-free number shown on the Proxy form provided. Using a touch-tone telephone to select your voting preferences, follow the instructions of the Vote voice and **refer to your holder account number and access number provided on the Proxy** that was delivered to you by mail.

Note that voting by telephone is not available if you wish to appoint a person as a proxy other than the persons named on the Proxy form. In such a case, your Proxy should be voted by mail, delivery, or Internet.

Proxy and Voting by Internet

To vote your Proxy by Internet, visit the website address as shown on the Proxy form provided. Follow the on-line voting instructions given to you over the Internet and **refer to your holder account number and access number provided on the Proxy** that was delivered to you by mail.

Voting by Proxy

The Common Shares represented by proxy will be voted and withheld from voting in accordance with the instructions of the shareholder on any ballot that may be called for, and if the shareholder specifies a choice with respect to any matter to be acted upon, the Common Shares will be voted accordingly. For the purpose of voting by Proxy, Proxies marked as Withhold will be treated as present for the purpose of determining a quorum but will not be counted as having been voted in respect of any matter to which the instruction to Withhold is indicated.

By completing and returning a Proxy, you are authorizing the person named in the Proxy to attend the Meeting and vote your Common Shares on each item of business you are entitled to vote on, according to your instructions. **If there are no instructions with respect to your Proxy, your Common Shares will be voted in favour of the election of directors and the appointment of auditors and authorization of the directors to fix the auditors remuneration, in each case, as referred to in this Circular.**

Proxies returned by intermediaries as non-votes because the intermediary has not received instructions from the non-registered shareholder with respect to the voting of certain shares or, under applicable stock exchange or other rules, the intermediary does not have the discretion to vote those shares on one or more of the matters that come before the Meeting, will be treated as not entitled to vote on any such matter and will not be counted as having been voted in respect of any such matter. Shares represented by broker non-votes will, however, be counted in determining whether there is a quorum.

Exercise of Discretion by Proxies

The person appointed as proxy holder has discretionary authority and may vote the Common Shares represented thereby as such person considers best with respect to amendments or variations to matters identified in the Notice of Annual General Meeting, and with respect to any other matter which may properly come before the Meeting. As of the date of this Circular, management of the Company is not aware of any such amendment, variation or other matter proposed or likely to come before the Meeting. However, if any such amendment, variation or other matter properly comes before the Meeting, it is the intention of the persons named in the accompanying Proxy to vote on such other business in accordance with their judgement.

VOTING SHARES

On April 1, 2009, the Company had 43,730,631 Common Shares issued and outstanding, each carrying the right to one vote at all meetings of the shareholders of the Company.

A quorum for the transaction of business at the Meeting shall be at least two persons present in person, each being a shareholder entitled to vote thereat or a duly appointed proxy holder for such shareholder and together holding or representing by Proxy not less than 33 1/3% of the outstanding Common Shares entitled to be voted at the Meeting.

PRINCIPAL SHAREHOLDERS OF VOTING SHARES

The Company is not aware of any persons who as of April 1, 2009, beneficially owned or exercised control or direction over more than 5% of the Company s Common Shares except:

Name and Address of Beneficial Owner of Common Shares	Amount and Nature of Beneficial Ownership of Common Shares	Percent of Outstanding Common Shares
Bradley J. Wechsler Suite 2100, 110 East 59th Street, New York, NY 10022	2,582,800(1)	5.8%
Douglas Group Kevin and Michelle Douglas Douglas Family Trust James E. Douglas, III James & Jean Douglas Irrevocable Descendants Trust 125 E. Sir Francis Drake Blvd., Suite 400, Larkspur, CA 94939	8,626,447(2)	19.7%
First Wilshire Securities Management, Inc. 1224 East Green Street, Suite 200, Pasadena, CA 91106	2,953,961(3)	6.8%
Pequot Capital Management, Inc. 500 Nyala Farm Road, Westport, CT 06880	2,500,298(4)	5.7%

As of April 1, 2009, Richard L. Gelfond, the Company s Chief Executive Officer, beneficially owns 2,136,250 Common Shares (4.8%), including 1,150,000 Common Shares as to which Mr. Gelfond had the right to acquire beneficial ownership through the exercise of options. Mr. Gelfond has sole voting and dispositive power with respect to 1,994,150 Common Shares and shared voting and dispositive power with respect to 142,100 Common Shares. On December 23, 2008, Mr. Gelfond transferred 586,650 Common Shares to his former spouse for no consideration pursuant to a divorce settlement order. Mr. Gelfond no longer reports beneficial ownership of these Common Shares.

Statements as to securities beneficially owned by the above-mentioned beneficial owners, or as to securities over which they exercise control or direction, are based upon information obtained from such beneficial owners and from records available to the Company.

The amount of Common Shares listed includes the number of Common Shares owned at April 1, 2009 and Common Shares as to which each individual had at April 1, 2009, the right to acquire beneficial ownership through the exercise of vested options plus options that vest within 60 days of that date.

The percentage of outstanding Common Shares is based on dividing the number of Common Shares beneficially owned by such person by 43,730,631 Common Shares outstanding as of April 1, 2009, adjusted for Common Shares issuable through the exercise of vested options, held by such person, plus options held by such person that vest within

60 days of that date.

(1) Included in the amount shown are 1,050,000 Common Shares as to which Mr. Wechsler had the right to acquire beneficial ownership as of April 1, 2009, through the exercise of options. Mr. Wechsler has sole voting and dispositive power with respect to 2,108,300 Common Shares and shared voting and dispositive power with respect to 474,500 Common Shares.

(2) Based on information contained in a Schedule 13G/A, dated February 17, 2009, filed jointly by Kevin Douglas, Michelle Douglas, James E. Douglas, III, the Douglas Family Trust, the K&M Douglas Trust, and James Douglas & Jean Douglas Irrevocable Descendants Trust. Kevin Douglas has shared voting power with respect to 6,038,513 Common Shares. (Kevin Douglas and his wife, Michelle Douglas, hold 3,709,372 Common Shares jointly as the beneficiaries and co-trustees of the K&M Douglas Trust. In addition, Kevin Douglas and Michelle Douglas are co-trustees of the James Douglas and Jean Douglas Irrevocable Descendants Trust, which holds 2,329,141 Common Shares.) Kevin Douglas has shared dispositive power with respect to 8,626,447 Common Shares. (Kevin Douglas has dispositive power with respect to 862,645 Common Shares held by James E. Douglas, III and 1,725,289 Common Shares held by the Douglas Family Trust.)

(3) Based on information contained in a Schedule 13G, dated February 13, 2009, filed by First Wilshire Securities Management, Inc. (First Wilshire). First Wilshire has sole voting power with respect to 430,030 Common Shares and sole dispositive power with respect to 2,953,961 Common Shares. First Wilshire holds shared voting/dispositive power with respect to none of the Common Shares.

(4) Based on information contained in a Schedule 13G, dated February 13, 2009, filed by Pequot Capital Management, Inc. (Pequot). Pequot has sole voting and dispositive power with respect to 2,500,298 Common Shares. Pequot holds shared voting/dispositive power with respect to none of the Common Shares.

SHAREHOLDER PROPOSALS FOR THE COMPANY S 2010 ANNUAL MEETING

If a shareholder wishes to propose any matter for a vote by the Company s shareholders at the Company s 2010 annual meeting, he/she must send his/her proposal to the Corporate Headquarters of the Company at IMAX Corporation, 2525 Speakman Drive, Mississauga, Ontario, Canada, L5K 1B1, Attention: Corporate Secretary. The Company may omit the proposal from next year s proxy circular and proxy statement under applicable Canadian corporate law and U.S. securities laws if it is not received by the Company s Corporate Secretary at the address noted above by December 1, 2009.

SHAREHOLDER COMMUNICATION

The Company does not have a formal policy regarding shareholders communicating with the Board of Directors, although shareholders may do so in writing to IMAX Corporation, 2525 Speakman Drive, Mississauga, Ontario, Canada, L5K 1B1, Attention: Board of Directors and Secretary to the Board. The Secretary forwards all shareholder communications to the Board of Directors.

FINANCIAL STATEMENTS AND AUDITORS REPORT

The Board of Directors will submit to the shareholders at the Meeting the consolidated financial statements for the fiscal year ended December 31, 2008, and the auditors report thereon. A copy of these financial statements and the auditors report is included in the Annual Report on Form 10-K, which is being mailed to the Company s shareholders together with this Circular.

ELECTION OF DIRECTORS

The Company s articles permit the Company to have between one and 15 directors, with the actual number determined by the Board of Directors. The Board of Directors has fixed the number of directors at seven.

At the Meeting, shareholders will be asked to approve the election of directors, by ordinary resolution, which requires that a majority of the votes cast at the Meeting be in favour of the resolution for the election of the nominees. **In the absence of any instruction on the accompanying Proxy, it is the intention of the persons named by management in the Proxy to vote the Common Shares represented by the Proxy in favour of the resolution.**

The Board of Directors is divided into three classes, each of which serves for a three-year term. The Board of Directors is currently composed of Neil S. Braun, Kenneth G. Copland, Richard L. Gelfond, Garth M. Girvan, David W. Leebron, Marc A. Utay, and Bradley J. Wechsler. At the Meeting the term of Class I directors expires. The term of Class II directors expires in 2011. The term of Class III directors expires in 2010.

Nominees for Election

The individuals noted below are to be nominated for election to the Board of Directors of the Company in Class I.

The following table lists certain information concerning the persons to be nominated for election to the Board of Directors of the Company in Class I and the directors whose terms continue after the Meeting.

Nominees for Election as Class I Directors for the Term Expiring in 2012	**Current Position with the Company**
Neil S. Braun, 56, New York, New York, U.S.A. Neil S. Braun has been a director of the Company since June 2003, has been CEO of The Carbon Neutral Company since November 2008 and previously the Chairman & Chief Executive Officer of The GreenLife Organization. Mr. Braun previously served as President, Distribution & Marketing of Starz Media since it acquired IDT Entertainment in August 2006, President, Feature Films and Television of IDT Entertainment since January 2005 and the President of Vanguard Animation, LLC since 2001. He was the President of Vast Video Inc. prior to this and was President of iCast Corporation a wholly-owned subsidiary of CMGI, Inc. during 1999. From 1994 to 1998, Mr. Braun was President of NBC Television Network. Mr. Braun also sits on the Share our Strength and Westhampton Beach Performing Arts Center boards of directors and is a member of the University of Pennsylvania School of Arts and Sciences Board of Overseers, all non-profit organizations. Mr. Braun is a member of the Company s Audit, Compensation and Nominating Committees.	Director
Kenneth G. Copland, 71, Toronto, Ontario, Canada Kenneth G. Copland has been a director of the Company since June 1999 and is the Chairman of KGC Ltd. Mr. Copland was the Vice-Chairman of BMO Nesbitt Burns Inc. from 1994 to May 2001. Mr. Copland is a director of BMONT Split Corp. and Allbanc Split Corp. II. Mr. Copland serves as the Chairman of the Audit Committee of the Company and is a member of the Company s Compensation and Nominating Committees. Mr. Copland is a Canadian citizen.	Director
Garth M. Girvan, 60, Toronto, Ontario, Canada Garth M. Girvan has been a director of the Company since March 1994 and is a partner of McCarthy Tétrault LLP, Canadian counsel to the Company. Mr. Girvan is a director of Entertainment One Ltd. Mr. Girvan serves as the Chairman of the Compensation Committee of the Company and is a member of the Company s Corporate Governance and Option Committees. Mr. Girvan is a Canadian citizen.	Director

Directors who Continue in Office after the Meeting	**Expiry of Term of Office**
Richard L. Gelfond, 53, New York, New York, U.S.A. Effective April 1, 2009, Mr. Gelfond assumed the role of sole Chief Executive Officer of the Company. Mr. Gelfond served as Co-Chairman of the Company with Mr. Wechsler from June 1999 to March 31, 2009 and Co-Chief Executive Officer with Mr. Wechsler from May 1996 to March 31, 2009. From March 1994 to June 1999, Mr. Gelfond served as Vice Chairman of the Company. Mr. Gelfond serves as Chairman of the Board of Trustees of the	2010

Stony Brook Foundation, Inc., affiliated with Stony Brook University, and is on the Board of Directors for Brookhaven Science Associates, the Management Company of Brookhaven National Laboratories. Mr. Gelfond is a member of the Board of Directors of the Atlantic Counsel. He is also Vice Chairman of the New York Historical Society and a Member of the Motion Picture Academy of Arts & Science. Mr. Gelfond served as the Chairman of the Columbia Shuttle Memorial Trust Steering Committee, which was established in co-operation with NASA to support the families of the seven crew members of the STS-107 mission of the Space Shuttle Columbia, which came to a tragic end on February 1, 2003.

David W. Leebron, 54, Houston, Texas, U.S.A. 2011

David W. Leebron has been a director of the Company since September 2003 and has been the President of Rice University since July 1, 2004. Prior to July 1, 2004, Mr. Leebron held the position of Dean and Lucy G. Moses Professor of Law at Columbia University School of Law since 1996 and Professor of Law since 1989. Mr. Leebron is on the Council on Foreign Relations, and on the board of the Greater Houston Partnership. Mr. Leebron serves as Chairman of the Corporate Governance and Nominating Committees of the Company and is a member of the Company s Audit and Compensation Committees.

Directors who Continue in Office after the Meeting	Expiry of Term of Office
Marc A. Utay, 49, New York, New York, U.S.A. Marc A. Utay has been a director of the Company since May 1996 and has been the Managing Partner of Clarion Capital Partners, a private equity investment firm, since November 1999. Prior to joining Clarion, Mr. Utay was a Managing Director of Wasserstein Perella & Co. Inc. and a member of Wasserstein Perella s Policy Committee. Mr. Utay was co-head of Wasserstein Perella s Leveraged Finance, Retailing and Media, Telecommunication and Entertainment groups. Until December 2002, Mr. Utay was also a Senior Advisor to Dresdner Kleinwort Wasserstein. Mr. Utay is a director of P&F Industries, Inc. Mr. Utay serves as Chairman of the Option Committee of the Company and is a member of the Company s Corporate Governance and Compensation Committees.	2011
Bradley J. Wechsler, 57, New York, New York, U.S.A. Effective April 1, 2009 Bradley J. Wechsler assumed the role of sole Chairman of the Company s Board of Directors. Mr. Wechsler served as Co-Chief Executive Officer of the Company with Mr. Gelfond from May 1996 to March 31, 2009. From March 1994 to June 1999, Mr. Wechsler served as Chairman of the Company and served as Co-Chairman with Mr. Gelfond from June 1999 to March 31, 2009. Mr. Wechsler serves on the boards of the American Museum of the Moving Image, Math for America, the Ethical Culture Fieldston Schools and Apollo Investment Corporation. Mr. Wechsler also serves on the board of the NYU Hospital and Medical Center, where he is a Vice Chairman and member of the Executive Committee. Mr. Wechsler is a Member of the Motion Picture Academy of Arts & Science.	2010

The Board of Directors recommends that you vote in favour of the election of the nominees whose names are set forth above.

The persons named in the accompanying Proxy intend to vote for the election of the nominees whose names are set forth above. If any of the above nominees is for any reason unable to serve as a director, proxies in favour of management will be voted for another nominee in their discretion unless the shareholder has specified in the Proxy that such shareholder s Common Shares are to be withheld from voting on the election of directors.

The nominees for election as directors have indicated to the Company that they will serve if elected. Each director elected will hold office until the earlier of the expiry of the term for which he has been elected; until his successor is elected or appointed; or until the date of his resignation or termination.

Shareholders who wish to have the Board of Directors consider the nomination of any person for director at the 2010 meeting of shareholders should communicate with the Company s Corporate Secretary at the Company s corporate office (see description below under Nomination Process).

EXECUTIVE OFFICERS

The following table sets forth certain information regarding the executive officers of the Company as of April 1, 2009.

Name	Age	Position
Richard L. Gelfond	53	Chief Executive Officer and Director

Joseph Sparacio	49	Executive Vice President & Chief Financial Officer
Greg Foster	46	Chairman & President, Filmed Entertainment
Robert D. Lister	40	Senior Executive Vice President and General Counsel
Brian Bonnick	52	Executive Vice President, Technology
David B. Keighley	60	Executive Vice President & President, David Keighley Productions 70MM Inc.
Larry O Reilly	46	Executive Vice President, Theatre Development
G. Mary Ruby	51	Executive Vice President, Corporate Services and Corporate Secretary
Mark Welton	45	Executive Vice President, Corporate and Digital Development & Theatre Operations
Edward MacNeil	44	Senior Vice President, Finance
Jeffrey Vance	37	Vice President, Finance & Controller

Richard L. Gelfond assumed the role of sole Chief Executive Officer of the Company effective April 1, 2009, and remains a member of the Company s Board of Directors. Mr. Gelfond served as Co-Chairman of the Company with Mr. Wechsler from June 1999 to March 31, 2009 and Co-Chief Executive Officer with Mr. Wechsler from May 1996 to March 31, 2009. From March 1994 to June 1999, Mr. Gelfond served as Vice Chairman of the Company. Mr. Gelfond serves as Chairman of the Board of Trustees of the Stony Brook Foundation, Inc., affiliated with Stony Brook University, and is on the Board of Directors for Brookhaven Science Associates, the Management Company of Brookhaven National Laboratories. Mr. Gelfond is a member of the Board of Directors of the Atlantic Counsel. He is also Vice Chairman of the New York Historical Society and a Member of the Motion Picture Academy of Arts & Science. Mr. Gelfond served as the Chairman of the Columbia Shuttle Memorial Trust Steering Committee, which was established in co-operation with NASA to support the families of the seven crew members of the STS-107 mission of the Space Shuttle Columbia, which came to a tragic end on February 1, 2003.

Joseph Sparacio joined the Company in May 2007 as Executive Vice President and was appointed Chief Financial Officer (CFO) in August 2007. Prior to joining the Company, Mr. Sparacio served as Senior Vice President and Chief Financial Officer for the programming company iN Demand L.L.C. from June 2002 until his employment with the Company. From 1998 to 2002, Mr. Sparacio served as Vice President of Finance and Controller for Loews Cineplex Entertainment Corporation. From 1994 to 1998, Mr. Sparacio served as Vice President, Finance and Controller of Loews Theater Management Corp., and from 1990 to 1994, he served as Controller. Prior to joining Loews, Mr. Sparacio spent eight years with Ernst & Young. Mr. Sparacio is a certified public accountant and is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

Greg Foster joined the Company in March 2001 as President, Filmed Entertainment and was appointed Chairman & President, Filmed Entertainment in September 2004. Prior to joining the Company, Mr. Foster was Executive Vice-President of Production at MGM/UA. Prior to that, Mr. Foster held other senior positions including Senior Vice-President of Motion Picture Marketing Research during his 15 years at MGM/UA. In 1999, Mr. Foster founded uMogul, a financial services company and held the position of Chairman, Co-Founder and President.

Robert D. Lister joined the Company in May 1999 as Senior Vice President, Legal Affairs and General Counsel, and was appointed Senior Executive Vice President and General Counsel in December 2007. Previous to that, Mr. Lister held the position of Executive Vice President, Business & Legal Affairs, Corporate Communications and General Counsel since January 2006 and was Executive Vice President, Legal and Business Affairs and General Counsel, a position he held from May 2001 to January 2006. Prior to joining the Company, Mr. Lister was Vice President, General Counsel and Secretary of Clearview Cinemas, a film exhibitor, from March 1998 until his employment with the Company. Prior to that, Mr. Lister served as Associate General Counsel of Merit Behavioral Care Corporation, a behavioral healthcare company, from March 1996 through March 1998. Mr. Lister is a member of the New York State Bar Association.

Brian Bonnick joined the Company in January 1999 as Vice President, Research & Technology and was appointed Executive Vice President, Technology in June 2006. Previous to that, Mr. Bonnick held the position of Senior Vice President, Technology, a position he held since August 2001. Prior to joining the Company, Mr. Bonnick was Vice President, Engineering and Operations for Electrohome Corporation. Prior to that Mr. Bonnick was Vice President and General Manager at TSB International Inc., a telecommunications company. Mr. Bonnick is registered as a professional engineer by the Association of Professional Engineers of Ontario.

David B. Keighley joined the Company in February 1988 and was appointed Executive Vice President of the Company in July 2007. Previous to that, Mr. Keighley held the position of Senior Vice President, a position he held since July 1997. Mr. Keighley is President of David Keighley Productions 70MM Inc., a subsidiary of the Company. Mr. Keighley is responsible for motion picture and digital post-production and image quality assurance.

Larry O Reilly joined the Company in March 1994 as the Sales Manager, Film Distribution and was appointed Executive Vice President, Theatre Development in September 2004. Mr. O Reilly has held various positions within the Company including Manager, Business Development, Film; Director, Strategic Partnerships; Director, Commercial Marketing: The Americas; Vice President, Sales, The Americas; and Senior Vice President, Theatre Development & Film Distribution.

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G. Mary Ruby joined the Company in October 1987 as Associate General Counsel and was appointed Executive Vice President, Corporate Services (Legal, Human Resources and Administration) and Corporate Secretary in January 2008. Previous to that Ms. Ruby held the position of Senior Vice President, Human Resources and Administration since May 2007 and Senior Vice President, Legal Affairs and Corporate Secretary since July 2001. Ms. Ruby held the position of General Counsel of the Company from February 1989 to February 1997. Ms. Ruby is also Deputy General Counsel and acts as Corporate Secretary to the Board of Directors. In November 2004, Ms. Ruby was appointed by the Company s Audit Committee as Chief Compliance Officer, responsible for oversight of the Company s Whistle Blower Program. Ms. Ruby is a member of the Ontario Bar Association. Ms. Ruby is a Governor and Chairperson of the Governance Committee of Branksome Hall.

Mark Welton joined the Company in July 1997 as Director, Business Affairs and was appointed Executive Vice President, Corporate and Digital Development & Theatre Operations in April 2007. From September 2001 to October 2003, Mr. Welton held the position of Senior Vice President, Business Affairs, and from October 2003 to June 2006, Mr. Welton held the position of Senior Vice President, Theatre Operations and from June 2006 to April 2007 held the position of Executive Vice President, Theatre Operations & General Manager, Digital. Prior to joining the Company Mr. Welton was an associate lawyer at the law firm Stikeman, Elliot from 1994 until his employment with the Company.

Edward MacNeil joined the Company in April 1994 as Director, Taxation & Treasury and was appointed Senior Vice President, Finance in August 2007. Mr. MacNeil served as interim Chief Financial Officer from August 2006 to August 2007. From October 1999 to August 2001, Mr. MacNeil held the position of Director and Senior Vice President of Digital Projection Limited, a former subsidiary of the Company. From September 2001 to September 2006, Mr. MacNeil held the position of Vice President Finance, Tax and Special Projects. Prior to joining the Company, Mr. MacNeil was a Taxation Manager at PricewaterhouseCoopers. Mr. MacNeil is a member of the Canadian Institute of Chartered Accountants.

Jeffrey Vance joined the Company in October 2004 as Manager, Business Operations and was appointed Vice President, Finance and Controller in February 2008. Mr. Vance served as Co-Controller from November 2006 and previous to that, Mr. Vance held the position of Director, Finance and Treasurer. Prior to joining the Company, Mr. Vance was employed in the Audit and Business Advisory Division at Arthur Andersen LLP from 1994 to 2002, most recently as Audit Manager, and was the Assistant Director, Financial Administration at FedEx Trade Networks Transport and Brokerage (Canada) Inc. from 2002 to 2003 and Eastern Region Controller and Manager of Administration at Comstock Canada Ltd. from 2003 to 2004. Mr. Vance is a Chartered Accountant.

EQUITY COMPENSATION PLANS

The following table sets forth information regarding the Company s equity compensation plans as of December 31, 2008.

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))**

	(a)	**(b)**	**(c)**
Equity compensation plans approved by security holders	6,686,182	$ 5.97	2,011,944
Equity compensation plans not approved by security holders	Nil	Nil	Nil
Total	6,686,182	$ 5.97	2,011,944

SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT

The following table sets forth information with respect to the beneficial ownership of the Company s Common Shares as of April 1, 2009 or as otherwise indicated in the notes below, including (i) all persons to be nominated for election to the Board of Directors, individually; (ii) all directors and the named executive officers, individually; and (iii) all directors and officers as a group. The Company s named executive officers are the individuals who served during 2008 as Chief Executive Officers, Chief Financial Officer and the three most highly compensated executive officers of the Company, other than the Chief Executive Officers and the Chief Financial Officer, who were serving as executive officers as of December 31, 2008 (collectively, the Named Executive Officers).

Name of Beneficial Owner of Common Shares	**Amount and Nature of Beneficial Ownership of Common Shares**	**Percent of Outstanding Common Shares**
Richard L. Gelfond	2,136,250(1)	4.8%
Bradley J. Wechsler	2,582,800(2)	5.8%
Neil S. Braun	40,000	
Total Rick's permanent stockholders' equity	71,203	69,939
Noncontrolling interests	3,313	3,314
Total permanent stockholders' equity	74,516	73,253
Total liabilities and stockholders' equity	$ 148,327	$ 148,371

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	Three Months Ended December 31, 2010 (UNAUDITED)	2009
Revenues:		
Sales of alcoholic beverages	$ 8,359	$ 8,050
Sales of food and merchandise	1,784	1,590
Service revenues	9,412	9,292
Internet revenues	125	145
Media revenues	216	257
Other	962	671
Total revenues	20,858	20,005
Operating expenses:		
Cost of goods sold	2,518	2,456
Salaries and wages	4,676	4,310
Stock-based compensation	-	44
Other general and administrative:		
Taxes and permits	3,063	2,836
Charge card fees	364	346
Rent	1,079	993
Legal and professional	485	650
Advertising and marketing	1,183	2,938
Depreciation and amortization	1,072	842
Insurance	303	262
Utilities	406	406
Other	1,579	1,536
Total operating expenses	16,728	17,619
Income from operations	4,130	2,386
Other income (expense):		
Interest income	12	4
Interest expense	(1,124)	(1,029)
Gain on change in fair value of derivative instruments	148	44
Income from continuing operations before income taxes	3,166	1,405
Income taxes	1,026	514
Income from continuing operations	2,140	891
Loss from discontinued operations, net of income taxes	(11)	(35)
Net income	2,129	856
Less: net income attributable to noncontrolling interests	(53)	(73)
Net income attributable to Rick’s Cabaret International, Inc.	$ 2,076	$ 783

Basic earnings (loss) per share attributable to Rick’s shareholders:				
Income from continuing operations	$	0.21	$	0.09
Loss from discontinued operations		(0.00)		(0.00)
Net income	$	0.21	$	0.08
Diluted earnings (loss) per share attributable to Rick’s shareholders:				
Income from continuing operations	$	0.21	$	0.09
Loss from discontinued operations		(0.00)		(0.00)
Net income	$	0.21	$	0.08
Weighted average number of common shares outstanding:				
Basic		10,043		9,370
Diluted		10,045		9,385

Comprehensive income amounted to $2,049 and $783 for the three months ended December 31, 2010 and 2009, respectively. This includes the changes in available-for-sale securities and net income.

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, except per share data)	FOR THE THREE MONTHS ENDED DECEMBER 31, 2010	2009
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,076	$ 783
Loss from discontinued operations	11	35
Income from continuing operations	2,087	818
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,072	842
Deferred taxes	(24)	63
Amortization of note discount	37	45
Gain on change in fair value of derivative instruments	(148)	(44)
Beneficial conversion	-	6
Noncontrolling interests	53	73
Deferred rents	16	19
Stock compensation expense	-	44
Changes in operating assets and liabilities:		
Accounts receivable	(16)	(12)
Inventories	(217)	96
Prepaid expenses and other assets	127	(11)
Accounts payable and accrued liabilities	(165)	1,319
Cash provided by operating activities of continuing operations	2,822	3,258
Cash provided by (used in) operating activities of discontinued operations	9	(24)
Net cash provided by operating activities	2,831	3,234
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(658)	(1,392)
Purchase of marketable securities	(505)	(1,009)
Acquisition of businesses, net of cash acquired	-	(2,672)
Payments from notes receivable	-	2
Cash used in investing activities of continuing operations	(1,163)	(5,071)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of put options and payments on derivative instrument	(556)	(529)
Payments on long-term debt	(613)	(685)
Purchase of treasury stock	(894)	(253)
Distribution to minority interests	(54)	(75)
Cash used in financing activities of continuing operations	(2,117)	(1,542)
NET DECREASE IN CASH	(449)	(3,379)
CASH AT BEGINNING OF PERIOD	19,168	12,850
CASH AT END OF PERIOD	$ 18,719	$ 9,471
CASH PAID DURING PERIOD FOR:		
Interest	$ 1,217	$ 746
Income taxes	$ 1,666	$ 245

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q of Regulation S-X. They do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the financial statements for the year ended September 30, 2010 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-K. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the three months ended December 31, 2010 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011.

2. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

In January 2010, new guidance was issued regarding improving disclosures about fair value measurements. This standard amends the disclosure guidance with respect to fair value measurements for both interim and annual reporting periods. Specifically, this standard requires new disclosures for significant transfers of assets or liabilities between Level 1 and Level 2 in the fair value hierarchy; separate disclosures for purchases, sales, issuance and settlements of Level 3 fair value items on a gross rather than net, basis; and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and Level 3 assets and liabilities. Except for the detailed disclosures of changes in Level 3 items, which will be effective as of October 1, 2011, the remaining new disclosure requirements were effective as of October 1, 2010.

3. SIGNIFICANT ACCOUNTING POLICIES

Following are certain accounting principles and disclosures which are new in this quarter.

Marketable Securities

Marketable securities at December 31, 2010 consist of bond funds. ASC 320, Investments in Debt and Equity Securities, requires certain investments be recorded at fair value or amortized cost. The appropriate classification of the investments in marketable equity is determined at the time of purchase and re-evaluated at each balance sheet date. As of December 31, 2010, the Company’s marketable securities were classified as available-for-sale, which are carried at fair value, with unrealized gains and losses reported as other comprehensive income within the stockholders’ equity section of the accompanying consolidated balance sheets. The cost of marketable securities sold is determined on a specific identification basis. The fair value of marketable securities is based on quoted market prices based on Level 1 inputs — quoted prices (unadjusted) for identical assets or liabilities in active markets. There have been no realized gains or losses related to marketable securities for the quarters ended December 31, 2010 or 2009. Marketable securities held at December 31, 2010 have a cost basis of approximately $505,056.

Fair Value of Financial Instruments

The Company calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short maturity of these instruments. The carrying value of short and long-term debt also approximates fair value since these instruments bear market rates of interest. None of these instruments are held for trading purposes.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010
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3. SIGNIFICANT ACCOUNTING POLICIES - continued

Discontinued Operations

In certain previous filings, the Company had recognized its Rick's Cabaret in Austin, Texas as a discontinued operation. That club was held for sale during a portion of 2009, but the Company decided to renovate and reopen the club and relaunch it with a new concept in April 2010. After the club was not immediately successful, the Company closed the club again in July 2010. The club began operating as Jaguars Gold Club in September 2010.

We closed our Divas Latinas club in Houston during September 2009. This club is recognized in discontinued operations.

4. STOCK OPTIONS AND STOCK-BASED EMPLOYEE COMPENSATION

Employee and Director Stock Option Plans

In 1995, the Company adopted the 1995 Stock Option Plan (the "1995 Plan") for employees and directors. In August 1999, the Company adopted the 1999 Stock Option Plan (the "1999 Plan") and in 2010, the Company's Board of Directors approved the 2010 Stock Option Plan (the "2010 Plan") (collectively, "the Plans"). The 2010 Plan will be submitted to the shareholders of the Company for adoption at the 2011 Annual Meeting of Shareholders. The options granted under the Plans may be either incentive stock options, or non-qualified options. The Plans are administered by the Board of Directors or by a compensation committee of the Board of Directors. The Board of Directors has the exclusive power to select individuals to receive grants, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price equal to at least 85% of the fair market value of the common stock covered by the option on the grant date and to make all determinations necessary or advisable under the Plans.

The compensation costs recognized for the three months ended December 31, 2010 and 2009 were zero and $44,037, respectively. There were no stock option exercises for the three months ended December 31, 2010. There were no stock option grants for the three month periods ended December 31, 2010 and 2009.

Below is the summary of common stock options outstanding as of December 31, 2010:

(in thousands) Employee and Director Stock Option Plan:	Options Authorized	Options Outstanding	Options Vested	Available for Grant
1999 Stock Option Plan	1,500	565	565	35

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

4. STOCK OPTIONS AND STOCK-BASED EMPLOYEE COMPENSATION - continued

Stock Option Activity

The following is a summary of all stock option transactions for the three months ended December 31, 2010:

(in thousands, except for per share and year information)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2010	565	$ 9.94		
Granted	-	-		
Cancelled or expired	-	-		
Exercised	-	-		
Outstanding as of December 31, 2010	565	$ 9.94	1.58	$ 22
Options exercisable as of December 31, 2010	565	$ 9.94	1.58	$ 22

5. GOODWILL AND OTHER INTANGIBLES

Following are the changes in the carrying amounts of goodwill and licenses for the three months ended December 31, 2010 and 2009:

(in thousands)	2010		2009	
	Licenses	Goodwill	Licenses	Goodwill
Beginning balance	$ 42,617	$ 19,459	$ 41,260	$ 37,071
Change in tax basis of assets	(202)	202	-	15
Intangibles acquired	-	-	2,004	-
Ending balance	$ 42,415	$ 19,661	$ 43,264	$ 37,086

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010
(UNAUDITED)

6. SEGMENT INFORMATION

Below is the financial information related to the Company’s segments:

(in thousands)	Three Months Ended December 31, 2010	2009
REVENUES		
Night clubs	$ 20,517	$ 19,603
Media	216	257
Internet websites	125	145
	$ 20,858	$ 20,005
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		
Night clubs	$ 4,365	$ 2,561
Media	(76)	(65)
Internet websites	(4)	21
General corporate	(1,119)	(1,112)
	$ 3,166	$ 1,405

General corporate expenses include corporate salaries, health insurance and social security taxes for officers, legal, accounting and information technology employees, corporate taxes and insurance, legal and accounting fees, depreciation and other corporate costs such as automobile and travel costs. Management considers these to be non-allocable costs for segment purposes

7. COMMON STOCK

During the quarter ended December 31, 2009, the Company purchased 33,000 shares of Company common stock for its treasury at an aggregate cost of $252,885. These shares have been retired.

During the quarter ended December 31, 2010, the Company purchased 123,800 shares of Company common stock for its treasury at an aggregate cost of $894,149. These shares have been retired.

8. EARNINGS PER SHARE (EPS)

The Company computes earnings per share in accordance with FASB ASC 260, Earnings Per Share. ASC 260 provides for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of the Company.

Potential common stock shares consist of shares that may arise from outstanding dilutive common stock warrants and options (the number of which is computed using the “treasury stock method”) and from outstanding convertible debentures (the number of which is computed using the “if converted method”).

Diluted EPS considers the potential dilution that could occur if the Company’s outstanding common stock options, warrants and convertible debentures were converted into common stock that then shared in the

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010
(UNAUDITED)

8. EARNINGS PER SHARE (EPS) - continued

Company's earnings (as adjusted for interest expense, that would no longer occur if the debentures were converted).

Net earnings applicable to common stock and the weighted – average number of shares used for basic and diluted earnings per share computations are summarized in the table that follows:

	FOR THE QUARTER ENDED DECEMBER 31,			
		2010		2009
Basic earnings per share:				
Income from continuing operations attributable to Rick's shareholders	$	2,087	$	818
Loss from discontinued operations, net of income taxes		(11)		(35)
Net income attributable to Rick's shareholders	$	2,076	$	783
Average number of common shares outstanding		10,043		9,370
Basic earnings per share - income from continuing operations	$	0.21	$	0.09
Basic earnings per share - discontinued operations	$	(0.00)	$	(0.00)
Basic earnings per share - net income attributable to Rick's shareholders	$	0.21	$	0.08
Diluted earnings per share:				
Average number of common shares outstanding:				
Common shares outstanding		10,043		9,370
Potential dilutive shares resulting from exercise of warrants and options (1)		2		15
Potential dilutive shares resulting from conversion of debentures (2)		-		-
Total average number of common shares outstanding used for dilution		10,045		9,385
Diluted earnings per share - income from continuing operations attributable to Rick's shareholders	$	0.21	$	0.09
Diluted earnings per share - discontinued operations	$	(0.00)	$	(0.00)
Diluted earnings per share - net income attributable to Rick's shareholders	$	0.21	$	0.08

(1) All outstanding warrants and options were considered for the EPS computation. Potential dilutive options and warrants of 889,081and 244,569 for the three months ended December 31, 2010 and 2009, respectively, have been excluded from earnings per share due to being anti-dilutive.
(2) Convertible debentures (principal and accrued interest) outstanding at December 31, 2010 and 2009 totaling $9,212,778 and $7,902,176, respectively, were convertible into common stock at a price of $10.25 per share in 2010 and $8.75 to $12.00 per share in 2009. Potential dilutive shares of 899,057 and 888,491 for the three months ended December 31, 2010 and 2009, respectively, have been excluded from earnings per share due to being anti-dilutive.

*EPS may not foot due to rounding.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010
(UNAUDITED)

9. ACQUISITIONS

Joy of Austin

On December 18, 2009, the Company’s wholly owned subsidiary, RCI Entertainment (3105 I-35), Inc. (“RCI”), entered into and closed a Stock Purchase Agreement (the “RCI Purchase Agreement”) with Spiridon Karamalegos (“Karamalegos”), the Joy Club of Austin, Inc. (“JOY”) and North IH-35 Investments, Inc. (“NIII”), whereby RCI acquired 51% of the outstanding stock of JOY and 49% of the outstanding stock of NIII. JOY is the owner and operator of the adult nightclub business known as “Joy of Austin” which leases and occupies the real property and improvements located at 3105 South IH-35, Round Rock, Texas 78664 (the “Property”). NIII is the owner of the Property and leases the Property to JOY. Contemporaneously with entry into the RCI Purchase Agreement, RCI and Karamalegos entered into an Assignment and Assumption Agreement (the “Assignment Agreement”), whereby Karamalegos assigned to RCI his right to acquire the remaining 49% of the outstanding stock of JOY and the remaining 51% of the outstanding stock of NIII, which right Karamalegos obtained pursuant to a Purchase Agreement entered into between Karamalegos, Evangelos Polycrates (“Polycrates”), JOY and NIII (the “Polycrates Purchase Agreement”). Pursuant to the RCI Purchase Agreement and the Assignment Agreement, RCI acquired and owns 100% of the outstanding stock of JOY and 100% of the outstanding stock of NIII.

Pursuant to the terms of the RCI Purchase Agreement and the Assignment Agreement, RCI paid aggregate consideration of $4.5 million, plus assumption of a promissory note with First State Bank-Taylor (the “Purchase Price”), for the acquisition of JOY and NIII. The Purchase Price was payable as follows:

(i) $1.8 million by wire transfer to Karamalegos;

(ii) $880,000 by wire transfer to Polycrates;

(iii) $530,000 evidenced by a five (5) year secured promissory note to Karamalegos, bearing interest at the rate of 4.75% per annum and payable in sixty (60) equal monthly installments of principal and interest of $9,941 (the “Karamalegos Note”). The Karamalegos Note is secured by a third lien in favor of Karamalegos against the Property and improvements located thereon and a second lien on all of the shares of JOY and NIII;

(iv) $1.3 million evidenced by a five (5) year secured promissory note to Polycrates, bearing interest at the rate of 4.75% per annum and payable in sixty (60) equal monthly installments of principal and interest of $24,759 (the “Polycrates Note”). The Polycrates Note is individually guaranteed by Karamalegos for the first thirty (30) months and is secured by a second lien in favor of Polycrates against the Property and improvements located thereon and a first lien on all of the shares of JOY and NIII; and

(v) The assumption of a Promissory Note dated September 10, 2004, in the original principal amount of $850,000, executed by NIII and payable to First State Bank-Taylor, which Promissory Note had a current balance of $652,489 as of the date of acquisition, and is secured by the Property and improvements located thereon. The note bears interest at the rate of 7.25%, payable in monthly installments of principal and interest of $7,761. The interest rate is subject to adjustment on September 10, 2014 to the rate of prime plus 2.5%. The note is due and payable on or before September 10, 2019.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
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9. ACQUISITIONS - continued

Also pursuant to the agreements described above, Karamalegos entered into a four (4) year Non-Competition Agreement with RCI, and Polycrates entered into a three (3) year Non-Competition Agreement with RCI.

The following information summarizes the allocation of fair values assigned to the assets and liabilities at the acquisition date.

(in thousands)

Net current assets	$	44
Property and equipment and other assets		2,955
Non-compete agreement		200
Goodwill		2,031
SOB licenses		2,004
Deferred tax liability		(2,031)
Net assets acquired	$	5,203

The Company incurred approximately $43,000 in legal costs associated with the acquisition, which are included in legal and professional expense in the accompanying consolidated statement of operations.

Goodwill in the acquisition represents the offset to the deferred tax liability recorded as a result of the difference in the basis of the net assets for tax and financial purposes. The goodwill is not deductible for income tax purposes. The results of operations of this entity are included in the Company’s consolidated results of operations since December 18, 2009. This acquisition was made to further the Company’s growth objective of acquiring nightclubs that will quickly contribute to the Company’s earnings per share. Proforma results of operations have not been provided, as the amounts were not deemed material to the consolidated financial statements.

10. INCOME TAXES

Income tax expense on continuing operations for the periods presented differs from the “expected” federal income tax expense computed by applying the U.S. federal statutory rate of 34% to earnings before income taxes for the three months ended December 31, as a result of the following:

(in thousands)		2010		2009
Computed expected tax expense	$	1,076	$	478
State income taxes		30		38
Permanent differences		(63)		21
Other		(17)		(23)
Total income tax expense - continuing operations	$	1,026	$	514

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
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10. INCOME TAXES - continued

Included in the Company's deferred tax liabilities at December 31, 2010 is approximately $14.7 million representing the tax effect of indefinite lived intangible assets from club acquisitions which are not deductible for tax purposes. These deferred tax liabilities will remain in the Company's balance sheet until the related clubs are sold.

11. COMMITMENTS AND CONTINGENCIES

Beginning January 1, 2008, the Company's Texas clubs became subject to a new state law requiring each club to collect and pay a $5 surcharge for every club visitor. A lawsuit was filed by the Texas Entertainment Association ("TEA"), an organization to which the Company is a member, alleging the fee amounts to be an unconstitutional tax. On March 28, 2008, a State District Court Judge in Travis County, Texas ruled that the new state law violates the First Amendment to the United States Constitution and is therefore invalid. The judge's order enjoined the State from collecting or assessing the tax. The State appealed the Court's ruling. In Texas, when cities or the State give notice of appeal, it supersedes and suspends the judgment, including the injunction. Therefore, the judgment of the District Court cannot be enforced until the appeals are completed. Given the suspension of the judgment, the State has opted to collect the tax pending the outcome of its appeal. On June 5, 2009, the Court of Appeals for the Third District (Austin) affirmed the District Court's judgment that the Sexually Oriented Business ("S.O.B.") Fee violated the First Amendment to the U.S. Constitution. The Attorney General of Texas has asked the Texas Supreme Court to review the case. On August 26, 2009, the Texas Supreme Court ordered both sides to submit briefs on the merits, while not yet deciding whether to grant the State's Petition for review. The State's brief was filed on September 25, 2009 and the Texas Entertainment Association's brief was filed on October 15, 2009. On February 12, 2010, Supreme Court of Texas granted review of the Petition by the Attorney General of Texas. Oral argument of the matter was heard on March 25, 2010. The Company is awaiting a ruling from the Texas Supreme Court.

The Company has paid the tax for the first five calendar quarters under protest and expensed the tax in the accompanying consolidated financial statements, except for two locations in Dallas where the taxes have not been paid, but the Company is accruing and expensing the liability. For the subsequent quarters, as a result of the Third Court's decision, the Company accrued the fee, but did not pay the State. As of December 31, 2010, the Company has approximately $4.7 million in accrued liabilities for this tax. Patron tax expense amounted to approximately $695,000 and $583,000 for the quarters ended December 31, 2010 and 2009, respectively. The Company has paid more than $2 million to the State of Texas since the inception of the tax. The Company's Texas clubs have filed a separate lawsuit against the State to demand repayment of the taxes. If the State's appeal ultimately fails, the Company's current amount paid under protest would be repaid or applied to future admission tax and other Texas state tax liabilities.

12. SUBSEQUENT EVENTS

On January 3, 2011, the Company's wholly owned subsidiaries, RCI Dining Services (Airport Freeway), Inc. ("RCI Dining") and RCI Holdings, Inc. ("RCI") completed the purchase of a new gentlemen's club adjacent to the south end of the Dallas-Ft. Worth International Airport and the purchase of the underlying real property, respectively, for an aggregate purchase price of $4,500,000. A Purchase Agreement and Build-to-Suit

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
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12. SUBSEQUENT EVENTS - continued

Turnkey Construction Agreement had previously been entered into in December 2009, which agreement provided for the construction of the new club and the purchase of the real property located at 15000 Airport Freeway (Highway 183), Fort Worth, Texas.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our audited consolidated financial statements and related notes thereto included in this quarterly report.

FORWARD LOOKING STATEMENT AND INFORMATION

The Company is including the following cautionary statement in this Form 10-Q to make applicable and take advantage of the safe harbor provision of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Certain statements in this Form 10-Q are forward-looking statements. Words such as "expects," "believes," "anticipates," "may," and "estimates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties are set forth below. Our expectations, beliefs and projections are expressed in good faith and are believed by us to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties, but there can be no assurance that management's expectation, beliefs or projections will result, be achieved, or be accomplished. In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in our view, could cause material adverse effects on our financial condition and results of operations: the risks and uncertainties relating to our Internet operations, the impact and implementation of the sexually oriented business ordinances in the jurisdictions where our facilities operate, competitive factors, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, and the dependence on key personnel. We have no obligation to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

GENERAL

We operate in three businesses in the adult entertainment industry:

1. We own and/or operate upscale adult nightclubs serving primarily businessmen and professionals. Our nightclubs offer live adult entertainment, restaurant and bar operations. Through our subsidiaries, we currently own and/or operate a total of twenty-one adult nightclubs that offer live adult entertainment, restaurant and bar operations. Seven of our clubs operate under the name "Rick's Cabaret"; four operate under the name "Club Onyx", upscale venues that welcome all customers but cater especially to urban professionals, businessmen and professional athletes; six operate under the name "XTC Cabaret"; one club operates as "Tootsie's Cabaret", one operates as "Cabaret North", one operates as "Jaguars Gold Club" and one operates as "Cabaret East". Additionally, we have opened another Rick's Cabaret near DFW International Airport on January 20, 2011. Our nightclubs are in Houston, Austin, San Antonio, Dallas and Fort Worth, Texas; Charlotte, North Carolina; Minneapolis, Minnesota; New York, New York; Miami Gardens, Florida; Philadelphia, Pennsylvania and Las Vegas, Nevada. No sexual contact is permitted at any of our locations.

2. We have extensive Internet activities.

a) We currently own two adult Internet membership Web sites at www.CoupleTouch.com and www.xxxpassword.com. We acquire xxxpassword.com site content from wholesalers.

b) We operate an online auction site www.NaughtyBids.com. This site provides our customers with the opportunity to purchase adult products and services in an auction format. We earn revenues by charging fees for each transaction conducted on the automated site.

3. In April 2008, we acquired a media division, including the leading trade magazine serving the multi-billion dollar adult nightclubs industry. As part of the transaction we also acquired two industry trade shows, two other industry trade publications and more than 25 industry websites.

Our nightclub revenues are derived from the sale of liquor, beer, wine, food, merchandise, cover charges, membership fees, independent contractors' fees, commissions from vending and ATM machines, valet parking and other products and services. Our Internet revenues are derived from subscriptions to adult content Internet websites, traffic/referral revenues, and commissions earned on the sale of products and services through Internet auction sites, and other activities. Media revenues include sale of advertising content and revenues from an annual Expo convention. Our fiscal year end is September 30.

For several years, we have greatly reduced our usage of promotional pricing for membership fees for our adult entertainment web sites. This reduced our revenues from these web sites.

CRITICAL ACCOUNTING POLICIES

Management’s discussion and analysis of financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with United States generally accepted accounting principles (“GAAP”). GAAP consists of a set of standards issued by the FASB and other authoritative bodies in the form of FASB Statements, Interpretations, FASB Staff Positions, Emerging Issues Task Force consensuses and American Institute of Certified Public Accountants Statements of Position, among others. The FASB recognized the complexity of its standard-setting process and embarked on a revised process in 2004 that culminated in the release on July 1, 2009 of the Accounting Standards Codification (“ASC”). The ASC does not change how Company accounts for its transactions or the nature of related disclosures made. Rather, the ASC results in changes to how the Company references accounting standards within its reports. This change was made effective by the FASB for periods ending on or after September 15, 2009. The Company has updated references to GAAP in this Annual Report on Form 10-K to reflect the guidance in the ASC. The preparation of these consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate these estimates, including investment impairment. These estimates are based on management’s historical industry experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Accounts and Notes Receivable

Trade accounts receivable for the nightclub operation is primarily comprised of credit card charges, which are generally converted to cash in two to five days after a purchase is made. The media division’s accounts receivable is primarily comprised of receivables for advertising sales and Expo registration. The Company’s accounts receivable, other is comprised of employee advances and other miscellaneous receivables. The long-term portion of notes receivable are included in other assets in the accompanying consolidated balance sheets. The Company recognizes interest income on notes receivable based on the terms of the agreement and based upon management’s evaluation that the notes receivable and interest income will be collected. The Company recognizes allowances for doubtful accounts or notes when, based on management judgment, circumstances indicate that accounts or notes receivable will not be collected.

Inventories

Inventories include alcoholic beverages, food, and Company merchandise. Inventories are carried at the lower of cost, average cost, which approximates actual cost determined on a first-in, first-out (“FIFO”) basis, or market.

Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation and amortization are made using straight-line rates over the estimated useful lives of the related assets and the shorter of useful lives or terms of the applicable leases for leasehold improvements. Buildings have estimated useful lives ranging from 29 to 40 years. Furniture, equipment and leasehold improvements have estimated useful lives between five and 40 years. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are charged or credited in the accompanying consolidated statement of income of the respective period.

Goodwill and Intangible Assets

FASB ASC 350, Goodwill and Other Intangibles Assets addresses the accounting for goodwill and other intangible assets. Under FASB ASC 350, goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed on an annual basis for impairment. All of the Company's goodwill and intangible assets relate to the nightclub segment, except for $567,000 related to the media segment. Definite lived intangible assets are amortized on a straight-line basis over their estimated lives. Fully amortized assets are written-off against accumulated amortization.

Impairment of Long-Lived Assets

The Company reviews property and equipment and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of its carrying amounts to future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets with definite lives are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair value. Assets are grouped at the lowest level for which there are identifiable cash flows, principally at the club level, when assessing impairment. Cash flows for our club assets are identified at the individual club level. The Company's annual evaluation was performed as of September 30, 2010, based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. Certain of our acquisitions, specifically Las Vegas, Philadelphia and the original Rick's Cabaret in Austin (now operated by a partner as "Jaguars Gold Club"), have been underperforming, principally due to the recent general economic downturn, especially in Las Vegas, but also due to certain specific operational issues, such as the change of concept in Philadelphia and the cab fare marketing issues in Las Vegas.   We have determined that there is a net asset impairment at September 30, 2010, relating to these three nightclub operations.

Fair Value of Financial Instruments

The Company calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short maturity of these instruments. The carrying value of short and long-term debt also approximates fair value since these instruments bear market rates of interest. None of these instruments are held for trading purposes.

Derivative Financial Instruments

The Company accounts for financial instruments that are indexed to and potentially settled in, its own stock, including stock put options, in accordance with the provisions of FASB ASC 815, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock. Under certain circumstances that would require the Company to settle these equity items in cash, and without regard to probability, FASB ASC 815 would require the classification of all or part of the item as a liability and the adjustment of that reclassified amount to fair value at each reporting date, with such adjustments reflected in the Company's consolidated statements of income. The first instrument to meet the requirements of FASB ASC 815 for derivative accounting occurred in the quarter ended June 30, 2009 when the Company renegotiated the payback terms of certain put options and agreed to pledge as collateral to certain holders a second lien on certain property.

Revenue Recognition

The Company recognizes revenue from the sale of alcoholic beverages, food and merchandise, other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

The Company recognizes Internet revenue from monthly subscriptions to its online entertainment sites when notification of a new or existing subscription and its related fee are received from the third party hosting company or from the credit card company, usually two to three days after the transaction has occurred. The monthly fee is not refundable. The Company recognizes Internet auction revenue when payment is received from the credit card as revenues are not deemed estimable nor collection deemed probable prior to that point.

Revenues from the sale of magazines and advertising content are recognized when the issue is published and shipped. Revenues and external expenses related to the Company's annual Expo convention are recognized upon the completion of the convention in August.

Sales and Liquor Taxes

The Company recognizes sales and liquor taxes paid as revenues and an equal expense in accordance with FASB ASC 605, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement. Total sales and liquor taxes aggregated $1.4 million and 1.3 million for the three months ended December 31, 2010 and 2009, respectively.

Advertising and Marketing

Advertising and marketing expenses are primarily comprised of costs related to public advertisements and giveaways, which are used for promotional purposes. Advertising and marketing expenses are expensed as incurred and are included in operating expenses in the accompanying consolidated statements of income.

Income Taxes

Deferred income taxes are determined using the liability method in accordance with FASB ASC 740, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

FASB ASC 740 creates a single model to address accounting for uncertainty in tax positions by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FASB ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. There are no unrecognized tax benefits to disclose in the notes to the consolidated financial statements.

Put Options

In certain situations, the Company issues restricted common shares as partial consideration for acquisitions of certain businesses or assets. Pursuant to the terms and conditions of the governing acquisition agreements, the holder of such shares has the right, but not the obligation, to put a fixed number of the shares on a monthly basis back to the Company at a fixed price per share. The Company may elect during any given month to either buy the monthly shares or, if management elects not to do so, the holder can sell the monthly shares in the open market, and any deficiency between the amount which the holder receives from the sale of the monthly shares and the value of shares will be paid by the Company. The Company has accounted for these shares in accordance with the guidance established by FASB ASC 480 as a reclassification of the value of the shares from permanent to temporary equity. As the shares become due, the Company transfers the value of the shares back to permanent equity, less any amount paid to the holder. Also see "Derivative Financial Instruments" above.

Earnings (Loss) Per Common Share

The Company computes earnings (loss) per share in accordance with FASB ASC 260, Earnings Per Share. FASB ASC 260 provides for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of the Company.

Potential common stock shares consist of shares that may arise from outstanding dilutive common stock options and warrants (the number of which is computed using the "treasury stock method") and from outstanding convertible debentures (the number of which is computed using the "if converted method"). Diluted EPS considers the potential dilution that could occur if the Company's outstanding common stock options, warrants and convertible debentures were converted into common stock that then shared in the Company's earnings (loss) (as adjusted for interest expense, that would no longer occur if the debentures were converted).

Stock Options

The Company has adopted the fair value recognition provisions of FASB ASC 718, Compensation—Stock Compensation.

The compensation cost recognized for the three months ended December 31, 2010 and 2009 was zero and $44,037, respectively. There were no stock options exercises for the three months ended December 31, 2010 and 2009.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2010 AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2009

For the three months ended December 31, 2010, we had consolidated total revenues of $20.9 million compared to consolidated total revenues of $20.0 million for the three months ended December 31, 2009, an increase of $853,000 or 4.3%. The increase in total revenues was primarily attributable to the increase in revenues generated by new clubs in Austin (acquired in Mid-December 2009) and Fort Worth, Texas (2 clubs acquired in June and July 2010), in the amount of $1.4 million. The increase created by these new clubs was offset slightly by a decrease in same-store sales of approximately $715,000, due principally to a decrease in sales at Rick's Las Vegas of approximately $466,000.

Following is a comparison of our consolidated income statements for the quarters ended December 31, 2010 and 2009 with percentages compared to total revenue:

(in thousands)		2010	%		2009	%
Sales of alcoholic beverages	$	8,359	40.1%	$	8,050	40.2%
Sales of food and merchandise		1,784	8.6%		1,590	7.9%
Service Revenues		9,412	45.1%		9,292	46.4%
Internet Revenues		125	0.6%		145	0.7%
Media		216	1.0%		257	1.3%
Other		962	4.6%		671	3.4%
Total Revenues		20,858	100.0%		20,005	100.0%
Cost of Goods Sold		2,518	12.1%		2,456	12.3%
Salaries & Wages		4,676	22.4%		4,310	21.5%
Stock-based Compensation		-	0.0%		44	0.2%
Taxes and permits		3,063	14.7%		2,836	14.2%
Charge card fees		364	1.7%		346	1.7%
Rent		1,079	5.2%		993	5.0%
Legal & professional		485	2.3%		650	3.2%
Advertising and marketing		1,183	5.7%		2,938	14.7%
Depreciation and amortization		1,072	5.1%		842	4.2%
Insurance		303	1.5%		262	1.3%
Utilities		406	1.9%		406	2.0%
Other		1,579	7.6%		1,536	7.7%
Total operating expenses		16,728	80.2%		17,619	88.1%
Income from continuing operations		4,130	19.8%		2,386	11.9%
Interest income		12	0.1%		4	0.0%
Interest expense		(1,124)	-5.4%		(1,029)	-5.1%
Gain on change in fair value of derivative instruments		148	0.7%		44	0.2%
Income from continuing operations before income taxes	$	3,166	15.2%	$	1,405	7.0%

Following is an explanation of significant variances in the above amounts.

Service revenues include cover charges fees paid by entertainers, room rentals, memberships and fees charged for credit card processing. Other revenues include ATM commissions earned, video games and other vending and certain promotion fees charged to our entertainers. We recognize revenue from other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding, media postage and internet traffic purchases and webmaster payouts. Media cost of goods amounted to $50,468 and $55,274 for the quarters ended December 31, 2010 and 2009, respectively. The cost of goods sold for the club operations for the three months ended December 31, 2010 was 12.0% compared to 12.2% for the three months ended December 31, 2009. The cost of goods sold from our internet operations for the three months ended December 31, 2010 was 2.1% compared to 2.2% for the three months ended December 31, 2009. The cost of goods sold for same-location-same-period of club operations for the three months ended December 31, 2010 was 12.1%, compared to 12.2% for the same period ended December 31, 2009.

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The increase in payroll and related costs, stated as “Salaries & Wages” above, was primarily due to the addition of the new clubs during 2010. Payroll for same-location-same-period of club operations increased to $3.6 million for the three months ended December 31, 2010 from $3.5 million for the same period ended December 31, 2009. Management currently believes that its labor and management staff levels are appropriate.

The slight increase in taxes as a percentage of total revenues is due to the two new clubs in Texas with its patron tax.

The significant decrease in the advertising and marketing is principally due to the reduction of the marketing costs in Las Vegas during 2010 and to a significant radio campaign in the Dallas/Fort Worth market in 2009. Rick’s Las Vegas lost approximately $500,000 for the quarter ended December 31, 2009 on revenues of $3.1 million and lost approximately $370,000 for the 2010 quarter on revenues of $1.1 million.

The decrease in legal and professional expense is principally due to a continuing labor lawsuit in New York which was more active in 2009.

The increase in interest expense was attributable to our obtaining an additional $2 million of net new debt in June 2010 to finance the purchase of new clubs.

Income taxes, as a percentage of income before taxes was 32.4% and 36.6% for the quarters ended December 31, 2010 and 2009, respectively. The decrease in 2010 is due to a change in permanent differences in 2010, principally the gain on change in fair value of derivative instruments.

The increase in net income was primarily due to the decrease in expenses detailed above (principally advertising and marketing) while increasing revenues. Operating income (exclusive of corporate overhead) for same-location-same-period of club operations increased to $5.1 million for the three months ended December 31, 2010 from $3.4 million for same period ended December 31, 2009, or by 51.9%.

Our Media Division lost approximately $76,000 before income taxes for the quarter ended December 31, 2010 compared to a loss of approximately $65,000 in the 2009 quarter. As the economy improves, we believe the Media Division will become profitable as we control costs and increase marketing revenues.

Adjusted EBITDA for the three months ended December 31, 2010 and 2009 was $5.3 million and $3.2 million, respectively.

Adjusted EBITDA is a financial statement measure that was not derived in accordance with GAAP. We use adjusted EBITDA (earnings before interest expense, income taxes, depreciation, amortization and impairment charges) as a non-GAAP performance measure. In calculating adjusted EBITDA, we exclude our largest recurring non-cash charge, depreciation, amortization and impairment charges. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for Federal, state and local taxes which have considerable variation between domestic jurisdictions. Also, we exclude interest cost in our calculation of adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our acquisitions of nightclubs. Reconciliations from net income to adjusted EDITDA are provided below for the quarters ended December 31:

(in thousands)	2010	2009
Income from continuing operations	$ 2,140	$ 891
Net income from noncontrolling interests	(53)	(73)
Income taxes	1,026	514

Interest expense	1,124	1,029
Depreciation and amortization	1,072	842
Adjusted EBITDA	$ 5,309	$ 3,203

Our adjusted EBITDA does not include interest expense, income taxes, depreciation, amortization and impairment charges. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and our ability to generate revenues. Because we use capital assets, depreciation, amortization and impairment charges are also necessary elements of our costs. Also, the payment of income taxes is a necessary element of our operations. Therefore, any measures that exclude these elements have material limitations. To compensate for these limitations, we believe that it is appropriate to consider both net earnings (loss) determined under GAAP, as well as adjusted EBITDA, to evaluate our performance. Also, we separately analyze any significant fluctuations in interest expense, depreciation, amortization, impairment charges and income taxes.

The accompanying consolidated financial statements reflect the following as discontinued operations as of and for the three months ended December 31, 2010 and 2009.

We closed our Divas Latinas club in Houston during September 2009. This club is recognized in discontinued operations.

In previous filings, we recognized our Rick's Cabaret in Austin, Texas as a discontinued operation. That club was held for sale during a portion of 2009, but we decided to renovate and reopen the club and we relaunched it with a new concept in April 2010. When the club was not immediately successful, we closed the club again in July 2010. The club reopened again in September 2010, operating as "Jaguars Gold Club". Accordingly, the Austin club is recognized in continuing operations in the accompanying consolidated financial statements.

Following is summarized information regarding the discontinued operations:

	Quarter Ended December 31,	
	2010	2009
Loss from discontinued operations	$ (18)	(55)
Income tax - discontinued operations	7	20
Total loss from discontinued operations, net of tax	$ (11)	$ (35)

Major classes of assets and liabilities included as assets and liabilities of discontinued operations as of:

	December 31, 2010	September 30, 2010
Current assets	$ 26	$ 30
Property and equipment	105	115
Other assets	2	3
Current liabilities	(20)	(14)
Long-term liabilities	(33)	(33)
Net assets (liabilities)	$ 80	$ 101

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LIQUIDITY AND CAPITAL RESOURCES

Working Capital and Cash Flows

At December 31, 2010, we had working capital of $5.1 million compared to $377,552 at December 31, 2009. The significant increase is due to our profits and also the net cash still available from the convertible debt which is principally long-term in nature.

Net cash provided by operating activities in the three months ended December 31, 2010 was $2.8 million compared to $3.2 million for the three months ended December 31, 2009. The decrease in cash provided by operating activities was primarily due to the increased acquisition of inventories and the payment of income taxes and accounts payable during the quarter ended December 31, 2010.

We used $1.2 million of cash in investing activities during the three months ended December 31, 2010 compared to $5.1 million during the three months ended December 31, 2009. The decrease was principally due to the acquisition of the new club in Austin, Texas in December 2009, purchase of marketable securities and more additions to property and equipment in 2009. Cash of $2.1 million was used by financing activities during the three months ended December 31, 2010 compared to $1.5 million cash used during the three months ended December 31, 2009. The increase in cash used by financing activities is primarily the result of the purchase of treasury stock in 2010.

We require capital principally for construction or acquisition of new clubs, renovation of older clubs and investments in technology. We may also utilize capital to repurchase our common stock as part of our share repurchase program.

Put Options

As part of certain of our acquisition transactions, we have entered into Lock-Up/Leak-Out Agreements with the sellers pursuant to which, on or after a contractual period after the closing date, the seller shall have the right, but not the obligation, to have us purchase from seller a certain number of our shares of common stock issued in the transactions in an amount and at a rate of not more than a contractual number of the shares per month (the “Monthly Shares”) calculated at a price per share equal to a contractual value per share (“Value of the Rick’s Shares”). At our election during any given month, we may either buy the Monthly Shares or, if we elect not to buy the Monthly Shares from the seller, then the seller shall sell the Monthly Shares in the open market. Any deficiency between the amount which the seller receives from the sale of the Monthly Shares and the value of the shares shall be paid by us within three (3) business days of the date of sale of the Monthly Shares during that particular month. Our obligation to purchase the Monthly Shares from the Seller shall terminate and cease at such time as the seller has received a contractual amount from the sale of the Rick’s Shares and any deficiency. Under the terms of the Lock-Up/Leak-Out Agreements, the seller may not sell more than a contractual number of our shares per 30-day period, regardless of whether the seller “Puts” the shares to us or sells them in the open market or otherwise.

The maximum obligation that could be owed if our stock were valued at zero is $7.0 million at December 31, 2010. If we are required to buy back any of these put options, the buy-back transaction will be purely a balance sheet transaction, affecting only Temporary Equity or Derivative Liability and Stockholders’ Equity and will have no income statement effect. The only income statement effect from these put options is the “mark to market” valuation quarterly of the derivative liability.

Following is a schedule of the annual obligation (after the renegotiation) we would have if our stock price remains in the future at the closing market price on December 31, 2010 of $7.83 per share, of which there can be no assurance: (This includes the derivative financial instruments recognized in our balance sheet at December 31, 2010.)

For the Year Ended September 30:	(in thousands)	
2011	$	2,450
2012		2,043
2013		137
Total	$	4,630

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Each $1.00 per share movement of our stock price has an aggregate effect of $303,000 on the total obligation.

Other Liquidity and Capital Resources

We have not established lines of credit or financing other than the above mentioned notes payable and our existing debt. There can be no assurance that we will be able to obtain additional financing on reasonable terms in the future, if at all, should the need arise.

On September 29, 2008, our Board of Directors authorized us to repurchase up to $5 million worth of our common stock. During the three months ended December 31, 2010, we purchased 90,800 shares of common stock in the open market at prices ranging from $7.03 to $7.43. During the three months ended December 31, 2009, we purchased 48,200 shares of common stock in the open market at prices ranging from $3.54 to $5.95.

We believe that the adult entertainment industry standard of treating entertainers as independent contractors provides us with safe harbor protection to preclude payroll tax assessment for prior years. We have prepared plans that we believe will protect our profitability in the event that sexually oriented business industry is required in all states to convert dancers who are now independent contractors into employees.

The sexually oriented business industry is highly competitive with respect to price, service and location, as well as the professionalism of the entertainment. Although management believes that we are well-positioned to compete successfully in the future, there can be no assurance that we will be able to maintain our high level of name recognition and prestige within the marketplace.

IMPACT OF INFLATION

We have not experienced a material overall impact from inflation in our operations during the past several years. To the extent permitted by competition, we have managed to recover increased costs through price increases and may continue to do so. However, there can be no assurance that we will be able to do so in the future.

SEASONALITY

Our nightclub operations are affected by seasonal factors. Historically, we have experienced reduced revenues from April through September with the strongest operating results occurring during October through March. Our experience to date indicates that there does not appear to be a seasonal fluctuation in our Internet activities.

GROWTH STRATEGY

We believe that our nightclub operations can continue to grow organically and through careful entry into markets and demographic segments with high growth potential. Our growth strategy is: (a) to open new clubs after careful market research, (b) to acquire existing clubs in locations that are consistent with our growth and income targets and which appear receptive to the upscale club formula we have developed, as is the case with the acquisitions of the clubs in Austin, Dallas and Fort Worth, Texas, Miami Gardens, Florida, Philadelphia, Pennsylvania, and Las Vegas, Nevada, (c) to form joint ventures or partnerships to reduce start-up and operating costs, with us contributing equity in the form of our brand name and management expertise, (d) to develop new club concepts that are consistent with our management and marketing skills, (e) to acquire real estate in connection with club operations, although some clubs may be in leased premises, and/or (f) to enter into licensing agreements in strategic locations.

We continue to evaluate opportunities to acquire new nightclubs and anticipate acquiring new locations that fit our business model as we have done in the past.

We also expect to continue to grow our Internet profit centers. We plan to focus on high-margin Internet activities that leverage our marketing skills while requiring a low level of start-up cost and ongoing operating costs and refine and tune our Internet sites for better positioning in organic search rankings amongst the major search providers. We will restructure affiliate programs to provide higher incentives to our current affiliates to better promote our Internet sites, while actively seeking new affiliates to send traffic to our Internet sites.

The acquisition of additional clubs and/or internet operations will require us to obtain additional debt or issuance of our common stock, or both. There can be no assurance that we will be able to obtain additional financing on reasonable terms in the future, if at all, should the need arise. An inability to obtain such additional financing could have an adverse effect on our growth strategy.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of December 31, 2010, there were no material changes to the information provided in Item 7A of the Company's Annual Report on Form 10-K for fiscal year ended September 30, 2010.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's senior management, including the Company's chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on this evaluation, the Company's chief executive officer and chief financial officer concluded as of the Evaluation Date that the Company's disclosure controls and procedures were effective such that the information relating to the Company, including consolidated subsidiaries, required to be disclosed in the Company's Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2010 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Beginning January 1, 2008, the Company's Texas clubs became subject to a new state law requiring each club to collect and pay a $5 surcharge for every club visitor. A lawsuit was filed by the Texas Entertainment Association ("TEA"), an organization to which the Company is a member, alleging the fee amounts to be an unconstitutional tax. On March 28, 2008, a State District Court Judge in Travis County, Texas ruled that the new state law violates the First Amendment to the United States Constitution and is therefore invalid. The judge's order enjoined the State from collecting or assessing the tax. The State appealed the Court's ruling. In Texas, when cities or the State give notice of appeal, it supersedes and suspends the judgment, including the injunction. Therefore, the judgment of the District Court cannot be enforced until the appeals are completed. Given the suspension of the judgment, the State has opted to collect the tax pending the outcome of its appeal. On June 5, 2009, the Court of Appeals for the Third District (Austin) affirmed the District Court's judgment that the Sexually Oriented Business ("S.O.B.") Fee violated the First Amendment to the U.S. Constitution. The Attorney General of Texas has asked the Texas Supreme Court to review the case. On August 26, 2009, the Texas Supreme Court ordered both sides to submit briefs on the merits, while not yet deciding whether to grant the State's Petition for review. The State's brief was filed on September 25, 2009 and the Texas Entertainment Association's brief was filed on October 15, 2009. On February 12, 2010, Supreme Court of Texas granted review of the Petition by the Attorney General of Texas. Oral argument of the matter was heard on March 25, 2010. The Company is awaiting a ruling from the Texas Supreme Court.

The Company has paid the tax for the first five calendar quarters under protest and expensed the tax in the accompanying consolidated financial statements, except for two locations in Dallas where the taxes have not been paid, but the Company is accruing and expensing the liability. For the subsequent quarters, as a result of the Third Court's decision, the Company accrued the fee, but did not pay the State. As of December 31, 2010, the Company has approximately $4.7 million in accrued liabilities for this tax. Patron tax expense amounted to approximately $695,000 and $583,000 for the quarters ended December 31, 2010 and 2009, respectively. The Company has paid more than $2 million to the State of Texas since the inception of the tax. The Company's Texas clubs have filed a separate lawsuit against the State to demand repayment of the taxes. If the State's appeal ultimately fails, the Company's current amount paid under protest would be repaid or applied to future admission tax and other Texas state tax liabilities.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended September 30, 2010, as such factors could materially affect the Company's business, financial condition or future results. In the three months ended December 31, 2010, there were no material changes to the risk factors disclosed in the Company's 2010 Annual Report on Form 10-K. The risks described in the Annual Report on Form 10-K are not the only risks the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company deems to be immaterial, also may have a material adverse impact on the Company's business, financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the three months ended December 31, 2010, we purchased 90,800 shares of common stock in the open market at prices ranging from $7.03 to $7.43 per share. During the three months ended December 31, 2010, we purchased 33,000 shares of common stock from put option holders at prices ranging from $6.98 to $7.47 per share. Following is a summary of our purchases by month:

Period:	(a)	(b)	(c)	(d)
Month Ending	Total Number of Shares (or Units) Purchased	Average Price Paid per Share	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
October 31, 2010	11,000	$ 7.30	-	
November 30, 2010	86,800	$ 7.25	-	$ 3,623,872
December 31, 2010	26,000	$ 7.08	-	$ 3,439,746
Total	123,800	$ 7.23	-	$ 3,439,746

Item 6. Exhibits.

Exhibit 31.1 – Certification of Chief Executive Officer of Rick's Cabaret International, Inc. required by Rule 13a – 14(1) or Rule 15d – 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 – Certification of Chief Financial Officer of Rick's Cabaret International, Inc. required by Rule 13a – 14(1) or Rule 15d – 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 — Certification of Chief Executive Officer and Chief Financial Officer of Rick's Cabaret International, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.

SIGNATURES

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

	RICK'S CABARET INTERNATIONAL, INC.
Date: February 9, 2010	By: /s/ Eric S. Langan Eric S. Langan Chief Executive Officer and President
Date: February 9, 2010	By: /s/ Phillip K. Marshall Phillip K. Marshall Chief Financial Officer and Principal Accounting Officer