
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2023

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 001-13992

RCI HOSPITALITY HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of incorporation or organization)

76-0458229

(I.R.S. Employer Identification No.)

10737 Cutten Road

Houston, Texas 77066

(Address of principal executive offices) (Zip Code)

(281) 397-6730

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.01 par value	RICK	The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation

received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was \$ 680,203,604 .

As of December 8, 2023, there were approximately 9,359,685 shares of common stock outstanding.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among other things, statements regarding plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Forward-looking statements may appear throughout this report, including without limitation, the following sections: Item 1 – “Business,” Item 1A – “Risk Factors,” and Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Report on Form 10-K, and, in particular, the risks discussed under the caption “Risk Factors” in Item 1A and those discussed in other documents we file with the Securities and Exchange Commission (“SEC”). Important factors that in our view could cause material adverse effects on our financial condition and results of operations include, but are not limited to, the risks and uncertainties associated with (i) operating and managing an adult business, (ii) the business climates in cities where we operate, (iii) the success or lack thereof in launching and building our businesses, (iv) cyber security, (v) conditions relevant to real estate transactions, (vi) the impact of the COVID-19 pandemic, and (vii) numerous other factors such as laws governing the operation of adult entertainment businesses, competition and dependence on key personnel. We undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

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PART I

Item 1. Business.

OVERVIEW

RCI Hospitality Holdings, Inc. is a holding company that, through its subsidiaries, engages in businesses that offer live adult entertainment and/or high-quality dining experiences to its guests. Our subsidiaries operated 69 establishments in 13 states as of September 30, 2023. Together with its subsidiaries, RCI Hospitality Holdings, Inc. is collectively referred to as "RCIHH," "RCI," the "Company," "we," "us," or "our" in this report. We also operate a leading business communications company serving the multibillion-dollar adult nightclubs industry. RCIHH was incorporated in the State of Texas in 1994 and became public in 1995.

Our fiscal year ends on September 30. References to years 2023, 2022, and 2021 are for fiscal years ended September 30, 2023, 2022, and 2021, respectively. Our fiscal quarters chronologically end on December 31, March 31, June 30 and September 30.

Our corporate website address is www.rcihospitality.com. Upon written request, we make available free of charge our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the SEC under the Securities Exchange Act of 1934, as amended (www.sec.gov). Information contained in the corporate website shall not be construed as part of this Form 10-K.

OUR BUSINESS

We operate several businesses, which we aggregate for financial reporting purposes into two reportable segments – Nightclubs and Bombshells. Businesses that are not included as Nightclubs or Bombshells are combined as "Other."

During fiscal 2023, 2022, and 2021, consolidated revenues were \$293.8 million, \$267.6 million, and \$195.3 million, respectively, generating diluted earnings per share of \$3.13, \$4.91, and \$3.37, respectively.

The table below shows the number of Nightclubs and Bombshells open by state as of September 30, 2023:

	Nightclubs	Bombshells ⁽¹⁾	Total
Arizona	1	—	1
Colorado	5	1	6
Florida	4	—	4
Illinois	5	—	5
Indiana	1	—	1
Kentucky	1	—	1
Louisiana	1	—	1
Maine	1	—	1
Minnesota	3	—	3
New York	4	—	4
North Carolina	2	—	2
Pennsylvania	1	—	1
Texas	27	12	39
	<u>56</u>	<u>13</u>	<u>69</u>

(1) Includes one food hall location.

Nightclubs Segment

We operate our adult entertainment nightclubs through several brands that target many different demographics of customers by providing a unique, quality entertainment environment. Our clubs do business as Rick's Cabaret, Jaguars Club, Tootsie's Cabaret, XTC Cabaret, Club Onyx, Hoops Cabaret and Sports Bar, Scarlett's Cabaret, Diamond Cabaret, Cheetah Gentlemen's Club, PT's Showclub, Playmates Club, Country Rock Cabaret, Temptations Adult Cabaret, Foxy's Cabaret, Vivid Cabaret, Downtown Cabaret, Cabaret East, The Seville, Silver City Cabaret, Heartbreakers Gentlemen's Club, Kappa Men's Club, Baby Dolls, and Chicas Locas. We also operate one dance club under the brand name Studio 80.

We generate revenue from our nightclubs through the sale of alcoholic beverages, food, and merchandise items; service in the form of cover charge, licensing fees, and room rentals; and through other related means such as ATM commissions and vending income, among others.

During fiscal 2023, our Nightclub segment sales mix was 43.6% service revenue; 40.7% alcoholic beverages; and 15.7% food, merchandise, and other. Segment gross margin (revenues less cost of goods sold, divided by revenues) was approximately 88.9%. Our Nightclubs segment revenue increased by approximately 14.8% and income from operations decreased by 11.6% compared to the prior year. Same-stores sales for Nightclubs in 2023 was -3.5%.

During fiscal 2023, we acquired six gentlemen's clubs, certain related real estate properties, and associated intellectual property through two transactions with an aggregate acquisition price of \$75.5 million (with a combined fair value of \$72.3 million). These six clubs contributed \$18.2 million in revenues during fiscal 2023. See [Note 14](#) to our consolidated financial statements for details of the transactions.

For a list of our nightclub locations, refer to Item 2—"Properties."

Bombshells Segment

Our Bombshells segment operates a restaurant and bar concept that sets itself apart with décor that pays homage to all branches of the U.S. military. Locations feature local DJs, large outdoor patios, and more than 75 state-of-the-art flat screen TVs for watching your favorite sports. All food and drink menu items have military names. Bombshell Girls, with their military-inspired uniforms, are a key attraction. Their mission, in addition to waitressing, is to interact with guests and generate a fun atmosphere. Bombshells is also franchising under our subsidiary, BMB Franchising Services, Inc., which has been approved to sell franchises in all 50 states. On December 22, 2020, the Company signed a franchise development agreement with a group of private investors to open three Bombshells locations in San Antonio, Texas, over a period of five years, and the right of first refusal for three more locations in Corpus Christi, New Braunfels, and San Marcos, all in Texas. On May 2, 2022, the Company signed its second franchise development agreement with a private investor to open three Bombshells locations in the state of Alabama over a period of five years. We opened one company-owned location in Arlington, Texas (Dallas area), in December 2021 and our first franchised location opened in June 2022 in San Antonio, Texas. In February 2023, we acquired the San Antonio franchise location and terminated our franchise and development agreement. As of September 30, 2023, we have twelve company-owned Bombshells locations, all in Texas with two in the Dallas area, one in Austin, one in San Antonio, and eight in the Greater Houston area. In December 2022, we acquired a food hall in Denver, Colorado. Subsequent to our fiscal 2023 year-end, we opened one Bombshells location in Stafford, Texas in November 2023.

During fiscal 2023, Bombshells sales mix was 55.5% alcoholic beverages and 44.5% food, merchandise, and other. Segment gross margin (revenues less cost of goods sold, divided by revenues) was approximately 78%. Bombshells segment revenue decreased by 7.0%, while income from operations decreased by 43.5% from prior year. Same-stores sales for Bombshells in 2023 was -14.6%.

For a list of our Bombshells locations, refer to Item 2—"Properties."

Other Segment

We group together all businesses not belonging to either Nightclubs and Bombshells as Other reportable segment. This is made up of several wholly-owned subsidiaries composed primarily of our Media Group and Drink Robust. Our Media Group is the leading business communications company serving the multibillion-dollar adult nightclubs industry and the adult retail products industry. It owns a national industry convention and trade show; two national industry trade publications; two national industry award shows; and more than a dozen industry and social media websites. Included in the Media Group is ED Publications, publishers of the bimonthly ED Club Bulletin, the only national business magazine serving the 2,200-plus adult nightclubs in North America, which collectively have annual revenues in excess of \$5 billion, according to the Association of Club Executives. ED Publications, founded in 1991, also publishes the Annual VIP Guide of adult nightclubs, touring entertainers and industry vendors; and produces the Annual Gentlemen's Club Owners EXPO, a national convention and trade show. The Media Group produces two nationally recognized industry award shows for the readers of both ED Club Bulletin and StorErotica magazines, and maintains a number of B-to-B and consumer websites for both industries. Drink Robust is licensed to sell Robust Energy Drink in the United States.

OUR STRATEGY

Our overall objective is to create value for our shareholders by developing and operating profitable businesses in the hospitality and related space. We strive to achieve that by providing an attractive price-value entertainment, dining experience, and top-notch service; by attracting and retaining quality personnel; and by focusing on unit-level operating performance. Aside from our operating strategy, we employ a capital allocation strategy.

Capital Allocation Strategy

Our capital allocation strategy provides us with disciplined guidelines on how we should use our free cash flows; provided however, that we may deviate from this strategy if other strategic rationale warrants. We calculate free cash flow as net cash flows from operating activities minus maintenance capital expenditures. Using the after-tax yield of buying our own stock as baseline, management believes that we are able to make better investment decisions.

Based on our current capital allocation strategy:

- We consider buying back our own stock if the after-tax yield on free cash flow is above 10%;
- We consider acquiring or developing our own clubs or restaurants that we believe have the potential to provide a minimum cash on cash return of 25%-33%, absent an otherwise strategic rationale;
- We consider disposing of underperforming units to free up capital for more productive use;
- We consider paying down our most expensive debt if it makes sense on a tax-adjusted basis, or there is an otherwise strategic rationale.

Over a five-year period from fiscal 2018 through fiscal 2023, we improved diluted earnings per share at a compound annual growth rate ("CAGR") of approximately 8%, which was mainly caused by increasing revenue at a CAGR of approximately 12%, and flowing through net income at a CAGR of approximately 7%. As a result, net cash provided by operating activities improved at approximately 18% and free cash flow at also approximately 18% CAGR for the same period. See discussions of our [non-GAAP financial measures](#) starting on page [41](#).

COMPETITION

The adult entertainment and the restaurant/sports bar businesses are highly competitive with respect to price, service and location. All of our nightclubs compete with a number of locally owned adult clubs, some of whose brands may have name recognition that equals that of ours. The names "Rick's" and "Rick's Cabaret," "Tootsie's Cabaret," "XTC Cabaret," "Scarlett's," "Silver City," "Club Onyx," "Downtown Cabaret," "Temptations," "The Seville" "Jaguars," "Hoops Cabaret," "Foxy's Cabaret," "Studio 80," "Country Rock Cabaret," "PT's," "Diamond Cabaret," "Baby Dolls Saloon," "Baby Dolls," and "Chicas Locas" are proprietary. In the restaurant/sports bar business, "Bombshells" is also proprietary. We believe that the combination of our existing brand name recognition and the distinctive entertainment environment that we have created allows us to compete effectively in the industry and within the cities where we operate. Although we believe that we are well positioned to compete successfully, there can be no assurance that we will be able to maintain our high level of name recognition and prestige within the marketplace.

GOVERNMENTAL REGULATIONS

We are subject to various federal, state and local laws affecting our business activities. Particularly in Texas, the authority to issue a permit to sell alcoholic beverages is governed by the Texas Alcoholic Beverage Commission ("TABC"), which has the authority, in its discretion, to issue the appropriate permits. We presently hold a Mixed Beverage Permit and a Late Hour Permit at numerous Texas locations. Colorado, Minnesota, North Carolina, Louisiana, Arizona, Pennsylvania, Florida, New York, Kentucky, Maine, Indiana, and Illinois have similar laws that may limit the availability of a permit to sell alcoholic beverages or that may provide for suspension or revocation of a permit to sell alcoholic beverages in certain circumstances. It is our policy, prior to expanding into any new market, to take steps to ensure compliance with all licensing and regulatory requirements for the sale of alcoholic beverages, as well as the sale of food.

In addition to various regulatory requirements affecting the sale of alcoholic beverages, in many cities where we operate, the location of an adult entertainment cabaret is subject to restriction by city, county or other governmental ordinance. The prohibitions deal generally with distance from schools, churches and other sexually oriented businesses, and contain restrictions based on the percentage of residences within the immediate vicinity of the sexually oriented business. The granting of a sexually oriented business permit is not subject to discretion; the permit must be granted if the proposed operation satisfies the requirements of the ordinance. In all states where we operate, management believes we are in compliance with applicable city, county, state or other local laws governing the sale of alcohol and sexually oriented businesses.

TRADEMARKS

Our rights to the trade names "RCI Hospitality Holdings, Inc.," "Rick's," "Rick's Cabaret," "Tootsie's Cabaret," "Club Onyx," "XTC Cabaret," "Temptations," "Jaguars," "Downtown Cabaret," "Cabaret East," "Bombshells Restaurant and Bar," "Vee Lounge," "Mile High Men's Club," "Country Rock Cabaret," "PT's," and "Diamond Cabaret" are established under common law, based upon our substantial and continuous use of these trade names in interstate commerce, some of which have been in use at least as early as 1987. We have registered our service mark, "RICK'S AND STARS DESIGN," and the "BOMBSHELLS RESTAURANT & BAR" logo design with the United States Patent and Trademark Office. We have also obtained service mark registrations from the Patent and Trademark Office for "RICK'S AND STARS DESIGN" logo, "RCI HOSPITALITY HOLDINGS, INC.," "RICK'S," "RICK'S CABARET," "CLUB ONYX," "XTC CABARET," "SCARLETT'S CABARET," "SILVER CITY CABARET," "BOMBSHELLS RESTAURANT AND BAR," "THE SEVILLE CLUB," "DOWN IN TEXAS SALOON," "HOOPS CABARET," "VEE LOUNGE," "STUDIO 80," "FOXY'S CABARET," "EXOTIC DANCER," "TOYS FOR TATAS," "LA BOHEME GENTLEMAN'S CLUB," "MILE HIGH MEN'S CLUB," "MHMC logo," "AFTER DARK," "COUNTRY ROCK CABARET," "PT'S," "DIAMOND CABARET," "CABARET ROYALE," "BABY DOLLS SALOON," "BABY DOLLS TOPLESS SALOON," "BABY DOLLS," "JAGUARS," and "BOMBSHELLS OFFICER'S CLUB" are registered through service mark registrations issued by the United States Patent and Trademark Office. As of this date, we have pending registration applications for the names "TOOTSIES CABARET," "RICK'S REWARDS," "VENICE CABARET," "CHERRY CREEK FOOD HALL AND BREWERY," and "THE MANSION." We also own the rights to numerous trade names associated with our media division. There can be no assurance that these steps we have taken to protect our service marks will be adequate to deter misappropriation of our protected intellectual property rights.

EMPLOYEES AND INDEPENDENT CONTRACTORS

Our people are employed by the parent company or by its subsidiaries. Executive officers are employed by the registrant (parent company); shared services personnel and managers responsible for multiple clubs or restaurants are employed by RCI Management Services, Inc.; and the rest are employed by the individual operating entities. As of September 30, 2023, we had the following employees:

	Operations			
	Managers	Non-Managers	Corporate	Total
Hourly	24	3,183	19	3,226
Salaried	408	59	85	552
	432	3,242	104	3,778

Additionally, as of September 30, 2023, we had independent contractor entertainers who are self-employed and conduct business at our locations on a non-exclusive basis. Our entertainers at Rick's Cabaret in Minneapolis, Minnesota and at Jaguars Club in Phoenix, Arizona may elect to act as commissioned employees. All employees and independent contractors sign arbitration non-class-action participation agreements, where allowed by federal and state laws. None of our employees are represented by a union. We consider our employee relations to be good.

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. We have prepared plans that we believe will protect our profitability in the event that the sexually oriented business industry is required in all states to convert entertainers, who are now independent contractors, into employees. See related discussion in "Risk Factors" below.

Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below before deciding to purchase shares of our common stock. If any of the events, contingencies, circumstances or conditions described in the risks below actually occurs, our business, financial condition, or results of operations could be seriously harmed. The trading price of our common stock could, in turn, decline and you could lose all or part of your investment.

A summary of our risk factors is as follows:

Risks related to general macroeconomic and safety conditions

- The novel coronavirus (COVID-19) pandemic has disrupted and may continue to disrupt our business, which has and could continue to materially affect our operations, financial condition, and results of operations for an extended period of time.
- Our business, financial condition, and results of operations could be adversely affected by disruptions in the global economy caused by the ongoing war between Russia and Ukraine and the Israel-Hamas war.
- If we are unable to maintain compliance with certain of our debt covenants or unable to obtain waivers, we may be unable to make additional borrowings and be declared in default where our debt will be made immediately due and payable. In addition, global economic conditions may make it more difficult to access new credit facilities.
- We have recorded impairment charges in current and past periods and may record additional impairment charges in future periods.

Risks related to regulations and/or regulatory agencies

- Our business operations are subject to regulatory uncertainties which may affect our ability to continue operations of existing nightclubs, acquire additional nightclubs, or be profitable.
- The adult entertainment industry standard is to classify adult entertainers as independent contractors, not employees. If federal or state law mandates that they be classified as employees, our business could be adversely impacted.
- Our revenues could be significantly affected by limitations relating to permits to sell alcoholic beverages.
- Activities or conduct at our nightclubs may cause us to lose necessary business licenses, expose us to liability, or result in adverse publicity, which may increase our costs and divert management's attention from our business.

Risks related to our business

- We may deviate from our present capital allocation strategy.
- We may need additional financing, or our business expansion plans may be significantly limited.
- There is substantial competition in the nightclub entertainment industry, which may affect our ability to operate profitably or acquire additional clubs.
- The adult entertainment industry is extremely volatile.
- Private advocacy group actions targeted at the kind of adult entertainment we offer could result in limitations and our inability to operate in certain locations and negatively impact our business.
- We rely heavily on information technology in our operations and any material failure, weakness, interruption or breach of security could prevent us from effectively operating our business.
- We are exposed to risks related to cyber security and protection of confidential information, and failure to protect the integrity and security of payment card or individually identifiable information of our guests and employees or confidential and proprietary information of the Company could damage our reputation and expose us to loss of revenues, increased costs and litigation.
- Our acquisitions may result in disruptions in our business and diversion of management's attention.
- We face a variety of risks associated with doing business with franchisees and licensees.
- The impact of new club or restaurant openings could result in fluctuations in our financial performance.
- Our ability to grow sales through delivery orders is uncertain.
- We incur significant costs as a result of operating as a public company, and our management devotes substantial time to new compliance initiatives.
- We have identified material weaknesses in our internal control over financial reporting.
- We may have uninsured risks in excess of our insurance coverage.
- We are subject to increasing legal complexity and could be party to litigation that could adversely affect us.
- Our previous liability insurer may be unable to provide coverage to us and our subsidiaries.
- The protection provided by our service marks is limited.
- We are dependent on key personnel.

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- If we are not able to hire, develop, and retain qualified club and restaurant employees and/or appropriately plan our workforce, our growth plan and profitability could be adversely affected.
- A failure to maintain food safety throughout the supply chain and food-borne illness concerns may have an adverse effect on our business.
- Our venture, expansion, and renovation projects may face significant inherent risks.
- Other risk factors may adversely affect our financial performance.

Risk related to our common stock

- We must continue to meet NASDAQ Global Market Continued Listing Requirements, or we risk delisting.
- We may be subject to allegations, defamations, or other detrimental conduct by third parties, which could harm our reputation and cause us to lose customers and/or contribute to a deflation of our stock price.
- Our quarterly operating results may fluctuate and could fall below the expectations of securities analysts and investors due to seasonality and other factors, some of which are beyond our control, resulting in a decline in our stock price.
- Anti-takeover effects of the issuance of our preferred stock could adversely affect our common stock.
- Future sales or the perception of future sales of a substantial amount of our common stock may depress our stock price.
- Our stock price has been volatile and may fluctuate in the future.
- Cumulative voting is not available to our stockholders.
- Our directors and officers have limited liability and have rights to indemnification.

Details of our risk factors are as follows:

Risks related to general macroeconomic and safety conditions

The novel coronavirus (COVID-19) pandemic has disrupted and may continue to disrupt our business, which has and could continue to materially affect our operations, financial condition and results of operations for an extended period of time.

The COVID-19 pandemic had an adverse effect that was material on our business. The COVID-19 pandemic, federal, state and local government responses to COVID-19, our customers' responses to the pandemic, and our Company's responses to the pandemic all disrupted our business. In the United States, state and local governments imposed a variety of restrictions on people and businesses and public health authorities offered regular guidance on health and safety. Once COVID-19 vaccines were approved and moved into wider distribution in the United States in early 2021, public health conditions improved and almost all of the COVID-19 restrictions on businesses eased. During fiscal 2022, increases in the numbers of cases of COVID-19 throughout the United States including the Omicron variant which impacted our restaurants in the second quarter, mostly in January 2022, subjected some of our restaurants to other COVID-19-related restrictions such as mask and/or vaccine requirements for team members, guests or both. Exclusions and quarantines of restaurant team members or groups thereof disrupt an individual restaurant's operations and often come with little or no notice to the local restaurant management. In the last couple of years, along with COVID-19, our operating results were impacted by geopolitical and other macroeconomic events, leading to higher than usual inflation on wages and other cost of goods sold. These events further impacted the availability of team members needed to staff our restaurants and caused additional disruptions in our product supply chain.

Our business, financial condition, and results of operations could be adversely affected by disruptions in the global economy caused by the ongoing war between Russia and Ukraine and the Israel-Hamas war.

The ongoing war between Russia and Ukraine and the more recent Israel-Hamas war could have adverse effects on global macroeconomic conditions which could negatively impact our business, financial condition, and results of operations. These conflicts are highly unpredictable and have already resulted in significant volatility in oil and natural gas prices worldwide.

If we are unable to maintain compliance with certain of our debt covenants or unable to obtain waivers, we may be unable to make additional borrowings and be declared in default where our debt will be made immediately due and payable. In addition, global economic conditions may make it more difficult to access new credit facilities.

Our liquidity position is, in part, dependent upon our ability to borrow funds from financial institutions and/or private individuals. Certain of our debts have financial covenants that require us to maintain certain operating income to debt service ratios. As of September 30, 2023, we were in compliance with all covenants. Due to the impact of COVID-19 and other external factors such as supply chain disruption, the conflicts in Ukraine and in the Gaza Strip, and the potential economic slowdown, our financial performance in future periods could be negatively impacted. A failure to comply with the financial covenants under our credit facility or obtain waivers would give rise to an event of default under the terms of certain of our debts, allowing the lenders to accelerate repayment of any outstanding debt.

We have recorded impairment charges in current and past periods and may record additional impairment charges in future periods.

Our nightclubs are often acquired with a purchase price based on historical EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). This results in certain nightclubs carrying a substantial amount of intangible asset value, mostly allocated to licenses and goodwill. Generally accepted accounting principles require periodic impairment review of indefinite-lived intangible assets, long-lived assets, and goodwill to determine if, or when events and circumstances indicate that, the fair value of these assets is not recoverable. As a result of our periodic impairment reviews, we recorded impairment charges of \$12.6 million in 2023 (representing \$4.2 million of goodwill impairment on four clubs, \$6.5 million of SOB license impairment on eight clubs, \$1.0 million of operating lease right-of-use asset on one club, \$814,000 of software impairment on two investment projects, and \$58,000 of property and equipment impairment on one club); \$1.9 million in 2022 (representing \$566,000 of goodwill impairment on one club, \$293,000 of SOB license impairment on one club, and \$1.0 million of property and equipment impairment on one club and one Bombshells unit); and \$13.6 million in 2021 (representing \$6.3 million of goodwill impairment on seven clubs, \$5.3 million of SOB license impairment on three clubs, and \$2.0 million of property and equipment impairment on four clubs and one held-for-sale property). A huge portion, if not all, of the impairments in 2021 related to the then-projected decline in EBITDA caused by the COVID-19 pandemic. If difficult market and economic conditions materialize over the next year and/or we experience a decrease in revenue at one or more nightclubs or restaurants, we could incur a decline in fair value of one or more of our nightclubs or restaurants. This could result in future impairment charges of up to the total value of our tangible and intangible assets, including goodwill. We actively monitor our clubs and restaurants for any indication of impairment.

Risks related to regulations and/or regulatory agencies

Our business operations are subject to regulatory uncertainties which may affect our ability to continue operations of existing nightclubs, acquire additional nightclubs, or be profitable.

Adult entertainment nightclubs are subject to local, state and federal regulations. Our business is regulated by local zoning, local and state liquor licensing, local ordinances, and state and federal time place and manner restrictions. The adult entertainment provided by our nightclubs has elements of speech and expression and, therefore, enjoys some protection under the First Amendment to the United States Constitution. However, the protection is limited to the expression, and not the conduct of an entertainer. While our nightclubs are generally well established in their respective markets, there can be no assurance that local, state and/or federal licensing and other regulations will permit our nightclubs to remain in operation or profitable in the future.

The adult entertainment industry standard is to classify adult entertainers as independent contractors, not employees. If federal or state law mandates that they be classified as employees, our business could be adversely impacted.

The adult entertainment industry standard is to classify adult entertainers as independent contractors, not employees. The Internal Revenue Service regulations and applicable state law guidelines regarding independent contractor classification are subject to judicial and agency interpretation, and it could be determined that the independent contractor classification is inapplicable. Further, if legal standards for classification of independent contractors change, it may be necessary to modify our compensation structure for these adult entertainers, including by paying additional compensation or reimbursing expenses. While we take steps to ensure that our adult entertainers are deemed independent contractors, if our adult entertainers are determined to have been misclassified as independent contractors, we would incur additional exposure under federal and state law, workers' compensation, unemployment benefits, labor, employment and tort laws, including for prior periods, as well as potential liability for employee benefits and tax withholdings. Any of these outcomes could result in substantial costs to us, could significantly impair our financial condition and our ability to conduct our business as we choose, and could damage our ability to attract and retain other personnel.

Our revenues could be significantly affected by limitations relating to permits to sell alcoholic beverages.

We derive a significant portion of our revenues from the sale of alcoholic beverages. States in which we operate may have laws which may limit the availability of a permit to sell alcoholic beverages, or which may provide for suspension or revocation of a permit to sell alcoholic beverages in certain circumstances. The temporary or permanent suspension or revocations of any such permits would have a material adverse effect on our revenues, financial condition and results of operations. In all states where we operate, management believes we are in compliance with applicable city, county, state or other local laws governing the sale of alcohol.

Activities or conduct at our nightclubs may cause us to lose necessary business licenses, expose us to liability, or result in adverse publicity, which may increase our costs and divert management's attention from our business.

We are subject to risks associated with activities or conduct at our nightclubs that are illegal or violate the terms of necessary business licenses. Some of our nightclubs operate under licenses for sexually oriented businesses and are afforded some protection under the First Amendment to the U.S. Constitution. While we believe that the activities at our nightclubs comply with the terms of such licenses, and that the element of our business that constitutes an expression of free speech under the First Amendment to the U.S. Constitution is protected, activities and conduct at our nightclubs may be found to violate the terms of such licenses or be unprotected under the U.S. Constitution. This protection is limited to the expression and not the conduct of an entertainer. An issuing authority may suspend or terminate a license for a nightclub found to have violated the license terms. Illegal activities or conduct at any of our nightclubs may result in negative publicity or litigation. Such consequences may increase our cost of doing business, divert management's attention from our business and make an investment in our securities unattractive to current and potential investors, thereby lowering our profitability and our stock price.

We have developed comprehensive policies aimed at ensuring that the operation of each of our nightclubs is conducted in conformance with local, state and federal laws. We have a "no tolerance" policy on illegal drug use in or around our facilities. We continually monitor the actions of entertainers, waitresses and customers to ensure that proper behavior standards are met. However, such policies, no matter how well designed and enforced, can provide only reasonable, not absolute, assurance that the policies' objectives are being achieved. Because of the inherent limitations in all control systems and policies, there can be no assurance that our policies will prevent deliberate acts by persons attempting to violate or circumvent them. Notwithstanding the foregoing limitations, management believes that our policies are reasonably effective in achieving their purposes.

Risks related to our business

We may deviate from our present capital allocation strategy.

We believe that our present capital allocation strategy will provide us with optimized returns. However, implementation of our capital allocation strategy depends on the interplay of several factors such as our stock price, our outstanding common shares, the interest rates on our debt, and the rate of return on available investments. If these factors are not conducive to implementing our present capital allocation strategy, or we determine that adopting a different capital allocation strategy is in the best interest of shareholders, we reserve the right to deviate from this approach. There can be no assurance that we will not deviate from or adopt an alternative capital allocation strategy moving forward.

We may need additional financing, or our business expansion plans may be significantly limited.

If cash generated from our operations is insufficient to satisfy our working capital and capital expenditure requirements, we will need to raise additional funds through the public or private sale of our equity or debt securities. The timing and amount of our capital requirements will depend on a number of factors, including cash flow and cash requirements for nightclub acquisitions and new restaurant development. If additional funds are raised through the issuance of equity or convertible debt securities, the ownership percentage of our then-existing shareholders will be diluted. We cannot ensure that additional financing will be available on terms favorable to us, if at all. Any future equity financing, if available, may result in dilution to existing shareholders; and debt financing, if available, may include restrictive covenants. Any failure by us to procure timely additional financing, if needed, will have material adverse consequences on our business operations.

There is substantial competition in the nightclub entertainment industry, which may affect our ability to operate profitably or acquire additional clubs.

Our nightclubs face substantial competition. Some of our competitors may have greater financial and management resources than we do. Additionally, the industry is subject to unpredictable competitive trends and competition for general entertainment dollars. There can be no assurance that we will be able to remain profitable in this competitive industry.

The adult entertainment industry is extremely volatile.

Historically, the adult entertainment, restaurant and bar industry has been an extremely volatile industry. The industry tends to be extremely sensitive to the general local economy, in that when economic conditions are prosperous, adult entertainment industry revenues increase, and when economic conditions are unfavorable, entertainment industry revenues decline. Coupled with this economic sensitivity are the trendy personal preferences of the customers who frequent adult nightclubs. We continuously monitor trends in our customers' tastes and entertainment preferences so that, if necessary, we can make appropriate changes which will allow us to remain one of the premiere adult nightclubs. However, any significant decline in general corporate conditions or uncertainties regarding future economic prospects that affect consumer spending could have a material adverse effect on our business. In addition, we have historically catered to a clientele base from the upper end of the market. Accordingly, further reductions in the amounts of entertainment expenses allowed as deductions from income under the Internal Revenue Code of 1954, as amended, could adversely affect sales to customers dependent upon corporate expense accounts.

Private advocacy group actions targeted at the kind of adult entertainment we offer could result in limitations in our inability to operate in certain locations and negatively impact our business.

Our ability to operate successfully depends on the protection provided to us under the First Amendment to the U.S. Constitution. From time to time, private advocacy groups have sought to target our nightclubs by petitioning for non-renewal of certain of our permits and licenses. Furthermore, private advocacy groups which have influences on certain financial institutions have managed to sway these financial institutions into not doing business with us. In addition to possibly limiting our operations and financing options, negative publicity campaigns, lawsuits and boycotts could negatively affect our businesses and cause additional financial harm by discouraging investors from investing in our securities or requiring that we incur significant expenditures to defend our business.

We rely heavily on information technology in our operations and any material failure, weakness, interruption, or breach of security could prevent us from effectively operating our business.

Our operations and corporate functions rely heavily on information systems, including point-of-sale processing, management of our supply chain, payment of obligations, collection of cash, electronic communications, data warehousing to support analytics, finance and accounting systems, mobile technologies to enhance the customer experience, and other various processes and procedures, some of which are handled by third parties. Our ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, or a breach in security relating to these systems could result in delays in consumer service and reduce efficiency in our operations. These problems could adversely affect our results of operations, and remediation could result in significant, unplanned capital investments.

We are exposed to risks related to cyber security and protection of confidential information, and failure to protect the integrity and security of payment card or individually identifiable information of our guests and employees or

confidential and proprietary information of the Company could damage our reputation and expose us to loss of revenues, increased costs and litigation.

Our technology systems contain personal, financial, and other information that is entrusted to us by our guests and employees, as well as financial, proprietary, and other confidential information related to our business, and a significant portion of our sales are by credit or debit cards. If our technology systems, or those of third-party services providers we rely upon, are compromised as a result of a cyber-attack (including whether from circumvention of security systems, denial-of-service attacks, hacking, "phishing" attacks, computer viruses, ransomware, malware, or social engineering) or other external or internal method, it could result in an adverse and material impact on our reputation, operations, and financial condition. The cyber risks we face range from cyber-attacks common to most industries, to attacks that target us due to the confidential consumer information we obtain through our electronic processing of credit and debit card transactions. Such security breaches could also result in litigation or governmental investigation against us, as well as the imposition of penalties. These impacts could also occur if we are perceived either to have had an attack or to have failed to properly respond to an incident.

We are subject to a variety of continually evolving and developing laws and regulations regarding privacy, data protection, and data security, including those related to the collection, storage, handling, use, disclosure, transfer, and security of personal data. The use and disclosure of such information is regulated and enforced at the federal, state and international levels, and these laws, rules and regulations are subject to change.

As privacy and information security laws and regulations change or cyber risks evolve pertaining to data, we may incur significant additional costs in technology, third-party services, and personnel to maintain systems designed to anticipate and prevent cyber-attacks. As with many public companies, our defenses are under attack regularly. There might be minor intrusions from time to time. We have added certain preventive measures to reduce cyber risks. However, we cannot provide assurance that our security frameworks and measures will be successful in preventing future significant cyber-attacks or data loss.

Our acquisitions may result in disruptions in our business and diversion of management's attention.

We have made and may continue to make acquisitions of complementary nightclubs, restaurants or related operations. Any acquisitions will require the integration of the operations, products and personnel of the acquired businesses and the training and motivation of these individuals. Such acquisitions may disrupt our operations and divert management's attention from day-to-day operations, which could impair our relationships with current employees, customers and partners. We may also incur debt or issue equity securities to pay for any future acquisitions. These issuances could be substantially dilutive to our stockholders. In addition, our profitability may suffer because of acquisition-related costs or amortization, or impairment costs for acquired goodwill and other intangible assets. If management is unable to fully integrate acquired business, products or persons with existing operations, we may not receive the benefits of the acquisitions, and our revenues and stock trading price may decrease.

We face a variety of risks associated with doing business with franchisees and licensees.

We started franchising Bombshells in 2015. We believe that we have selected highly competent operating partners and franchisees with significant experience in restaurant operations, and we are providing them training and support on the Bombshells brand. However, the probability of opening, ultimate success and quality of any franchise or licensed restaurant rests principally with the franchisee. If the franchisee does not successfully open and operate its restaurants in a manner consistent with our standards, or if guests have negative experiences due to issues with food quality or operational execution, our brand value could suffer, which could have an adverse impact on our business.

The impact of new club or restaurant openings could result in fluctuations in our financial performance.

Performance of any new club or restaurant location will usually differ from its originally targeted performance due to a variety of factors, and these differences may be material. New clubs and restaurants typically encounter higher customer traffic and sales in their initial months, which may decrease over time. Accordingly, sales achieved by new or reconceived locations may not be indicative of future operating results. Additionally, we incur substantial pre-opening expenses each time we open a new establishment, which expenses may be higher than anticipated. Due to the foregoing factors, results for any one fiscal quarter are not necessarily indicative of results to be expected for any other fiscal quarter or for a full fiscal year.

Our ability to grow sales through delivery orders is uncertain.

Part of our strategy for restaurant growth is dependent on increased sales from guests that want our food delivered to them. We currently rely on third-party delivery providers for the ordering and payment platforms that receive guest orders and that send orders directly to our point-of-sale system. These platforms could be damaged or interrupted by technological failures, cyber-attacks, or other factors, which may adversely impact our sales through these channels.

Delivery providers generally fulfill delivery orders through drivers that are independent contractors. These drivers may make errors, fail to make timely deliveries, damage our food, or poorly represent our brands, which may lead to customer disappointment, reputational harm and unmet sales expectations. Our sales may also be adversely impacted if there is a shortage of drivers that are willing and available to make deliveries from our restaurants. We also incur additional costs associated with delivery orders, and it is possible that these orders could cannibalize more profitable in-restaurant visits or take-out orders.

We incur significant costs as a result of operating as a public company, and our management devotes substantial time to new compliance initiatives.

We incur significant legal, accounting and other expenses that our non-public competition does not incur. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), as well as new rules subsequently implemented by the SEC, have imposed various requirements on public companies, including requiring certain corporate governance practices. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and effective disclosure controls and procedures. In particular, under Section 404 of the Sarbanes-Oxley Act, we are required to perform system and process evaluation and testing on the effectiveness of our internal control over financial reporting, and our independent registered public accounting firm is required to report on the effectiveness of our internal control over financial reporting. In performing this evaluation and testing, both our management and our independent registered public accounting firm concluded that our internal control over financial reporting is not effective as of September 30, 2023. We are, however, addressing this issue and remediating our material weaknesses. When we were to identify a material weakness, correcting that issue, and thereafter our continued compliance with Section 404 require that we incur substantial accounting expense and expend significant management efforts. Moreover, if we are not able to correct an internal control issue and comply with the requirements of Section 404 in a timely manner, or if in the future we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

We have identified material weaknesses in our internal control over financial reporting.

Management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of September 30, 2023, and concluded that we did not maintain effective internal control over financial reporting. Management identified material weaknesses related to (1) proper design and implementation of controls over management's review of the Company's accounting for business combinations, specifically related to the identification of and accounting for, intangibles assets acquired in a business combination and over the precision of management's review of certain valuation assumptions; (2) the impairment of goodwill, indefinite-lived intangibles, and long-lived assets, specifically over the precision of management's review of certain assumptions; and (3) ineffective information technology general controls in the areas of user access and program change-management over certain information technology systems that support the Company's financial reporting processes. See Item 9A, "Controls and Procedures," below. While certain actions have been taken to implement a remediation plan to address these material weaknesses and to enhance our internal control over financial reporting, if these material weaknesses are not remediated, it could adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner, which could negatively affect investor confidence in our Company, and, as a result, the value of our common stock could be adversely affected.

We may have uninsured risks in excess of our insurance coverage.

We maintain insurance in amounts we consider adequate for personal injury and property damage to which the business of the Company may be subject. However, there can be no assurance that uninsured liabilities in excess of the coverage provided by insurance, which liabilities may be imposed pursuant to the Texas "dram shop" statute or similar "dram shop" statutes or common law theories of liability in other states where we operate or expand. For example, the Texas "dram shop" statute provides a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to such person if it was apparent to the server that the individual being sold, served or provided with an alcoholic beverage was obviously intoxicated to the extent that he presented a clear danger to himself and others. An employer is not liable for the actions of its employee who over-serves if (i) the employer requires its employees to attend a seller training program approved by the TABC; (ii) the employee has actually attended such a training program; and (iii) the employer has not directly or indirectly encouraged the employee to violate the law. It is our policy to require that all servers of alcohol working at our clubs in Texas be certified as servers under a training program approved by the TABC, which certification gives statutory immunity to the sellers of alcohol from damage caused to third parties by those who have consumed alcoholic beverages at such establishment pursuant to the TABC. There can be no assurance, however, that uninsured liabilities may not arise in the markets in which we operate which could have a material adverse effect on the Company.

We are subject to increasing legal complexity and could be party to litigation that could adversely affect us.

Increasing legal complexity will continue to affect our operations and results. We could be subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations, employment and personal injury claims, claims alleging violations of federal and state laws regarding consumer, workplace and employment matters, wage and hour claims, discrimination and similar matters, landlord/tenant disputes, disputes with current and former suppliers, claims by current and former franchisees, contractors, data privacy claims and intellectual property claims (including claims that we infringed upon another party's trademarks, or copyrights). Inconsistent standards imposed by governmental authorities can adversely affect our business and increase our exposure to litigation which could result in significant judgments, including punitive and liquidated damages, and injunctive relief.

Occasionally, our guests file complaints or lawsuits against us alleging that we are responsible for an illness or injury they suffered as a result of a visit to our restaurants, or that we have problems with food quality or operations. As a Company, we take responsible alcohol service seriously. However, we are subject to "dram shop" statutes. These statutes generally allow a person injured by an intoxicated person to recover damages from an establishment that served alcoholic beverages to the intoxicated person. Some litigation against restaurant chains has resulted in significant judgments, including punitive damages, under dram shop statutes. Because a plaintiff may seek punitive damages, which may not be covered by insurance, this type of action could have an adverse impact on our financial condition and results of operations.

Litigation involving our relationship with contractors and the legal distinction between our contractors and us for employment law purposes, if determined adversely, could increase costs, negatively impact the business prospects of our operations and subject us to incremental liability for their actions.

Our operating results could also be affected by the following:

- The relative level of our defense costs and nature and procedural status of pending proceedings;
- The cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or to take other actions that may affect perceptions of our brands and products;
- Adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices; and
- The scope and terms of insurance or indemnification protections that we may have (if any).

Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time, attention and money away from our operations and hurt our performance. A judgment significantly in excess of any applicable insurance coverage could have significant adverse effect on our financial condition or results of operations. Further, adverse publicity resulting from these claims may hurt our business.

Our previous liability insurer may be unable to provide coverage to us and our subsidiaries.

As previously reported, the Company and its subsidiaries were insured under a liability policy issued by Indemnity Insurance Corporation, RRG ("IIC") through October 25, 2013. The Company and its subsidiaries changed insurance companies on that date.

On November 7, 2013, the Court of Chancery of the State of Delaware entered a Rehabilitation and Injunction Order ("Rehabilitation Order"), which declared IIC impaired, insolvent and in an unsafe condition and placed IIC under the supervision of the Insurance Commissioner of the State of Delaware ("Commissioner") in her capacity as receiver ("Receiver"). The Rehabilitation Order empowered the Commissioner to rehabilitate IIC through a variety of means, including gathering assets and marshaling those assets, as necessary. Further, the order stayed or abated pending lawsuits involving IIC as the insurer until May 6, 2014.

On April 10, 2014, the Court of Chancery of the State of Delaware entered a Liquidation and Injunction Order With Bar Date ("Liquidation Order"), which ordered the liquidation of IIC and terminated all insurance policies or contracts of insurance issued by IIC. The Liquidation Order further ordered that all claims against IIC must have been filed with the Receiver before the close of business on January 16, 2015 and that all pending lawsuits involving IIC as the insurer were further stayed or abated until October 7, 2014. As a result, the Company and its subsidiaries no longer had insurance coverage under the liability policy with IIC. The Company has retained counsel to defend against and evaluate these claims and lawsuits. We are funding 100% of the costs of litigation and will seek reimbursement from the bankruptcy receiver. The Company filed the appropriate claims against IIC with the Receiver before the January 16, 2015 deadline and has provided updates as requested; however, there are no assurances of any recovery from these claims. It is unknown at this time what effect this uncertainty will have on the Company. As previously stated, since October 25, 2013, the Company obtained general liability coverage from other insurers, which have covered and/or will cover any claims arising from actions after that date. As of September 30, 2023, we have 1 remaining unresolved claim out of the original 71 claims.

The protection provided by our service marks is limited.

Our rights to the trade names "RCI Hospitality Holdings, Inc.," "Rick's," "Rick's Cabaret," "Tootsie's Cabaret," "Club Onyx," "XTC Cabaret," "Temptations," "Jaguars," "Downtown Cabaret," "Cabaret East," "Bombshells Restaurant and Bar," "Vee Lounge," "Mile High Men's Club," "Country Rock Cabaret," "PT's," and "Diamond Cabaret" are established under common law, based upon our substantial and continuous use of these trade names in interstate commerce, some of which have been in use at least as early as 1987. We have registered our service mark, "RICK'S AND STARS DESIGN," and the "BOMBSHELLS RESTAURANT & BAR" logo design with the United States Patent and Trademark Office. We have also obtained service mark registrations from the Patent and Trademark Office for "RICK'S AND STARS DESIGN" logo, "RCI HOSPITALITY HOLDINGS, INC.," "RICK'S," "RICK'S CABARET," "CLUB ONYX," "XTC CABARET," "SCARLETT'S CABARET," "SILVER CITY CABARET," "BOMBSHELLS RESTAURANT AND BAR," "THE SEVILLE CLUB," "DOWN IN TEXAS SALOON," "HOOPS CABARET," "VEE LOUNGE," "STUDIO 80," "FOXY'S CABARET," "EXOTIC DANCER," "TOYS FOR TATAS," "MILE HIGH MEN'S CLUB," "MHMC logo," "AFTER DARK," "COUNTRY ROCK CABARET," "PT'S," "DIAMOND CABARET," "CABARET ROYALE," "BABY DOLLS SALOON," "BABY DOLLS TOPLESS SALOON," "BABY DOLLS," "JAGUARS," and BOMBSHELLS OFFICER'S CLUB are registered through service mark registrations issued by the United States Patent and Trademark Office. As of this date, we have pending registration applications for the names "TOOTSIES CABARET," "RICK'S REWARDS," "VENICE CABARET," "CHERRY CREEK FOOD HALL AND BREWERY", and "THE MANSION." We also own the rights to numerous trade names associated with our media division. There can be no assurance that these steps we have taken to protect our service marks will be adequate to deter misappropriation of our protected intellectual property rights. Litigation may be necessary in the future to protect our rights from infringement, which may be costly and time consuming. The loss of the intellectual property rights owned or claimed by us could have a material adverse effect on our business.

We are dependent on key personnel.

Our future success is dependent, in a large part, on retaining the services of Eric Langan, our President and Chief Executive Officer, and Bradley Chhay, our Chief Financial Officer. Mr. Langan possesses a unique and comprehensive knowledge of our industry. While Mr. Langan has no present plans to leave or retire in the near future, his loss could have a negative effect on our operating, marketing and financial performance if we are unable to find an adequate replacement with similar knowledge and experience within our industry. Mr. Chhay possesses thorough familiarity with our accounting system and how it affects our operations. Mr. Chhay is also vital in our due diligence efforts when acquiring clubs. We maintain key-man life insurance with respect to Mr. Langan but not for Mr. Chhay. Although Messrs. Langan and Chhay have signed employment agreements with us (as described herein), there can be no assurance that Mr. Langan or Mr. Chhay will continue to be employed by us.

If we are not able to hire, develop, and retain qualified club and restaurant employees and/or appropriately plan our workforce, our growth plan and profitability could be adversely affected.

We rely on our restaurant- and club-level employees to consistently provide high-quality food and positive experiences to our guests. In addition, our ability to continue to open new restaurants depends on us attracting, hiring, developing, and retaining high-quality managers. Maintaining appropriate staffing in our restaurants requires precise workforce planning, which planning has become more complex due to predictive scheduling laws (also called "fair workweek" or "secure scheduling") and "just cause" termination legislation in certain geographic areas where we operate, and the so-called "great resignation" trend. The market for qualified talent continues to be competitive and we must ensure that we continue to offer competitive wages, benefits, and workplace conditions to retain qualified employees. We have experienced and may continue to experience challenges in hiring and retaining restaurant and club employees and in maintaining full restaurant and or club staffing in various locations, which has resulted in longer wait times for guest orders and potentially decreased employee satisfaction. A shortage of qualified candidates who meet all legal work authorization and training requirements, failure to hire and retain new restaurant or club employees in a timely manner or higher than expected turnover levels could affect our ability to open new restaurants, grow sales at existing restaurants and clubs or meet our labor cost objectives. In addition, failure to adequately monitor and proactively respond to employee dissatisfaction could lead to poor guest satisfaction, higher turnover, litigation and unionization efforts, which could negatively impact our ability to meet our growth targets.

A failure to maintain food safety throughout the supply chain and food-borne illness concerns may have an adverse effect on our business.

Food safety is a top priority, and we dedicate substantial resources to ensuring that our guests enjoy safe, quality food products. However, food safety issues could be caused at the point of source or by food suppliers or distributors and, as a result, be out of our control. In addition, regardless of the source or cause, any report of food-borne illnesses such as E. coli, hepatitis A, trichinosis or salmonella, and other food safety issues including food tampering or contamination, at one of our restaurants or clubs could adversely affect the reputation of our brands and have a negative impact on our sales. Even instances of food-borne illness, food tampering or food contamination occurring solely at restaurants of our competitors could result in negative publicity about the food service industry generally and adversely impact our sales. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, resulting in higher costs and lower margins.

Our venture, expansion, and renovation projects may face significant inherent risks.

Investment in certain projects we may undertake will be subject to the many risks inherent in the expansion or renovation of an existing enterprise or construction of a new enterprise, including unanticipated design, construction, regulatory, environmental and operating problems and lack of demand for our projects.

Our current and future projects could also experience:

- delays and significant cost increases;
- delays in obtaining or inability to obtain necessary permits, licenses and approvals;
- lack of sufficient, or delays in the availability of, financing;

- shortages of materials;
- shortages of skilled labor, work stoppages or labor disputes;
- poor performance or nonperformance by any third parties on whom we place reliance;
- unforeseen construction scheduling, engineering, environmental, permitting, construction or geological problems, including defective plans and specifications;
- weather interference, floods, fires or other casualty losses; and
- COVID-19 related delays.

The completion dates of any of our projects could differ significantly from expectations for construction-related or other reasons. Actual costs and construction periods for any of our projects can differ significantly from initial expectations. Our initial project costs and construction periods are based upon budgets, conceptual design documents and construction schedule estimates prepared at inception of the project in consultation with architects and contractors. Many of these costs can increase over time as the project is built to completion.

We can provide no assurance that any project will be completed on time, if at all, or within established budgets, or that any project will result in increased earnings to us. Significant delays, cost overruns, or failures of our projects to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.

Other risk factors may adversely affect our financial performance.

Other risk factors that could cause our actual results to differ materially from those indicated in the forward-looking statements by affecting, among many things, pricing, consumer spending and consumer confidence, include, without limitation, changes in economic conditions and financial and credit markets, credit availability, increased fuel costs and availability for our employees, customers and suppliers, health epidemics or pandemics or the prospects of these events (such as reports on avian flu or COVID-19), consumer perceptions of food safety, changes in consumer tastes and behaviors, governmental monetary policies, changes in demographic trends, terrorist acts, energy shortages and rolling blackouts, and weather (including, major hurricanes and regional snow storms) and other acts of God.

We are also subject to the general risks of inflation, increases in minimum wage, health care, and other benefits that may have a material adverse effect on our cost structure, and the disruption in our supply chain caused by several factor, including the COVID-19 pandemic.

Risk related to our common stock

We must continue to meet NASDAQ Global Market Continued Listing Requirements, or we risk delisting.

Our securities are currently listed for trading on the NASDAQ Global Market. We must continue to satisfy NASDAQ's continued listing requirements or risk delisting which would have an adverse effect on our business. If our securities are ever delisted from NASDAQ, they may trade on the over-the-counter market, which may be a less liquid market. In such case, our shareholders' ability to trade or obtain quotations of the market value of shares of our common stock would be severely limited because of lower trading volumes and transaction delays. These factors could contribute to lower prices and larger spreads in the bid and ask prices for our securities.

We may be subject to allegations, defamations, or other detrimental conduct by third parties, which could harm our reputation and cause us to lose customers and/or contribute to a deflation of our stock price.

We have been subject to allegations by third parties or purported former employees, negative internet postings, and other adverse public exposure on our business, operations and staff compensation. We may also become the target of defamations or other detrimental conduct by third parties or disgruntled former or current employees. Such conduct may include complaints, anonymous or otherwise, to regulatory agencies, media or other organizations. We may be subject to government or regulatory investigation or other proceedings as a result of such third-party conduct and may be required to spend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Any government or

regulatory investigations initiated as a result of the above may cause a deflation in our stock price. Additionally, allegations, directly or indirectly against us, may be posted on the internet, including social media platforms by anyone, whether or not related to us, on an anonymous basis. Any negative publicity on us or our management can be quickly and widely disseminated. Social media platforms and devices immediately publish the content of their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted may be inaccurate and adverse to us, and it may harm our reputation, business or prospects. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of negative and potentially false information about our business and operations, which in turn may cause us to lose customers.

Our quarterly operating results may fluctuate and could fall below the expectations of securities analysts and investors due to seasonality and other factors, some of which are beyond our control, resulting in a decline in our stock price.

Our nightclub operations are affected by seasonal factors. Historically, we have experienced reduced revenues from April through September with the strongest operating results occurring from October through March. As a result, our quarterly and annual operating results and comparable restaurant sales may fluctuate significantly as a result of seasonality and the factors discussed above. Accordingly, results for any one fiscal quarter are not necessarily indicative of results to be expected for any other fiscal quarter or for any fiscal year and same-store sales for any particular future period may decrease. In the future, operating results may fall below the expectations of securities analysts and investors. In that event, the price of our common stock would likely decrease.

Anti-takeover effects of the issuance of our preferred stock could adversely affect our common stock.

Our board of directors has the authority to issue up to 1,000,000 shares of preferred stock in one or more series, to fix the number of shares constituting any such series, and to fix the rights and preferences of the shares constituting any series, without any further vote or action by the stockholders. The issuance of preferred stock by the board of directors could adversely affect the rights of the holders of our common stock. For example, such issuance could result in a class of securities outstanding that would have preferences with respect to voting rights and dividends and in liquidation over the common stock, and could (upon conversion or otherwise) enjoy all of the rights appurtenant to common stock. The Board's authority to issue preferred stock could discourage potential takeover attempts and could delay or prevent a change in control of the Company through merger, tender offer, proxy contest or otherwise by making such attempts more difficult to achieve or costlier. There are no issued and outstanding shares of preferred stock; there are no agreements or understandings for the issuance of preferred stock; and the board of directors has no present intention to issue preferred stock.

Future sales or the perception of future sales of a substantial amount of our common stock may depress our stock price.

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market, or as a result of the perception that these sales could occur. In addition, these factors could make it more difficult for us to raise funds through future offerings of common stock.

Our stock price has been volatile and may fluctuate in the future.

The trading price of our securities may fluctuate significantly. This price may be influenced by many factors, including:

- our performance and prospects;
- the depth and liquidity of the market for our securities;
- investor perception of us and the industry in which we operate;
- changes in earnings estimates or buy/sell recommendations by analysts;
- general financial and other market conditions; and
- domestic economic conditions.

Public stock markets have experienced, and may experience, extreme price and trading volume volatility. These broad market fluctuations may adversely affect the market price of our securities.

Cumulative voting is not available to our stockholders.

Cumulative voting in the election of Directors is expressly denied in our Articles of Incorporation. Accordingly, the holder or holders of a majority of the outstanding shares of our common stock may elect all of our Directors.

Our directors and officers have limited liability and have rights to indemnification.

Our Articles of Incorporation and Bylaws provide, as permitted by governing Texas law, that our directors and officers shall not be personally liable to us or any of our stockholders for monetary damages for breach of fiduciary duty as a director or officer, with certain exceptions. The Articles further provide that we will indemnify our directors and officers against expenses and liabilities they incur to defend, settle, or satisfy any civil litigation or criminal action brought against them on account of their being or having been its directors or officers unless, in such action, they are adjudged to have acted with gross negligence or willful misconduct.

The inclusion of these provisions in the Articles may have the effect of reducing the likelihood of derivative litigation against directors and officers and may discourage or deter stockholders or management from bringing a lawsuit against directors and officers for breach of their duty of care, even though such an action, if successful, might otherwise have benefited us and our stockholders.

The Articles provide for the indemnification of our officers and directors, and the advancement to them of expenses in connection with any proceedings and claims, to the fullest extent permitted by Texas law. The Articles include related provisions meant to facilitate the indemnitee's receipt of such benefits. These provisions cover, among other things: (i) specification of the method of determining entitlement to indemnification and the selection of independent counsel that will in some cases make such determination, (ii) specification of certain time periods by which certain payments or determinations must be made and actions must be taken, and (iii) the establishment of certain presumptions in favor of an indemnitee.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

As of September 30, 2023, we own 88 real estate properties. On 55 of these properties, we operate clubs or restaurants, including those temporarily closed. We lease multiple other properties to third-party tenants. Nine of our owned properties are in locations where we previously operated clubs or are adjacent to acquired clubs, but now lease the buildings to third parties. Twenty four are non-income-producing properties for corporate use (including our corporate office) or future club or restaurant locations, or may be offered for sale in the future. Fourteen of our clubs and restaurants are in leased locations.

Our principal corporate office is located at 10737 Cutten Road, Houston, Texas 77066, consisting of a 21,000-square foot corporate office and an 18,000-square foot warehouse facility.

Below is a list of locations we operated as of September 30, 2023:

Name of Establishment	Fiscal Year Acquired/Opened
Club Onyx, Houston, TX	1995
Rick's Cabaret, Minneapolis, MN	1998
XTC Cabaret, Austin, TX	1998
Scarlett's Cabaret, San Antonio, TX	1998
Rick's Cabaret, New York City, NY	2005
Club Onyx, Charlotte, NC	2005 ⁽¹⁾
Jaguars Club, San Antonio, TX	2006
Rick's Cabaret, Fort Worth, TX	2007
Tootsie's Cabaret, Miami Gardens, FL	2008
XTC Cabaret, Dallas, TX	2008
Rick's Cabaret, Round Rock, TX	2009
Cabaret East, Fort Worth, TX	2010
Rick's Cabaret DFW, Fort Worth, TX	2011
Downtown Cabaret, Minneapolis, MN	2011
Silver City Cabaret, Dallas, TX	2012
Jaguars Club, Odessa, TX	2012
Jaguars Club, Phoenix, AZ	2012
Jaguars Club, Longview, TX	2012
Jaguars Club, Tye, TX	2012
Jaguars Club, Edinburg, TX	2012
Jaguars Club, El Paso, TX	2012
Jaguars Club, Harlingen, TX	2012
Studio 80, Fort Worth, TX	2013 ⁽¹⁾
Bombshells, Dallas, TX	2013
Scarlett's Cabaret, Sulphur, LA	2013
Temptations, Beaumont, TX	2013
Vivid Cabaret, New York, NY	2014 ⁽¹⁾
Bombshells, Austin, TX	2014 ⁽¹⁾
Rick's Cabaret, Odessa, TX	2014
Bombshells, Spring, TX	2014 ⁽¹⁾
Bombshells Fuqua, Houston, TX	2014 ⁽¹⁾
Foxy's Cabaret, Austin TX	2015

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The Seville, Minneapolis, MN	2015
Hoops Cabaret and Sports Bar, New York, NY	2016 ⁽¹⁾
Bombshells, Highway 290 Houston, TX	2017 ⁽¹⁾
Scarlett's Cabaret, Washington Park, IL	2017
Scarlett's Cabaret, Miami, FL	2017
Bombshells, Pearland, TX	2018
Kappa Men's Club, Kappa, IL	2018
Rick's Cabaret, Chicago, IL	2019
Rick's Cabaret, Pittsburgh, PA	2019
Bombshells I-10, Houston, TX	2019
Bombshells 249, Houston, TX	2019
Bombshells, Katy, TX	2020
Bombshells 59, Houston, TX	2020
Diamond Cabaret, Denver, CO	2022 ⁽¹⁾
Scarlett's Cabaret, Denver, CO	2022
PT's Showclub, Denver, CO	2022
Rick's Cabaret, Denver, CO	2022 ⁽¹⁾
Diamond Cabaret, St. Louis, IL	2022 ⁽¹⁾
Country Rock Cabaret, St. Louis, IL	2022 ⁽¹⁾
PT's Showclub, Indianapolis, IN	2022
Rick's Cabaret, Raleigh, NC	2022 ⁽¹⁾
Rick's Cabaret, Portland, ME	2022
PT's Showclub, Louisville, KY	2022
PT's Centerfold, Denver, CO	2022
Mansion Gentlemen's Club & Steakhouse, Newburgh, NY	2022
Bombshells, Arlington, TX	2022
Playmates Club, Miami, FL	2022
Cheetah Gentlemen's Club, Miami, FL	2022
PT's Showclub, Odessa, TX	2022
Heartbreakers Gentlemen's Club, Dickinson, TX	2023
Cherry Creek Food Hall, Denver, CO	2023
Bombshells, San Antonio, TX	2023 ⁽¹⁾
Baby Dolls, Dallas, TX	2023
Chicas Locas, Dallas, TX	2023
Chicas Locas, Arlington, TX	2023
Chicas Locas, Houston, TX	2023
Baby Dolls, Fort Worth, TX	2023

(1) Leased location.

Our property leases are typically for a fixed rental rate with contingent rent for certain locations. The lease terms generally have initial terms of 10 to 20 years with renewal terms of 5 to 20 years. At September 30, 2023, certain of the properties we own were collateral for mortgage debt amounting to approximately \$136.1 million. We believe that our existing facilities, both owned and leased, are in good condition and adequate and suitable for the conduct of our business.

See related information in [Notes 5](#) and [8](#) to our consolidated financial statements.

Item 3. Legal Proceedings.

See the "[Legal Matters](#)" section within [Note 10](#) to our consolidated financial statements within this Annual Report on Form 10-K for the requirements of this Item, which section is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is quoted on the NASDAQ Global Market under the symbol "RICK."

Holders

On December 8, 2023, the closing stock price for our common stock as reported by NASDAQ was \$62.30, and there were 120 stockholders of record of our common stock (excluding broker held shares in "street name"). Currently, we estimate that there are approximately 12,900 stockholders having beneficial ownership in street name.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Colonial Stock Transfer Company, Inc., 66 Exchange Place, 1st Floor, Salt Lake City, Utah 84111.

Dividend Policy

Prior to 2016, we had not paid cash dividends on our common stock. Starting in March 2016, in conjunction with our share buyback program (see discussion below), our board of directors declared regular quarterly cash dividends of \$0.03 per share, except for the fourth quarter of fiscal 2019, the second and fourth quarters of fiscal 2020, all four quarters of fiscal 2021, and the first quarter of fiscal 2022 when we paid \$0.04 per share. In the second quarter of fiscal 2022, we increased our regular quarterly dividends to \$0.05 per share. In the second quarter of 2023, we increased our regular quarterly dividends to \$0.06 per share.

During fiscal 2023, 2022, and 2021, we paid cash dividends totaling \$2.1 million, \$1.8 million, and \$1.4 million, respectively.

Purchases of Equity Securities by the Issuer

Our share repurchase activity during the three months ended September 30, 2023 was as follows:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit) ⁽¹⁾	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet be Purchased Under the Plans or Programs	
			Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Programs
July 1-31, 2023	8,870	\$ 69.47	8,870	\$ 18,150,893
August 1-31, 2023	9,922	\$ 66.16	9,922	\$ 17,494,464
September 1-30, 2023	13,794	\$ 61.85	13,794	\$ 16,641,326
	<u>32,586</u>		<u>32,586</u>	

(1) Prices include any commissions and transaction costs.

(2) All shares were purchased pursuant to the repurchase plans approved by the board of directors as disclosed in our most recent Annual Report on Form 10-K.

Equity Compensation Plan Information

On February 7, 2022, our board of directors approved the 2022 Stock Option Plan (the "2022 Plan"). The board's adoption of the 2022 Plan was approved by the shareholders during the annual stockholders' meeting on August 23, 2022. The 2022 Plan provides that the maximum aggregate number of shares of common stock underlying options that may be granted under the 2022 Plan is 300,000. The options granted under the 2022 Plan may be either incentive stock options or non-qualified options. The 2022 Plan is administered by the compensation committee of the board of directors. The compensation committee 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 not less than 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 2022 Plan. On February 9, 2022, the board of directors approved a grant of 50,000 stock options each to six members of management subject to the approval of the 2022 Plan.

See [Note 11](#) to our consolidated financial statements for details.

Stock Performance Graph

The following chart compares the five-year cumulative total stock performance of our common stock; the NASDAQ Composite Index (IXIC); the Russell 2000 Index (RUT); and the Dow Jones U.S. Restaurant & Bar Index (DJUSRU), our peer index. The graph assumes a hypothetical investment of \$100 on September 30, 2018 in each of our common stock and each of the indices, and that all dividends were reinvested. The measurement points utilized in the graph consist of the last trading day as of September 30 each year, representing the last day of our fiscal year. The calculations exclude trading commissions and taxes. We have selected the Dow Jones U.S. Restaurant & Bar Index as our peer index since it represents a broader group of restaurant and bar operators that are more aligned to our core business operations. RICK is a component of the NASDAQ Composite Index and the Russell 2000 Index. The historical stock performance presented below is not intended to and may not be indicative of future stock performance.



	9/30/2018	9/30/2019	9/30/2020	9/30/2021	9/30/2022	9/30/2023
RCI Hospitality Holdings, Inc.	\$ 100.00	\$ 69.81	\$ 69.03	\$ 232.06	\$ 220.21	\$ 204.59
NASDAQ Composite Index	\$ 100.00	\$ 99.42	\$ 138.79	\$ 179.57	\$ 131.43	\$ 164.29
Dow Jones U.S. Restaurant & Bar Index	\$ 100.00	\$ 130.41	\$ 132.11	\$ 161.94	\$ 139.22	\$ 158.58
Russell 2000 Index	\$ 100.00	\$ 89.79	\$ 88.87	\$ 129.93	\$ 98.12	\$ 105.22

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand RCI Hospitality Holdings, Inc., our operations and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes thereto contained in Item 8 – "Financial Statements and Supplementary Data" of this report. This overview summarizes the MD&A, which includes the following sections:

- Our Business — a general description of our business and the adult nightclub industry, our objective, our strategic priorities, our core capabilities, and challenges and risks of our business.
- Critical Accounting Policies and Estimates — a discussion of accounting policies that require critical judgments and estimates.
- Operations Review — an analysis of our Company's consolidated results of operations for the three years presented in our consolidated financial statements.
- Liquidity and Capital Resources — an analysis of cash flows, aggregate contractual obligations, and an overview of financial position.

OUR BUSINESS

The following are our operating segments:

Nightclubs

Our wholly-owned subsidiaries own and/or operate upscale adult nightclubs serving primarily businessmen and professionals. These nightclubs are in Houston, Austin, San Antonio, Dallas, Fort Worth, Beaumont, Longview, Harlingen, Edinburg, Tye, Lubbock, Round Rock, El Paso and Odessa, Texas; Denver, Colorado; Charlotte and Raleigh, North Carolina; Minneapolis, Minnesota; New York and Newburgh, New York; Miami Gardens, Pembroke Park and Miami, Florida; Pittsburgh, Pennsylvania; Phoenix, Arizona; Louisville, Kentucky; Portland, Maine; Indianapolis, Indiana; and Washington Park, Kappa, Sauget and Chicago, Illinois. No sexual contact is permitted at any of our locations. We also own and operate a Studio 80 dance club in Fort Worth, Texas. We also own and lease to third parties real properties that are adjacent to (or used to be locations of) our clubs.

Bombshells

Our wholly-owned subsidiaries own and operate restaurants and sports bars in Houston, Dallas, Austin, Spring, Pearland, Tomball, Katy, Arlington, and San Antonio, Texas under the brand name Bombshells Restaurant & Bar. Bombshells also operates a food hall in Denver, Colorado.

Other

Our wholly-owned subsidiaries own a media division ("Media Group"), including the leading trade magazine serving the multibillion-dollar adult nightclub industry and the adult retail products industry. We also own an industry trade show, an industry trade publication and more than a dozen industry and social media websites. Included here is Drink Robust, which is licensed to sell Robust Energy Drink in the United States.

We generate our revenues from the sale of liquor, beer, wine, food, and merchandise; service revenues such as cover charges, membership fees, and facility use fees; and other revenues such as commissions from vending and ATM machines, real estate rental, valet parking, and other products and services for both nightclub and restaurant/sports bar operations. Other revenues include Media Group revenues for the sale of advertising content and revenues from our annual Expo convention, and Drink Robust sales. Our fiscal year-end is September 30.

Same-Store Sales. We calculate same-store sales by comparing year-over-year revenues from nightclubs and restaurants/sports bars starting in the first full quarter of operations after at least 12 full months for Nightclubs and at least 18 full months for Bombshells. We consider the first six months of operations of a Bombshells unit to be the “honeymoon period” where sales are significantly higher than normal. We exclude from a particular month’s calculation units previously included in the same-store sales base that have closed temporarily for more than 15 days until its next full quarter of operations. We also exclude from the same-store sales base units that are being reconceived or are closed due to renovations or remodels. Acquired units are included in the same-store sales calculation as long as they qualify based on the definitions stated above. Revenues outside of our Nightclubs and Bombshells reportable segments’ core business are excluded from same-store sales calculation.

Our goal is to use our Company’s assets—our brands, financial strength, and the talent and strong commitment of our management and employees—to become more competitive and to accelerate growth.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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 accounting principles generally accepted in the United States (“GAAP”). The preparation of these consolidated financial statements requires our management to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates are based on management’s historical and industry experience and on various other assumptions that are believed to be reasonable under the circumstances. On a regular basis, we evaluate these accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results may differ from our estimates, and such differences could be material.

A full discussion of our significant accounting policies is contained in [Note 2](#) to our consolidated financial statements, which is included in Item 8 – “Financial Statements and Supplementary Data” of this report. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our financial results. These estimates require our most difficult, subjective or complex judgments because they relate to matters that are inherently uncertain. We have reviewed these critical accounting policies and estimates and related disclosures with our Audit Committee.

Impairment of Long-Lived Assets

We review long-lived assets, such as property and equipment, and intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. These events or changes in circumstances include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for the overall business, and significant negative industry or economic trends. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset group to the estimated undiscounted cash flows over the estimated remaining useful life of the primary asset included in the asset group. If the asset group is not recoverable, the impairment loss is calculated as the excess of the carrying value over the fair value. We define our asset group as an operating club or restaurant location, which is also our reporting unit or the lowest level for which cash flows can be identified. Key estimates in the undiscounted cash flow model include management’s estimate of the projected revenues and operating margins. If fair value is used to determine an impairment loss, an additional key assumption is the selection of a weighted-average cost of capital to discount cash flows. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. During the third quarter of 2023, we impaired one property for \$58,000 for its property and equipment and \$1.0 million for its operating lease right-of-use asset before the club’s permanent closure. During the third quarter of 2022, we impaired two properties for a total of \$1.0 million one due to eminent domain by the state of Texas and the other due to underperformance. During the second quarter of 2021, we impaired one property that was reclassified to assets held for sale for \$1.4 million, and during the fourth quarter of 2021, we impaired four clubs for \$584,000. During the fourth quarter of 2023, we also recognized software impairments amounting to \$814,000 related to two venture projects.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets that have indefinite useful lives are tested annually for impairment during our fourth fiscal quarter and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired.

Our impairment calculations require management to make assumptions and to apply judgment in order to estimate fair values. If our actual results are not consistent with our estimates and assumptions, we may be exposed to impairments that could be material. We do not believe that there is a reasonable likelihood that there will be a change in the estimates or assumptions we used that could cause a material change in our calculated impairment charges.

For our goodwill impairment review, we have the option to first perform a qualitative assessment to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying value. This assessment is based on several factors, including industry and market conditions, overall financial performance, including an assessment of cash flows in comparison to actual and projected results of prior periods. If it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value based on our qualitative analysis, or if we elect to skip this step, we perform a Step 1 quantitative analysis to determine the fair value of the reporting unit. The fair value is determined using market-related valuation models, including discounted cash flows and comparable asset market values. Key estimates in the discounted cash flow model include management's estimate of the projected revenues and operating margins, along with the selection of a weighted-average cost of capital to discount cash flows. We recognize goodwill impairment in the amount that the carrying value of the reporting unit exceeds the fair value of the reporting unit, not to exceed the amount of goodwill allocated to the reporting unit, based on the results of our Step 1 analysis. For the year ended September 30, 2023, we identified four reporting units that were impaired and recognized a total goodwill impairment of \$4.2 million. For the year ended September 30, 2022, we identified one reporting unit that was impaired and recognized a goodwill impairment loss of \$566,000. For the year ended September 30, 2021, we identified seven reporting units that were impaired and recognized a goodwill impairment loss totaling \$6.3 million.

For indefinite- and definite-lived intangibles, specifically SOB licenses, we determine fair value by estimating the multiperiod excess earnings of the asset with key assumptions being similar to those used in the goodwill impairment valuation model. For indefinite-lived tradename, we determine fair value by using the relief from royalty method. The fair value is then compared to the carrying value and an impairment charge is recognized by the amount by which the carrying amount exceeds the fair value of the asset. We recorded impairment charges for SOB licenses amounting to \$6.5 million in 2023 related to eight clubs, \$293,000 in 2022 related to one club, and \$5.3 million in 2021 related to three clubs.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting, which requires the recognition of acquired tangible and identifiable intangible assets and assumed liabilities at their acquisition date fair values. These fair values are a result of valuation techniques that use significant assumptions that are subject to a high degree of judgment. The excess of the acquisition price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Results of operations related to acquired entities are included prospectively beginning with the date of acquisition. Acquisition-related costs are expensed as incurred.

Stock-based Compensation

We recognize expense for stock-based compensation awards, which is equal to the fair value of the awards at grant date, ratably in selling, general and administrative expenses in our consolidated statements of income over their requisite service period. Calculating the grant date fair value of stock-based compensation awards requires the input of subjective assumptions. We determine the fair value of each stock option grant using the Black-Scholes option-pricing model with assumptions based primarily on historical data. Specific inputs to the model include the expected term of the stock options, stock price volatility, dividend yield, and risk-free interest rate.

We used our historical exercise and post-vesting expiration behavior of grantees on stock options awarded prior to the 2022 Plan which may not be reflective of current stock market environment and current mix of grantees. We estimated expected volatility based on historical volatility of the Company's stock price for a period equal to the award's expected term. We estimated expected dividend yield based on the current dividend payout activity and the exercise price (that is, the expected dividends that would likely be reflected in an amount at which the stock option would be exchanged). The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. We recognize forfeitures when they occur.

Income Taxes

We estimate certain components of our provision for income taxes including the recoverability of deferred tax assets that arise from temporary differences between the tax and book carrying amounts of existing assets and liabilities and their respective tax bases. These estimates include depreciation and amortization expense allowable for tax purposes, allowable tax credits for items such as taxes paid on employee tip income, effective rates for state and local income taxes, and the deductibility of certain other items, among others. We adjust our annual effective income tax rate as additional information on outcomes or events becomes available. When necessary, we record a valuation allowance to reduce deferred tax assets to a balance that is more likely than not to be realized.

Legal and Other Contingencies

As mentioned in Item 3 – “Legal Proceedings” and in a more detailed discussion in [Note 10](#) to our consolidated financial statements, we are involved in various suits and claims in the normal course of business. We record a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In the opinion of management, there was not at least a reasonable possibility that we may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. However, the outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management’s expectations, the Company’s consolidated financial statements for that reporting period could be materially adversely affected. In matters where there is insurance coverage, in the event we incur any liability, we believe it is unlikely we would incur losses in connection with these claims in excess of our insurance coverage.

OPERATIONS REVIEW

Highlights of operations from fiscal 2023, 2022, and 2021 are as follows (in thousands, except percentages and per share amounts):

	2023	Inc (Dec)	2022	Inc (Dec)	2021
Revenues					
Consolidated	\$ 293,790	9.8 %	\$ 267,620	37.1 %	\$ 195,258
Nightclubs	\$ 236,748	14.8 %	\$ 206,251	50.2 %	\$ 137,348
Bombshells	\$ 55,723	(7.0)%	\$ 59,925	5.8 %	\$ 56,621
Same-store sales					
Consolidated		-6.0 %		+5.6 %	
Nightclubs		-3.5 %		+10.1 %	
Bombshells		-14.6 %		-4.6 %	
Income from operations					
Consolidated	\$ 51,484	(28.0)%	\$ 71,459	85.4 %	\$ 38,548
Nightclubs	\$ 73,187	(11.6)%	\$ 82,798	89.0 %	\$ 43,815
Bombshells	\$ 6,502	(43.5)%	\$ 11,504	(13.3)%	\$ 13,264
Diluted earnings per share	\$ 3.13		\$ 4.91		\$ 3.37
Net cash provided by operating activities	\$ 59,130	(8.3)%	\$ 64,509	53.6 %	\$ 41,991
Free cash flow*	\$ 53,176	(9.7)%	\$ 58,911	63.3 %	\$ 36,084

* Reconciliation and discussion of non-GAAP financial measures are included under the "Non-GAAP Financial Measures" section of this Item. These measures should be considered in addition to, rather than as a substitute for, U.S. GAAP measures.

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The following common size tables present a comparison of our results of operations as a percentage of total revenues for the three most recently completed fiscal years:

	2023	2022	2021
Revenues			
Sales of alcoholic beverages	43.3 %	42.3 %	44.4 %
Sales of food and merchandise	14.9 %	16.6 %	21.1 %
Service revenues	35.3 %	35.1 %	28.4 %
Other	6.5 %	6.0 %	6.1 %
Total revenues	100.0 %	100.0 %	100.0 %
Operating expenses			
Cost of goods sold			
Alcoholic beverages sold	18.3 %	17.8 %	18.3 %
Food and merchandise sold	35.1 %	35.1 %	33.6 %
Service and other	0.2 %	0.3 %	0.6 %
Total cost of goods sold (exclusive of items shown separately below)	13.3 %	13.5 %	15.4 %
Salaries and wages	27.1 %	25.6 %	25.9 %
Selling, general and administrative	31.7 %	29.5 %	28.0 %
Depreciation and amortization	5.2 %	4.6 %	4.2 %
Other charges, net	5.3 %	0.2 %	6.8 %
Total operating expenses	82.5 %	73.3 %	80.3 %
Income from operations	17.5 %	26.7 %	19.7 %
Other income (expenses)			
Interest expense	(5.4)%	(4.5)%	(5.1)%
Interest income	0.1 %	0.2 %	0.1 %
Non-operating gains, net	— %	0.1 %	2.7 %
Income before income taxes	12.2 %	22.5 %	17.5 %
Income tax expense	2.3 %	5.3 %	2.0 %
Net income	9.9 %	17.2 %	15.4 %

† Percentages may not foot due to rounding in this and in all of the succeeding tables presenting percentages in this report. Percentage of revenue for individual cost of goods sold items pertains to their respective revenue line.

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Below is a table presenting the changes in each line item of the income statement for the last three fiscal years (dollar amounts in thousands)

	Better (Worse)			
	2023 vs. 2022		2022 vs. 2021	
	Amount	%	Amount	%
Revenues				
Sales of alcoholic beverages	\$ 13,946	12.3 %	\$ 26,631	30.7 %
Sales of food and merchandise	(388)	(0.9)%	3,183	7.7 %
Service revenues	9,689	10.3 %	38,427	69.3 %
Other	<u>2,923</u>	<u>18.1 %</u>	<u>4,121</u>	<u>34.3 %</u>
Total revenues	<u>26,170</u>	9.8 %	<u>72,362</u>	37.1 %
Operating expenses				
Cost of goods sold				
Alcoholic beverages sold	(3,136)	(15.6)%	(4,272)	(26.9)%
Food and merchandise sold	108	0.7 %	(1,743)	(12.6)%
Service and other	<u>35</u>	<u>11.0 %</u>	<u>57</u>	<u>15.2 %</u>
Total cost of goods sold (exclusive of items shown separately below)	(2,993)	(8.3)%	(5,958)	(19.8)%
Salaries and wages	(11,053)	(16.1)%	(17,820)	(35.2)%
Selling, general and administrative	(14,177)	(18.0)%	(24,239)	(44.4)%
Depreciation and amortization	(2,760)	(22.3)%	(4,153)	(50.4)%
Other charges, net	<u>(15,162)</u>	<u>(3,246.7)%</u>	<u>12,719</u>	<u>96.5 %</u>
Total operating expenses	<u>(46,145)</u>	(23.5)%	<u>(39,451)</u>	(25.2)%
Income from operations	(19,975)	(28.0)%	32,911	85.4 %
Other income/expenses				
Interest expense	(3,976)	(33.3)%	(1,958)	(19.6)%
Interest income	(23)	(5.6)%	158	62.5 %
Non-operating gains/losses, net	<u>(211)</u>	<u>(100.0)%</u>	<u>(5,119)</u>	*
Income/loss before income taxes	<u>(24,185)</u>	(40.2)%	25,992	76.1 %
Income tax expense/benefit	7,225	51.3 %	(10,082)	*
Net income/loss	<u>\$ (16,960)</u>	(36.8)%	<u>\$ 15,910</u>	*

* Not meaningful.

Revenues

Consolidated revenues increased by \$26.2 million, or 9.8%, from 2022 to 2023 due mainly from newly acquired locations partially offset by a decrease in same-store sales and a sales decrease from locations closed in 2023. From 2021 to 2022, consolidated revenues increased by \$72.4 million, or 37.1%, due to increases in same-store sales, newly acquired and constructed locations, and from locations closed in 2021 and reopened in 2022.

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Segment contribution to total revenues was as follows (dollar amounts in thousands):

	2023	Inc (Dec)	2022	Inc (Dec)	2021
Nightclubs					
Sales of alcoholic beverages	\$ 96,325	20.4 %	\$ 80,001	47.3 %	\$ 54,305
Sales of food and merchandise	19,995	9.3 %	18,289	6.2 %	17,221
Service revenues	103,217	10.4 %	93,481	69.5 %	55,146
Other revenues	17,211	18.9 %	14,480	35.6 %	10,676
	<u>236,748</u>	<u>14.8 %</u>	<u>206,251</u>	<u>50.2 %</u>	<u>137,348</u>
Bombshells					
Sales of alcoholic beverages	30,937	(7.1)%	33,315	2.9 %	32,380
Sales of food and merchandise	23,911	(8.1)%	26,005	8.9 %	23,890
Service revenues	360	(11.5)%	407	29.2 %	315
Other revenues	515	160.1 %	198	450.0 %	36
	<u>55,723</u>	<u>(7.0)%</u>	<u>59,925</u>	<u>5.8 %</u>	<u>56,621</u>
Other					
Other revenues	1,319	(8.7)%	1,444	12.0 %	1,289
	<u>\$ 293,790</u>	<u>9.8 %</u>	<u>\$ 267,620</u>	<u>37.1 %</u>	<u>\$ 195,258</u>

Nightclubs segment revenues. Nightclubs revenues increased by 14.8% from 2022 to 2023 and by 50.2% from 2021 to 2022, as explained below.

	2023 vs. 2022	2022 vs. 2021
Impact of 3.5% decrease and 10.1% increase in same-store sales, respectively, to total revenues	(3.2)%	9.5 %
Newly acquired units	18.4 %	30.5 %
Closed units	(0.4)%	10.1 %
Other	— %	0.1 %
	<u>14.8 %</u>	<u>50.2 %</u>

Nightclubs segment sales mix for the three fiscal years, below:

	2023	2022	2021
Sales of alcoholic beverages	40.7 %	38.8 %	39.5 %
Sales of food and merchandise	8.4 %	8.9 %	12.5 %
Service revenues	43.6 %	45.3 %	40.2 %
Other	7.3 %	7.0 %	7.8 %
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

The 2023 new units include six clubs, one of which was acquired in October 2022 and five acquired in March 2023. The 2022 new units include fifteen clubs, of which eleven were acquired in October 2021, one acquired in November 2021, one acquired in May 2022, and two acquired in July 2022. See [Note 14](#) to our consolidated financial statements for more information on our club acquisitions. In total, these 2023 and 2022 newly acquired clubs contributed \$18.2 million and \$41.9 million in revenues, respectively, during their year of acquisition. No new clubs were acquired in 2021.

Included in other revenues of the Nightclubs segment is real estate rental revenue amounting to \$1.8 million in 2023, \$1.6 million in 2022, and \$1.5 million in 2021.

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Bombshells segment revenues. Bombshells revenues decreased by 7.0% from 2022 to 2023 and increased by 5.8% from 2021 to 2022, as explained below.

	2023 vs. 2022	2022 vs. 2021
Impact of 14.6% and 4.6% decrease in same-store sales, respectively, to total revenues	(13.5)%	(4.6)%
New units	6.5 %	10.1 %
Closed units	— %	— %
Other	— %	0.3 %
	<u>(7.0)%</u>	<u>5.8 %</u>

Bombshells segment sales mix for the three fiscal years is as follows:

	2023	2022	2021
Sales of alcoholic beverages	55.5 %	55.6 %	57.2 %
Sales of food and merchandise	42.9 %	43.4 %	42.2 %
Service and other revenues	1.6 %	1.0 %	0.6 %
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

No new Bombshells location was opened in 2021. Bombshells Arlington was opened in the first quarter of 2022. Bombshells San Antonio was acquired from our franchisee in the second quarter of 2023. We also acquired a food hall in Greenwood Village, Colorado during the first quarter of 2023.

Other segment revenues. Other revenues included revenues from Drink Robust in all three fiscal years presented. Drink Robust sales were \$145,000, \$201,000, and \$249,000 in fiscal 2023, 2022, and 2021, respectively, which exclude intercompany sales to Nightclubs and Bombshells units amounting to \$254,000, \$261,000, and \$141,000 in fiscal 2023, 2022, and 2021, respectively. Media business revenues were \$1.1 million, \$1.2 million, and \$1.0 million in fiscal 2023, 2022, and 2021, respectively.

Operating Expenses

Total operating expenses, as a percent of consolidated revenues, were 82.5%, 73.3%, and 80.3% for the fiscal year 2023, 2022, and 2021, respectively. Significant contributors to the change in operating expenses as a percent of revenues are explained below.

Cost of goods sold. Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding, and Drink Robust. As a percentage of consolidated revenues, consolidated cost of goods sold was 13.3%, 13.5%, and 15.4% for fiscal 2023, 2022, and 2021, respectively. See page 31 above for the breakdown of percentages for each line item of consolidated cost of goods sold as it relates to the respective consolidated revenue line. For the Nightclubs segment, cost of goods sold was 11.1%, 10.5%, and 11.8% for fiscal 2023, 2022, and 2021, respectively, which was primarily caused by shifts in sales mix among the three fiscal years. Bombshells cost of goods sold was 22.4%, 23.5%, and 23.8% for fiscal 2022, 2021, and 2020, respectively, which was mainly driven by menu price increases in 2023 and 2022 in response to inflation, and the shift in sales mix to lower-margin food sales in 2021.

Salaries and wages. Consolidated salaries and wages increased by \$11.1 million, or 16.1%, from 2022 to 2023 and increased by \$17.8 million, or 35.2%, from 2021 to 2022. The dollar increases are mostly from newly acquired or constructed locations. As a percentage of revenues, consolidated salaries and wages were 27.1%, 25.6%, and 25.9% in 2023, 2022, and 2021, respectively, mainly due to sales trend and the impact of fixed salaries on change in sales.

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By reportable segment, salaries and wages are broken down as follows (dollar amounts in thousands):

	2023	Inc (Dec)	2022	Inc (Dec)	2021
Nightclubs	\$ 50,489	23.6 %	\$ 40,859	51.4 %	\$ 26,986
Bombshells	14,949	2.5 %	14,585	11.8 %	13,041
Other	604	0.5 %	601	3.3 %	582
Corporate	13,458	8.5 %	12,402	23.8 %	10,018
	<u>\$ 79,500</u>	<u>16.1 %</u>	<u>\$ 68,447</u>	<u>35.2 %</u>	<u>\$ 50,627</u>

Unit-level manager payroll is included in salaries and wages of each location, while payroll for regional manager and above are included in Corporate.

Salaries and wages as a percentage of segment revenue (except Corporate, which is based on consolidated revenues):

	2023	2022	2021
Nightclubs	21.3 %	19.8 %	19.6 %
Bombshells	26.8 %	24.3 %	23.0 %
Other	45.8 %	41.6 %	45.2 %
Corporate	4.6 %	4.6 %	5.1 %
	<u>27.1 %</u>	<u>25.6 %</u>	<u>25.9 %</u>

Selling, general and administrative expenses. The components of consolidated selling, general and administrative expenses are in the tables below (dollar amounts in thousands):

	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Taxes and permits	\$ 11,966	4.1 %	\$ 9,468	3.5 %	\$ 8,701	4.5 %
Advertising and marketing	11,928	4.1 %	9,860	3.7 %	6,676	3.4 %
Supplies and services	10,724	3.7 %	8,614	3.2 %	6,190	3.2 %
Insurance	10,268	3.5 %	10,152	3.8 %	5,676	2.9 %
Lease	7,206	2.5 %	6,706	2.5 %	3,942	2.0 %
Legal	3,742	1.3 %	1,995	0.7 %	3,997	2.0 %
Utilities	5,760	2.0 %	4,585	1.7 %	3,366	1.7 %
Charge card fees	7,090	2.4 %	6,292	2.4 %	3,376	1.7 %
Security	5,618	1.9 %	4,404	1.6 %	3,892	2.0 %
Accounting and professional fees	4,286	1.5 %	3,909	1.5 %	2,031	1.0 %
Repairs and maintenance	4,924	1.7 %	3,754	1.4 %	2,767	1.4 %
Stock-based compensation	2,588	0.9 %	2,353	0.9 %	—	— %
Other	6,924	2.4 %	6,755	2.5 %	3,994	2.0 %
	<u>\$ 93,024</u>	<u>31.7 %</u>	<u>\$ 78,847</u>	<u>29.5 %</u>	<u>\$ 54,608</u>	<u>28.0 %</u>

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By reportable segment, selling, general and administrative expenses are broken down as follows (dollar amounts in thousands):

	2023	Inc (Dec)	2022	Inc (Dec)	2021
Nightclubs	\$ 61,350	19.6 %	\$ 51,285	56.7 %	\$ 32,725
Bombshells	18,928	9.4 %	17,295	16.2 %	14,883
Other	602	44.0 %	418	76.4 %	237
Corporate	12,144	23.3 %	9,849	45.6 %	6,763
	<u>\$ 93,024</u>	<u>18.0 %</u>	<u>\$ 78,847</u>	<u>44.4 %</u>	<u>\$ 54,608</u>

Selling, general and administrative expenses as a percentage of segment revenue (except Corporate, which is based on consolidated revenues):

	2023	2022	2021
Nightclubs	25.9 %	24.9 %	23.8 %
Bombshells	34.0 %	28.9 %	26.3 %
Other	45.6 %	28.9 %	18.4 %
Corporate	4.1 %	3.7 %	3.5 %
	<u>31.7 %</u>	<u>29.5 %</u>	<u>28.0 %</u>

The significant variances in selling, general and administrative expenses are as follows:

As a percentage of revenues, relatively fixed expenses tend to be higher in rate due to lower sales, while more variable expenses tend to keep their rates even if dollar amounts are increasing. Nightclubs expenses increased as a percentage of segment revenue due to newly acquired clubs. Bombshells expenses increased as a percentage of segment revenue due to lower sales.

Depreciation and amortization. Depreciation and amortization increased by \$2.8 million, or 22.3%, from 2022 to 2023 and increased by \$4.2 million, or 50.4%, from 2021 to 2022. The increase from 2021 to 2022 was mainly caused by the growth in our depreciable asset base and amortizable intangibles caused by acquired clubs and a new Bombshells unit, while the increase from 2022 to 2023 was mainly from newly acquired clubs.

Other charges, net. The components of other charges, net are in the table below (dollars in thousands):

	2023	Inc (Dec)	2022	Inc (Dec)	2021
Impairment of assets	\$ 12,629	568.9 %	\$ 1,888	(86.1)%	\$ 13,612
Settlement of lawsuits	3,759	165.3 %	1,417	5.0 %	1,349
Gain on sale of businesses and assets	(682)	(71.3)%	(2,375)	355.0 %	(522)
Gain on insurance	(77)	(83.4)%	(463)	(63.0)%	(1,253)
	<u>\$ 15,629</u>	<u>3,246.7 %</u>	<u>\$ 467</u>	<u>(96.5)%</u>	<u>\$ 13,186</u>

The significant variances in other charges, net are discussed below:

During 2023, we recorded aggregate impairment charges amounting to \$12.6 million related to goodwill of four clubs (\$4.2 million), SOB licenses of eight clubs (\$6.5 million), operating lease right-of-use asset and property and equipment of a closed club (\$1.1 million), and software of two investment projects (\$814,000). During 2022, we recorded aggregate impairment charges amounting to \$1.9 million related to goodwill of one club (\$566,000), SOB license of one club (\$293,000), and property and equipment of one club and one Bombshells unit (\$1.0 million). During 2021, we recorded aggregate impairment charges amounting to \$13.6 million related to goodwill of seven clubs (\$6.3 million), SOB licenses of three clubs (\$5.3 million), and property and equipment of five clubs, one of which is held for sale (\$2.0 million).

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In 2023, we recognized settlements with the New York Department of Labor amounting to \$3.1 million related to the assessment by the New York Department of Labor for state unemployment insurance. In 2022, we settled several cases including the image infringement lawsuit and the securities class actions part of which was paid by insurance. In 2021, we settled a case with one of our Bombshells landlords for \$1.0 million. See [Note 10](#) to our consolidated financial statements.

Refer to dispositions in [Note 14](#) to our consolidated financial statement for details on gains or losses on sale of businesses and assets.

In relation to insurance claims and recoveries, we recognized a \$77,000 gain in 2023, \$463,000 gain in 2022, and \$1.3 million gain in 2021 mainly related to a fire in one of our clubs in Washington Park, Illinois toward the end of fiscal 2018 and a hurricane that damaged one of our clubs in Sulphur, Louisiana in August 2020. The rest of the claims for the Sulphur club were received in 2022. Gains related to insurance recoveries are recognized when the contingencies related to the insurance claims have been resolved, which may be in a subsequent reporting period. See [Note 13](#) to our consolidated financial statements.

Income from Operations

During fiscal 2023, 2022, and 2021, our consolidated operating margin was 17.5%, 26.7%, and 19.7%, respectively.

Below is a table which reflects segment contribution to income from operations (in thousands):

	2023	2022	2021
Nightclubs	\$ 73,187	\$ 82,798	\$ 43,815
Bombshells	6,502	11,504	13,264
Other	(1,446)	57	35
Corporate	(26,759)	(22,900)	(18,566)
	<u>\$ 51,484</u>	<u>\$ 71,459</u>	<u>\$ 38,548</u>

Nightclubs operating margin was 30.9%, 40.1%, and 31.9% in 2023, 2022, and 2021. Bombshells operating margin was 11.7%, 19.2%, and 23.4% in 2023, 2022, and 2021, respectively.

Excluding certain items, non-GAAP operating income (loss) and non-GAAP operating margin are computed in the tables below (dollars in thousands). Refer to discussion of Non-GAAP Financial Measures on page 41.

	2023				
	Nightclubs	Bombshells	Other	Corporate	Total
Income (loss) from operations	\$ 73,187	\$ 6,502	\$ (1,446)	\$ (26,759)	\$ 51,484
Amortization of intangibles	2,497	530	484	17	3,528
Settlement of lawsuits	3,552	207	—	—	3,759
Impairment of assets	11,815	—	814	—	12,629
Loss (gain) on sale of businesses and assets	(734)	77	—	(25)	(682)
Gain on insurance	(48)	—	—	(29)	(77)
Stock-based compensation	—	—	—	2,588	2,588
Non-GAAP operating income (loss)	<u>\$ 90,269</u>	<u>\$ 7,316</u>	<u>\$ (148)</u>	<u>\$ (24,208)</u>	<u>\$ 73,229</u>
GAAP operating margin	30.9 %	11.7 %	(109.6)%	(9.1)%	17.5 %
Non-GAAP operating margin	38.1 %	13.1 %	(11.2)%	(8.2)%	24.9 %

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	2022					
	Nightclubs	Bombshells	Other	Corporate	Total	
Income (loss) from operations	\$ 82,798	\$ 11,504	\$ 57	\$ (22,900)	\$ 71,459	
Amortization of intangibles	2,042	6	61	9	2,118	
Settlement of lawsuits	1,287	18	—	112	1,417	
Impairment of assets	1,238	650	—	—	1,888	
Loss (gain) on sale of businesses and assets	(2,010)	17	—	(382)	(2,375)	
Gain on insurance	(463)	—	—	—	(463)	
Stock-based compensation	—	—	—	2,353	2,353	
Non-GAAP operating income (loss)	<u>\$ 84,892</u>	<u>\$ 12,195</u>	<u>\$ 118</u>	<u>\$ (20,808)</u>	<u>\$ 76,397</u>	
GAAP operating margin	40.1 %	19.2 %	3.9 %	(8.6)%	26.7 %	
Non-GAAP operating margin	41.2 %	20.4 %	8.2 %	(7.8)%	28.5 %	
	2021					
	Nightclubs	Bombshells	Other	Corporate	Total	
Income (loss) from operations	\$ 43,815	\$ 13,264	\$ 35	\$ (18,566)	\$ 38,548	
Amortization of intangibles	187	14	57	—	258	
Settlement of lawsuits	275	59	5	1,010	1,349	
Impairment of assets	13,612	—	—	—	13,612	
Costs and charges related to debt refinancing	17	—	—	40	57	
Loss (gain) on sale of businesses and assets	(580)	72	—	(14)	(522)	
Gain on insurance	(1,209)	—	—	(44)	(1,253)	
Non-GAAP operating income (loss)	<u>\$ 56,117</u>	<u>\$ 13,409</u>	<u>\$ 97</u>	<u>\$ (17,574)</u>	<u>\$ 52,049</u>	
GAAP operating margin	31.9 %	23.4 %	2.7 %	(9.5)%	19.7 %	
Non-GAAP operating margin	40.9 %	23.7 %	7.5 %	(9.0)%	26.7 %	

Other Income/Expenses

Interest expense increased by approximately \$4.0 million from 2022 to 2023 and by approximately \$2.0 million from 2021 to 2022. The increase in interest expense was primarily caused by the significantly higher average debt balance from borrowings to finance our acquisitions.

We consider lease plus interest expense as our occupancy costs since most of our debts are for real properties where our clubs and restaurants are located. For occupancy cost purposes, we exclude non-real-estate-related interest expense. Total occupancy cost rate (total occupancy cost as a percentage of revenues) is shown in the table below.

	2023	2022	2021
Lease	2.5 %	2.5 %	2.0 %
Interest	5.4 %	4.5 %	4.8 %
Total occupancy cost	<u>7.9 %</u>	<u>7.0 %</u>	<u>6.8 %</u>

The 2021 interest expense rate above excludes certain costs and charges related to the September 2021 Refinancing Note amounting to approximately \$637,000, or 0.3% of consolidated revenues. The \$637,000 interest expense includes \$103,000 in unamortized debt issuance costs that were written off and \$228,000 in expensed new loan costs.

In fiscal 2021, we received 11 notices of forgiveness for our PPP loans approving the forgiveness of 100% of each of the 11 PPP loans amounting to \$5.3 million in principal and interest, which were included in non-operating gains (losses), net.

In November 2021, we received a partial forgiveness of the remaining \$124,000 PPP loan for \$85,000 in principal and interest. See [Note 8](#) to our consolidated financial statements.

Income Taxes

Income tax expense was approximately \$6.8 million in 2023, \$14.1 million in 2022, and \$4.0 million in 2021. Our effective income tax rate was 19.0% in 2023, 23.4% expense in 2022, and 11.7% expense in 2021. The components of our annual effective income tax rate are the following:

	2023	2022	2021
Federal statutory income tax expense/benefit	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit	4.5 %	3.0 %	2.1 %
Permanent differences	1.7 %	0.2 %	(1.3)%
Change in tax rates	(0.7)%	1.5 %	(2.4)%
Change in valuation allowance	(0.5)%	0.6 %	(1.9)%
Tax credits	(5.9)%	(3.0)%	(3.5)%
Other	(1.0)%	0.2 %	(2.4)%
Total effective income tax rate	<u>19.0 %</u>	<u>23.4 %</u>	<u>11.7 %</u>

The effective income tax rate difference from the statutory federal corporate tax rate of 21% comes from offsetting impact of state income tax, net of federal benefit, changes in the deferred tax asset valuation allowance, and tax credits that are mostly FICA tip credits.

Non-GAAP Financial Measures

In addition to our financial information presented in accordance with GAAP, management uses certain non-GAAP financial measures, within the meaning of the SEC Regulation G, to clarify and enhance understanding of past performance and prospects for the future. Generally, a non-GAAP financial measure is a numerical measure of a company's operating performance, financial position or cash flows that excludes or includes amounts that are included in or excluded from the most directly comparable measure calculated and presented in accordance with GAAP. We monitor non-GAAP financial measures because it describes the operating performance of the Company and helps management and investors gauge our ability to generate cash flow, excluding (or including) some items that management believes are not representative of the ongoing business operations of the Company, but are included in (or excluded from) the most directly comparable measures calculated and presented in accordance with GAAP. Relative to each of the non-GAAP financial measures, we further set forth our rationale as follows:

Non-GAAP Operating Income and Non-GAAP Operating Margin. We calculate non-GAAP operating income and non-GAAP operating margin by excluding the following items from income from operations and operating margin: (a) amortization of intangibles, (b) impairment of assets, (c) gains or losses on sale of businesses and assets, (d) gains or losses on insurance, (e) settlement of lawsuits, (f) costs and charges related to debt refinancing, and (g) stock-based compensation. We believe that excluding these items assists investors in evaluating period-over-period changes in our operating income and operating margin without the impact of items that are not a result of our day-to-day business and operations.

Non-GAAP Net Income and Non-GAAP Net Income per Diluted Share. We calculate non-GAAP net income and non-GAAP net income per diluted share by excluding or including certain items to net income attributable to RCIHH common stockholders and diluted earnings per share. Adjustment items are: (a) amortization of intangibles, (b) impairment of assets, (c) gains or losses on sale of businesses and assets, (d) gains or losses on insurance, (e) unrealized loss on equity securities, (f) settlement of lawsuits, (g) gain on debt extinguishment, (h) costs and charges related to debt refinancing, (i) stock-based compensation, (j) the income tax effect of the above-described adjustments, and (k) change in deferred tax asset valuation allowance. Included in the income tax effect of the above adjustments is the net effect of the non-GAAP provision for income taxes, calculated at 20.6%, 22.8%, and 13.5% effective tax rate of the pre-tax non-GAAP income before taxes for the 2023, 2022, and 2021, respectively, and the GAAP income tax expense. We believe that excluding and including such items help management and investors better understand our operating activities.

Adjusted EBITDA. We calculate adjusted EBITDA by excluding the following items from net income attributable to RCIHH common stockholders: (a) depreciation and amortization, (b) income tax expense (benefit), (c) net interest expense, (d) gains or losses on sale of businesses and assets, (e) gains or losses on insurance, (f) unrealized gains or losses on equity securities, (g) impairment of assets, (h) settlement of lawsuits, (i) gain on debt extinguishment, and (j) stock-based compensation. We believe that adjusting for such items helps management and investors better understand our operating activities. 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. The results are, therefore, without consideration of financing alternatives of capital employed. We use adjusted EBITDA as one guideline to assess the unleveraged performance return on our investments. Adjusted EBITDA multiple is also used as a target benchmark for our acquisitions of nightclubs.

We also use certain non-GAAP cash flow measures such as free cash flow. See "Liquidity and Capital Resources" section for further discussion.

The following tables present our non-GAAP performance measures for the periods indicated (in thousands, except per share amounts and percentages):

	2023	2022	2021
Reconciliation of GAAP net income to Adjusted EBITDA			
Net income attributable to RCIHH common stockholders	\$ 29,246	\$ 46,041	\$ 30,336
Income tax expense	6,846	14,071	3,989
Interest expense, net	15,538	11,539	9,739
Settlement of lawsuits	3,759	1,417	1,349
Impairment of assets	12,629	1,888	13,612
Gain on sale of businesses and assets	(682)	(2,375)	(522)
Depreciation and amortization	15,151	12,391	8,238
Unrealized loss on equity securities	—	—	84
Gain on debt extinguishment	—	(138)	(5,329)
Gain on insurance	(77)	(463)	(1,253)
Stock-based compensation	2,588	2,353	—
Adjusted EBITDA	<u><u>\$ 84,998</u></u>	<u><u>\$ 86,724</u></u>	<u><u>\$ 60,243</u></u>
Reconciliation of GAAP net income to non-GAAP net income			
Net income attributable to RCIHH common stockholders	\$ 29,246	\$ 46,041	\$ 30,336
Amortization of intangibles	3,528	2,118	258
Settlement of lawsuits	3,759	1,417	1,349
Impairment of assets	12,629	1,888	13,612
Gain on sale of businesses and assets	(682)	(2,375)	(522)
Costs and charges related to debt refinancing*	—	—	694
Unrealized loss on equity securities	—	—	84
Gain on debt extinguishment	—	(138)	(5,329)
Gain on insurance	(77)	(463)	(1,253)
Stock-based compensation	2,588	2,353	—
Change in deferred tax asset valuation allowance	(176)	343	(632)
Net income tax effect	<u><u>(5,068)</u></u>	<u><u>(729)</u></u>	<u><u>(1,845)</u></u>
Non-GAAP net income	<u><u>\$ 45,747</u></u>	<u><u>\$ 50,455</u></u>	<u><u>\$ 36,752</u></u>

	2023	2022	2021
Reconciliation of GAAP diluted earnings per share to non-GAAP diluted earnings per share			
Diluted shares	9,335,983	9,383,445	9,004,744
GAAP diluted earnings per share	\$ 3.13	\$ 4.91	\$ 3.37
Amortization of intangibles	0.38	0.23	0.03
Settlement of lawsuits	0.40	0.15	0.15
Impairment of assets	1.35	0.20	1.51
Gain on sale of businesses and assets	(0.07)	(0.25)	(0.06)
Costs and charges related to debt refinancing*	—	—	0.08
Unrealized loss on equity securities	—	—	0.01
Gain on debt extinguishment	—	(0.01)	(0.59)
Gain on insurance	(0.01)	(0.05)	(0.14)
Stock-based compensation	0.28	0.25	—
Change in deferred tax asset valuation allowance	(0.02)	0.04	(0.07)
Net income tax effect	(0.54)	(0.08)	(0.20)
Non-GAAP diluted earnings per share	<u>\$ 4.90</u>	<u>\$ 5.38</u>	<u>\$ 4.08</u>
Reconciliation of GAAP operating income to non-GAAP operating income			
Income from operations	\$ 51,484	\$ 71,459	\$ 38,548
Amortization of intangibles	3,528	2,118	258
Settlement of lawsuits	3,759	1,417	1,349
Impairment of assets	12,629	1,888	13,612
Costs and charges related to debt refinancing*	—	—	57
Gain on sale of businesses and assets	(682)	(2,375)	(522)
Gain on insurance	(77)	(463)	(1,253)
Stock-based compensation	2,588	2,353	—
Non-GAAP operating income	<u>\$ 73,229</u>	<u>\$ 76,397</u>	<u>\$ 52,049</u>
Reconciliation of GAAP operating margin to non-GAAP operating margin			
GAAP operating margin	17.5 %	26.7 %	19.7 %
Amortization of intangibles	1.2 %	0.8 %	0.1 %
Settlement of lawsuits	1.3 %	0.5 %	0.7 %
Impairment of assets	4.3 %	0.7 %	7.0 %
Costs and charges related to debt refinancing*	— %	0.0 %	— %
Gain on sale of businesses and assets	(0.2)%	(0.9)%	(0.3)%
Gain on insurance	— %	(0.2)%	(0.6)%
Stock-based compensation	0.9 %	0.9 %	— %
Non-GAAP operating margin	<u>24.9 %</u>	<u>28.5 %</u>	<u>26.7 %</u>

* Costs and charges related to debt refinancing in 2021 consist of \$637,000 in interest expense and \$57,000 in legal and professional fees. The \$637,000 interest expense portion above includes \$103,000 in unamortized debt issuance costs that were written off and \$228,000 in expensed new loan costs.

The adjustments to reconcile net income attributable to RCIHH common stockholders to non-GAAP net income exclude the impact of adjustments related to noncontrolling interests, which is immaterial.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2023, our cash and cash equivalents were \$21.0 million as compared to \$36.0 million at September 30, 2022. Because of the large volume of cash we handle, we have very stringent cash controls. As of September 30, 2023, we had negative working capital of \$10.5 million compared to a working capital of \$18.6 million as of September 30, 2022, excluding net assets held for sale amounting to \$0 and \$1.0 million as of September 30, 2023 and 2022, respectively. We believe that we can borrow capital if needed but currently we do not have unused credit facilities so there can be no guarantee that additional liquidity will be readily available or available on favorable terms.

We have not recently raised capital through the issuance of equity securities although we have used equity recently in our acquisitions. Instead, we use debt financing to lower our overall cost of capital and increase our return on stockholders' equity. We have a history of borrowing funds in private transactions and from sellers in acquisition transactions and have secured traditional bank financing on our new development projects and refinancing of our existing notes payable. There can be no assurance though that any of these financing options would be presently available on favorable terms, if at all. We also have historically utilized these cash flows to invest in property and equipment, adult nightclubs, and restaurants/sports bars.

During 2023, we acquired six clubs at an aggregate acquisition date fair value of \$72.3 million, of which \$29.0 million was in cash, \$30.5 million in debt (with an acquisition date fair value of \$30.4 million), and \$16.0 million in equity (200,000 shares of our common stock with an acquisition date fair value of \$12.8 million, discounted for lack of marketability due to the lock-up period).

During 2022, we acquired fifteen clubs at an aggregate acquisition date fair value of \$132.6 million, of which \$55.3 million was in cash, \$49.0 million in debt (with an acquisition date fair value of \$47.4 million) and \$30.0 million in equity (500,000 shares of our common stock with an acquisition date fair value of \$29.9 million, discounted for lack of marketability due to the lock-up period).

We expect to generate adequate cash flows from operations for the next 12 months from the issuance of this report.

The following table presents a summary of our net cash flows from operating, investing, and financing activities (in thousands):

	2023	2022	2021
Operating	\$ 59,130	\$ 64,509	\$ 41,991
Investing	(64,824)	(67,797)	(6,814)
Financing	(9,263)	3,582	(15,096)
Net increase (decrease) in cash and cash equivalents	\$ (14,957)	\$ 294	\$ 20,081

We require capital principally for the acquisition of new clubs, construction of new Bombshells, renovation of older units, and investments in technology. We also utilize capital to repurchase our common stock as part of our share repurchase program, based on our capital allocation strategy guidelines, and to pay our quarterly dividends.

Cash Flows from Operating Activities

Following are our summarized cash flows from operating activities (in thousands):

	2023	2022	2021
Net income	\$ 29,100	\$ 46,060	\$ 30,150
Depreciation and amortization	15,151	12,391	8,238
Deferred tax expense (benefit)	(1,781)	3,080	(1,253)
Stock-based compensation expense	2,588	2,353	—
Impairment of assets	12,629	1,888	13,612
Gain on debt extinguishment	—	(83)	(5,298)
Net change in operating assets and liabilities	(1,203)	(1,421)	(3,451)
Other	2,646	241	(7)
Net cash provided by operating activities	\$ 59,130	\$ 64,509	\$ 41,991

Net cash flows from operating activities decreased from 2022 to 2023 mainly due to the lower same-store sales and the higher interest expense paid, partially offset by the lower income taxes paid. Net cash flows from operating activities increased from 2021 to 2022 mainly due to the operating results of the fifteen acquired clubs and one Bombshells opened.

In the next five years, we expect interest payments on our debts to range from \$15.0 million in the early years to \$8.0 million annually in the latter years for debts we owe as of September 30, 2023.

See [Note 18](#) for our operating lease payment schedule for the next five years and thereafter.

Cash Flows from Investing Activities

Following are our summarized cash flows from investing activities (in thousands):

	2023	2022	2021
Proceeds from sale of businesses and assets	\$ 4,245	\$ 10,669	\$ 5,415
Proceeds from notes receivable	229	182	130
Proceeds from insurance	86	648	1,152
Payments for property and equipment and intangible assets	(40,384)	(24,003)	(13,511)
Acquisition of businesses, net of cash acquired	(29,000)	(55,293)	—
Net cash used in investing activities	\$ (64,824)	\$ (67,797)	\$ (6,814)

In 2023, we acquired six clubs for a combined sum of \$75.5 million (with an aggregate acquisition date fair value of \$72.3 million), of which \$29.0 million was in cash, \$30.5 million in debt (with an acquisition date fair value of \$30.4 million), and 200,000 shares of our common stock in equity (with an acquisition date fair value of \$12.8 million). We also acquired several real estate properties for club and Bombshells sites totaling \$19.7 million, and invested \$7.5 million for future casino locations.

In 2022, we acquired fifteen clubs for a combined sum of \$134.2 million (with an aggregate acquisition date fair value of \$132.6 million), of which \$55.3 million was in cash, \$49.0 million in debt (with an acquisition date fair value of \$47.4 million), and 500,000 shares of our common stock in equity (with an acquisition date fair value of \$29.9 million). We also purchased an aircraft and six real estate properties, of which, four are for future Bombshells locations, one for a club that we were leasing, and another to replace a club location which was taken by eminent domain. Also in 2022, we received payment for four real estate properties. We did not receive payment for the eminent domain property mentioned above until November 2022. In 2021, we acquired four real estate properties either for future club or restaurant locations or for corporate use. On one of the real properties purchased, we opened a Bombshells restaurant on December 6, 2021 in Arlington, Texas. There were no new Bombshells units opened in 2021. We also sold two real estate properties in 2021. We opened two new Bombshells units in 2020 (one in Katy, Texas and another on U.S. Highway 59 in Houston, Texas) and sold three real estate properties.

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As of September 30, 2023, 2022, and 2021, we had \$7.7 million, \$1.5 million, and \$3.4 million in construction-in-progress related mostly to Bombshells opening in the subsequent fiscal years.

See [Note 14](#) to our consolidated financial statements for details of our acquisition and disposition activities.

Following is a reconciliation of our additions to property and equipment for the years ended September 30, 2023, 2022, and 2021 (in thousands):

	2023	2022	2021
New capital expenditures in new clubs and Bombshells units and equipment*	\$ 34,430	\$ 18,405	\$ 7,604
Maintenance capital expenditures	5,954	5,598	5,907
Total capital expenditures, excluding business acquisitions	\$ 40,384	\$ 24,003	\$ 13,511

* Includes real estate except those acquired through business acquisitions.

We expect capital expenditure payments in the range of \$35.0 million to \$40.0 million in 2024, \$6.0 million to \$8.0 million of which relate to maintenance capital expenditures to support our existing clubs and restaurants and our corporate office.

Cash Flows from Financing Activities

Following are our summarized cash flows from financing activities (in thousands):

	2023	2022	2021
Proceeds from debt obligations	\$ 11,595	\$ 35,820	\$ 38,490
Payments on debt obligations	(15,650)	(14,894)	(49,178)
Purchase of treasury stock	(2,223)	(15,097)	(1,794)
Payment of dividends	(2,146)	(1,784)	(1,440)
Payment of loan origination costs	(239)	(463)	(1,174)
Distribution to noncontrolling interests	(600)	—	—
Net cash provided by (used in) financing activities	\$ (9,263)	\$ 3,582	\$ (15,096)

See [Note 8](#) to our consolidated financial statements for a detailed discussion of our debt obligations, including the future maturities of our debt obligations in the next five years and thereafter.

We purchased shares of our common stock representing 34,086 shares, 268,185 shares, and 74,659 shares in 2023, 2022, and 2021, respectively. We paid quarterly dividends of \$0.04 per share in fiscal 2021 through the first quarter of 2022. In the second quarter of 2022 through the first quarter of 2023, we increased our quarterly dividends to \$0.05 per share. Then starting in the second quarter of 2023, we increased our quarterly dividends to \$0.06 per share. We expect annual dividend payments of \$2.2 million in 2024 based on our current quarterly dividend rate.

Non-GAAP Cash Flow Measure

We also use certain non-GAAP cash flow measures, such as free cash flow. We define free cash flow as net cash provided by operating activities less maintenance capital expenditures. We use free cash flow as the baseline for the implementation of our capital allocation strategy. See table below (in thousands):

	2023	2022	2021
Net cash provided by operating activities	\$ 59,130	\$ 64,509	\$ 41,991
Less: Maintenance capital expenditures	5,954	5,598	5,907
Free cash flow	\$ 53,176	\$ 58,911	\$ 36,084
As a % of revenue	18.1 %	22.0 %	18.5 %

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We do not include total capital expenditures as a reduction from net cash flow from operating activities to arrive at free cash flow. This is because, based on our capital allocation strategy, acquisitions and development of our own clubs and restaurants are our primary uses of free cash flow.

Other than the impact of uncertainties caused by near-term macro environment, including commodity and labor inflation and the lingering effect of the COVID-19 pandemic, and the contractual obligations described above, we are not aware of any event or trend that would adversely impact our liquidity. In our opinion, working capital is not a true indicator of our financial status. Typically, businesses in our industry carry current liabilities in excess of current assets because businesses in our industry receive substantially immediate payment for sales, with nominal receivables, while inventories and other current liabilities normally carry longer payment terms. Vendors and purveyors often remain flexible with payment terms, providing businesses in our industry with opportunities to adjust to short-term business downturns. We consider the primary indicators of financial status to be the long-term trend of revenue growth, the mix of sales revenues, overall cash flow, profitability from operations and the level of long-term debt. We continue to monitor the macro environment and will adjust our overall approach to capital allocation as events and trends unfold.

The following table presents a summary of such indicators (dollars in thousands):

	2023	Inc (Dec)	2022	Inc (Dec)	2021
Sales of alcoholic beverages	\$ 127,262	12.3 %	\$ 113,316	30.7 %	\$ 86,685
Sales of food and merchandise	43,906	(0.9)%	44,294	7.7 %	41,111
Service revenues	103,577	10.3 %	93,888	69.3 %	55,461
Other revenues	19,045	18.1 %	16,122	34.3 %	12,001
Total revenues	\$ 293,790	9.8 %	\$ 267,620	37.1 %	\$ 195,258
Net income attributable to RCIHH common stockholders	\$ 29,246	(36.5)%	\$ 46,041	51.8 %	\$ 30,336
Net cash provided by operating activities	\$ 59,130	(8.3)%	\$ 64,509	53.6 %	\$ 41,991
Adjusted EBITDA*	\$ 84,998	(2.0)%	\$ 86,724	44.0 %	\$ 60,243
Free cash flow*	\$ 53,176	(9.7)%	\$ 58,911	63.3 %	\$ 36,084
Debt (end of period)	\$ 239,751	18.4 %	\$ 202,463	61.8 %	\$ 125,168

* See definition and calculation of Adjusted EBITDA and Free Cash Flow under Non-GAAP Financial Measures and Liquidity and Capital Resources above.

We have not established financing other than the notes payable discussed in [Note 8](#) to the consolidated financial statements. 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.

Share Repurchase

As part of our capital allocation strategy, we buy back shares in the open market or through negotiated purchases, as authorized by our board of directors. During fiscal years 2023, 2022, and 2021, we paid for treasury stock amounting to \$2.2 million, \$15.1 million, and \$1.8 million, representing 34,086 shares, 268,185 shares, and 74,659 shares, respectively. On May 24, 2022, the board of directors approved a \$25.0 million increase in the Company's share repurchase program. We have approximately \$16.6 million remaining to purchase additional shares as of September 30, 2023.

For additional details regarding our Board approved share repurchase plans, please refer to [Item 5](#) – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

IMPACT OF INFLATION

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 (our fiscal third and fourth quarters) with the strongest operating results occurring during October through March (our fiscal first and second quarters). Our revenues in certain markets are also affected by sporting events that cause unusual changes in sales from year to year.

GROWTH STRATEGY

We believe that we can continue to grow organically and through careful entry into markets with high growth potential. Our growth strategy includes acquiring existing clubs, opening new clubs after market analysis, developing new club concepts that are consistent with our management and marketing skills, franchising our Bombshells brand, and developing and opening our Bombshells concept as our capital and manpower allow. We also strive to enter into businesses that complement our own, such as gaming, if they can enhance shareholder value.

All twelve of the existing Bombshells as of September 30, 2023 are located in Texas. Our food hall, which is currently being operated under our Bombshells segment, is located in Colorado. Our growth strategy is to diversify our operations with these units which do not require SOB licenses, which are sometimes difficult to obtain. While we are searching for adult nightclubs to acquire, we are able to also search for restaurant/sports bar locations that are consistent with our income targets.

Recovering from the COVID-19 pandemic, we did not acquire any clubs nor open any new Bombshells units in 2021.

In 2022, we acquired fifteen clubs with an aggregate acquisition date fair value of \$132.6 million, of which \$55.3 million in cash, \$49.0 million in debt (with an acquisition date fair value of \$47.4 million), and 500,000 shares of our common stock in equity. We also opened a new Bombshells location in Arlington, Texas in December 2021 and our first franchised location in San Antonio, Texas opened in June 2022.

In 2023, we acquired six clubs with an aggregate acquisition date fair value of \$72.3 million, of which \$29.0 million was in cash, \$30.5 million in debt (with an acquisition date fair value of \$30.4 million), and 200,000 shares of our common stock in equity.

See [Note 14](#) to our consolidated financial statements.

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. The acquisition of additional clubs may require us to take on additional debt or issue 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 7A. Quantitative and Qualitative Disclosures About Market Risk

The items in our financial statements subject to market risk are potential debt instruments with variable interest rates. We have certain debts that have variable interest rates in effect as of September 30, 2023. An increase in interest rates in the future may have a negative impact on our results of operations and cash flows. A hypothetical 10% change in interest rates would have had a \$680,000 impact on the Company's annual results of operations and cash flows.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item begins on page 49.

**RCI HOSPITALITY HOLDINGS, INC.
CONSOLIDATED FINANCIAL STATEMENTS**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
RCI Hospitality Holdings, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of RCI Hospitality Holdings, Inc. (the "Company") as of September 30, 2023, the related consolidated statements of income, changes in equity, and cash flows for the year ended September 30, 2023, and the related notes and schedule (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2023, and the results of its operations and its cash flows for the year ended September 30, 2023, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of September 30, 2023, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013 and our report dated December 14, 2023, expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of the existence of material weaknesses.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Impairment of Goodwill, Indefinite-lived Intangible Assets, and Long-lived Assets

As discussed in Note 2 to the consolidated financial statements, the Company reviews goodwill and indefinite-lived intangible assets on an annual basis for impairment, or when events and circumstances indicate that the asset might be impaired. Additionally, the Company reviews long-lived assets, such as property and equipment, intangible assets subject to amortization, and right-of-use assets on operating leases for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value, and impairment of indefinite-lived intangible assets is recognized in the amount by which the carrying value of the assets exceed their fair value. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of the asset groups to the future undiscounted cash flows expected to be generated by the asset groups. If these assets are

determined to be impaired, the amount of impairment recognized is the amount by which the carrying amount of the assets exceeds their fair value. Fair value is generally determined using forecasted cash flows discounted using an estimated weighted average cost of capital. As of September 30, 2023, the Company had goodwill of approximately \$70.8 million, and indefinite-lived intangible assets of approximately \$155.5 million. Long-lived assets consisted of property and equipment, right of use assets, and intangible assets subject to amortization totaling approximately \$341.2 million. During the year ended September 30, 2023 the Company recorded an impairment of these assets of approximately \$12.6 million.

We identified the evaluation of the impairment analysis of goodwill, indefinite-lived intangible assets, and long-lived assets as a critical audit matter. There was a high degree of subjective auditor judgment in evaluating the estimated undiscounted future cash flows used to test operating locations for recoverability and the determination of fair value of the relevant assets when required. Specifically, a high degree of subjective auditor judgment was required to evaluate future revenues, operating cash flows and the discount rate.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design of certain internal controls related to the Company's goodwill, indefinite-lived intangible asset, and long-lived asset impairment process, including controls over the identification of relevant assets at risk of impairment, the determination of estimated undiscounted future cash flows and the fair value of individual reporting unit or asset, as necessary, and controls over the key assumptions as noted above. These procedures also included, among others, (1) testing management's process for developing the fair value estimates of the reporting units or assets; (2) evaluating the appropriateness of the underlying discounted and undiscounted cash flow models; (3) testing the completeness and accuracy of underlying data used in the models; and (4) evaluating the reasonableness of the significant assumptions used by management, including the future cash flows, growth rates and discount rates. Evaluating management's significant assumptions related to future cash flows, growth rates and the discount rates involved, with the assistance of valuation specialists, evaluating whether the assumptions used by management were reasonable considering (1) the historical performance of the reporting unit or asset group; (2) the consistency with external market data; and (3) sensitivities over significant inputs and assumptions, including the development of a point estimate.

Fair Value Measurement of Consideration and, Tangible and Intangible Assets Acquired in Business Acquisitions

As described in Note 14 to the consolidated financial statements, the Company completed two business acquisitions with an aggregate acquisition price totaling approximately \$72.3 million during the year ended September 30, 2023.

The Company accounts for business combinations using the acquisition method, which requires recognition of assets acquired and liabilities assumed at their respective fair values at the date of acquisition. The fair value of the tangible assets acquired were measured using adjusted market prices and/or cost models. The fair values of intangible assets acquired are typically estimated using an income approach, which is based on the present value of future discounted cash flows. Management applied significant judgment in estimating the fair value of the consideration and, tangible and intangible assets acquired, which involved the use of significant estimates and assumptions with respect to the rate of future revenue growth, profitability of the acquired business and the discount rate, among other factors. In addition, the discount for lack of marketability applied to the common stock consideration was estimated based on an analysis of restricted stock studies, empirical data for discounts, and quantitative models.

The principal considerations for our determination that performing procedures relating to the fair value measurement of the consideration and assets acquired related to the acquisitions is a critical audit matter are (1) the significant judgment by management, including the use of specialists, when estimating the fair values of assets acquired; (2) a high degree of auditor judgment and subjectivity in performing procedures relating to the fair value measurement of assets acquired; (3) the significant audit effort in evaluating the reasonableness of the significant assumptions relating to the rate of future revenue growth and profitability of the acquired business and the discount rate; and (4) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included identifying and evaluating the design and testing the operating effectiveness of controls relating to the acquisition accounting, including controls over management's valuation of the assets acquired and consideration, and controls over the development of the valuation models, as well as the significant assumptions related to the rate of future revenue growth, profitability of the acquired business, and the discount rate. These procedures also included, among others: (1) Reading the purchase agreement.; (2) Testing management's process for estimating the fair values of the net assets acquired. Testing management's process included evaluating the appropriateness of the valuation method, testing the completeness and accuracy of data provided by

management, and evaluating the reasonableness of significant assumptions related to the rate of future revenue growth, profitability of the acquired business, and the discount rate. Evaluating the reasonableness of the rate of future revenue growth and the profitability of the acquired business involved considering the historical performance of the acquired businesses and market comparable information, as well as economic and industry forecasts. The reasonableness of the discount rate was evaluated by considering the cost of capital of comparable businesses and other industry factors.; (3) Developing an independent point estimate for the consideration.; and (4) Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the discounted cash flow models, the reasonableness of the discount rate, and evaluating the assumptions for the fair value of the assets. They also assisted us in developing an independent model and assumptions for the consideration.

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2019 (such date takes into account the acquisition of Friedman LLP by Marcum LLP effective September 1, 2022).

Marlton, New Jersey
December 14, 2023

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
RCI Hospitality Holdings, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of RCI Hospitality Holdings, Inc. (the "Company") as of September 30, 2022, the related consolidated statements of income, changes in equity and cash flows for each of the years in the two-year period ended September 30, 2022 and the related notes and schedule (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2022 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Friedman LLP

Friedman LLP

We have served as the Company's auditor from 2019 to 2023 .

Marlton, New Jersey
December 14, 2022

RCI HOSPITALITY HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value and number of shares)

	September 30,	
	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 21,023	\$ 35,980
Accounts receivable, net	9,846	8,510
Current portion of notes receivable	249	230
Inventories	4,412	3,893
Prepaid expenses and other current assets	1,943	1,499
Assets held for sale	—	1,049
Total current assets	37,473	51,161
Property and equipment, net	282,705	224,615
Operating lease right-of-use assets, net	34,931	37,048
Notes receivable, net of current portion	4,443	4,691
Goodwill	70,772	67,767
Intangibles, net	179,145	144,049
Other assets	1,415	1,407
Total assets	<u><u>\$ 610,884</u></u>	<u><u>\$ 530,738</u></u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 6,111	\$ 5,482
Accrued liabilities	16,051	11,328
Current portion of debt obligations, net	22,843	11,896
Current portion of operating lease liabilities	2,977	2,795
Total current liabilities	47,982	31,501
Deferred tax liability, net	29,143	30,562
Debt, net of current portion and debt discount and issuance costs	216,908	190,567
Operating lease liabilities, net of current portion	35,175	36,001
Other long-term liabilities	352	349
Total liabilities	<u><u>329,560</u></u>	<u><u>288,980</u></u>
Commitments and contingencies (Note 10)		
Equity		
Preferred stock, \$ 0.10 par value per share; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$ 0.01 par value per share; 20,000,000 shares authorized; 9,397,639 shares and 9,231,725 shares issued and outstanding as of September 30, 2023 and 2022, respectively	94	92
Additional paid-in capital	80,437	67,227
Retained earnings	<u><u>201,050</u></u>	<u><u>173,950</u></u>
Total RCIHH stockholders' equity	281,581	241,269
Noncontrolling interests	(257)	489
Total equity	<u><u>281,324</u></u>	<u><u>241,758</u></u>
Total liabilities and equity	<u><u>\$ 610,884</u></u>	<u><u>\$ 530,738</u></u>

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share and number of shares data)

	Years Ended September 30,		
	2023	2022	2021
Revenues			
Sales of alcoholic beverages	\$ 127,262	\$ 113,316	\$ 86,685
Sales of food and merchandise	43,906	44,294	41,111
Service revenues	103,577	93,888	55,461
Other	19,045	16,122	12,001
Total revenues	293,790	267,620	195,258
Operating expenses			
Cost of goods sold			
Alcoholic beverages sold	23,291	20,155	15,883
Food and merchandise sold	15,429	15,537	13,794
Service and other	282	317	374
Total cost of goods sold (exclusive of items shown separately below)	39,002	36,009	30,051
Salaries and wages	79,500	68,447	50,627
Selling, general and administrative	93,024	78,847	54,608
Depreciation and amortization	15,151	12,391	8,238
Other charges, net	15,629	467	13,186
Total operating expenses	242,306	196,161	156,710
Income from operations	51,484	71,459	38,548
Other income (expenses)			
Interest expense	(15,926)	(11,950)	(9,992)
Interest income	388	411	253
Non-operating gains, net	—	211	5,330
Income before income taxes	35,946	60,131	34,139
Income tax expense	6,846	14,071	3,989
Net income	29,100	46,060	30,150
Net loss (income) attributable to noncontrolling interests	146	(19)	186
Net income attributable to RCIHH common stockholders	\$ 29,246	\$ 46,041	\$ 30,336
Earnings per share			
Basic and diluted	\$ 3.13	\$ 4.91	\$ 3.37
Weighted average shares used in computing earnings per share			
Basic and diluted	9,335,983	9,383,445	9,004,744
Dividends per share	\$ 0.23	\$ 0.19	\$ 0.16

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years Ended September 30, 2023, 2022, and 2021
(in thousands, except number of shares)

	Common Stock		Additional		Treasury Stock			Noncontrolling Interests	Total Equity
	Number of Shares	Amount	Paid-In Capital	Retained Earnings	Number of Shares	Amount			
Balance at September 30, 2020	9,074,569	\$ 91	\$ 51,833	\$ 100,797	—	\$ —	\$ (414)	\$ 152,307	
Purchase of treasury shares	—	—	—	—	(74,569)	(1,794)	—	(1,794)	
Canceled treasury shares	(74,659)	(1)	(1,793)	—	74,569	1,794	—	—	
Payment of dividends	—	—	—	(1,440)	—	—	—	(1,440)	
Net income (loss)	—	—	—	30,336	—	—	(186)	30,150	
Balance at September 30, 2021	8,999,910	90	50,040	129,693	—	—	(600)	179,223	
Issuance of common shares for business combination	500,000	5	29,928	—	—	—	—	—	29,933
Purchase of treasury shares	—	—	—	—	(268,185)	(15,097)	—	(15,097)	
Canceled treasury shares	(268,185)	(3)	(15,094)	—	268,185	15,097	—	—	
Payment of dividends	—	—	—	(1,784)	—	—	—	(1,784)	
Stock-based compensation expense	—	—	2,353	—	—	—	—	—	2,353
Investment from noncontrolling partner	—	—	—	—	—	—	1,070	1,070	
Net income	—	—	—	46,041	—	—	19	46,060	
Balance at September 30, 2022	9,231,725	92	67,227	173,950	—	—	489	241,758	
Issuance of common shares for business combination	200,000	2	12,845	—	—	—	—	—	12,847
Purchase of treasury shares	—	—	—	—	(34,086)	(2,223)	—	(2,223)	
Canceled treasury shares	(34,086)	—	(2,223)	—	34,086	2,223	—	—	
Payment of dividends	—	—	—	(2,146)	—	—	—	(2,146)	
Stock-based compensation expense	—	—	2,588	—	—	—	—	—	2,588
Share in return of investment by noncontrolling partner	—	—	—	—	—	—	(600)	(600)	
Net income (loss)	—	—	—	29,246	—	—	(146)	29,100	
Balance at September 30, 2023	9,397,639	\$ 94	\$ 80,437	\$ 201,050	—	\$ —	\$ (257)	\$ 281,324	

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended September 30,		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 29,100	\$ 46,060	\$ 30,150
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,151	12,391	8,238
Deferred tax expense (benefit)	(1,781)	3,080	(1,253)
Gain on sale of businesses and assets	(870)	(2,970)	(714)
Impairment of assets	12,629	1,888	13,612
Amortization and writeoff of debt discount and issuance costs	615	314	311
Doubtful accounts expense (reversal) on notes receivable	—	753	(80)
Unrealized loss on equity securities	—	—	84
Gain on insurance	(77)	(463)	(1,337)
Noncash lease expense	2,978	2,607	1,729
Stock-based compensation expense	2,588	2,353	—
Gain on debt extinguishment	—	(83)	(5,298)
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	(2,383)	(175)	(769)
Inventories	177	(554)	(287)
Prepaid expenses, other current, and other assets	(366)	387	4,120
Accounts payable, accrued, and other liabilities	1,369	(1,079)	(6,515)
Net cash provided by operating activities	<u>59,130</u>	<u>64,509</u>	<u>41,991</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of businesses and assets	4,245	10,669	5,415
Proceeds from notes receivable	229	182	130
Proceeds from insurance	86	648	1,152
Payments for property and equipment and intangible assets	(40,384)	(24,003)	(13,511)
Acquisition of businesses, net of cash acquired	(29,000)	(55,293)	—
Net cash used in investing activities	<u>(64,824)</u>	<u>(67,797)</u>	<u>(6,814)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt obligations, including related party proceeds of \$ 0 , \$ 650 , and \$ 0 , respectively	11,595	35,820	38,490
Payments on debt obligations	(15,650)	(14,894)	(49,178)
Purchase of treasury stock	(2,223)	(15,097)	(1,794)
Payment of dividends	(2,146)	(1,784)	(1,440)
Payment of loan origination costs	(239)	(463)	(1,174)
Share in return of investment by noncontrolling partner	(600)	—	—
Net cash provided by (used in) financing activities	<u>(9,263)</u>	<u>3,582</u>	<u>(15,096)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,957)	294	20,081

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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	35,980	35,686	15,605
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 21,023	\$ 35,980	\$ 35,686
CASH PAID DURING THE YEAR FOR:			
Interest paid, net of amounts capitalized	\$ 15,156	\$ 11,227	\$ 10,362
Income taxes paid (net of refunds of \$ 1,656 , \$ 2,256 , and \$ 2,201 , in 2023, 2022, and 2021, respectively)	\$ 8,636	\$ 9,500	\$ 5,389
Non-cash investing and financing transactions:			
		Years Ended September 30,	
	2023	2022	2021
Debt incurred in connection with acquisition of businesses	\$ 30,405	\$ 49,000	\$ —
Debt incurred in connection with purchase of property and equipment	\$ 10,476	\$ 9,201	\$ —
Notes receivable received as proceeds from sale of assets	\$ —	\$ 2,700	\$ —
Investment from noncontrolling partner in connection with purchase of property	\$ —	\$ 1,070	\$ —
Issuance of shares of common stock for acquisition of business:			
Number of shares	200,000	500,000	—
Fair value at acquisition date	\$ 12,847	\$ 29,933	\$ —
Refinanced long-term debt	\$ —	\$ —	\$ 62,832
Adjustment to operating lease right-of-use assets related to new and renewed leases	\$ 1,864	\$ 21,424	\$ 491
Adjustment to operating lease liabilities related to new and renewed leases	\$ 2,163	\$ 21,424	\$ 491
Unpaid liabilities on capital expenditures	\$ 1,967	\$ 1,503	\$ 830
Receivable on eminent domain disposition	\$ —	\$ 1,047	\$ —

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

1. Nature of Business

RCI Hospitality Holdings, Inc. (the "Company," "we," "us," or "our") is a holding company incorporated in Texas in 1994. Through its subsidiaries, the Company currently owns and operates establishments that offer live adult entertainment, restaurant, and/or bar operations. These establishments are located in Houston, Austin, San Antonio, Dallas, Fort Worth, Tomball, Katy, Pearland, Dickinson, Odessa, Lubbock, Longview, Tye, Round Rock, Edinburg, El Paso, Harlingen, Arlington, and Beaumont, Texas, as well as Denver, Colorado; Minneapolis, Minnesota; Pittsburgh, Pennsylvania; Charlotte and Raleigh, North Carolina; New York and Newburgh, New York; Miami, Pembroke Park and Miami Gardens, Florida; Phoenix, Arizona; Sulphur, Louisiana; Portland, Maine; Louisville, Kentucky; Indianapolis, Indiana; and Chicago, Washington Park, Sauget, and Kappa, Illinois. The Company also owns and operates media businesses for the adult industry. The Company's corporate offices are located in Houston, Texas.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounts are maintained and the consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP").

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries in which a controlling interest is owned. Intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year

Our fiscal year ends on September 30. References to years 2023, 2022, and 2021 are for fiscal years ended September 30, 2023, 2022, and 2021, respectively. Our fiscal quarters chronologically end on December 31, March 31, June 30 and September 30.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts in the consolidated financial statements and accompanying notes. Estimates and assumptions are based on historical experience, forecasted future events, and various other assumptions that we believe to be reasonable under the circumstances. Estimates and assumptions may vary under different circumstances and conditions. We evaluate our estimates and assumptions on an ongoing basis.

Cash and Cash Equivalents

The Company considers as cash equivalents all highly liquid investments with a maturity of three months or less when purchased. The Company maintains deposits in several financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Company has not experienced any losses related to amounts in excess of FDIC limits.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

Accounts and Notes Receivable

Accounts receivable for club and restaurant operations are 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 are primarily comprised of receivables for advertising sales and Expo registration. Accounts receivable also include employee advances, construction advances, and other miscellaneous receivables. Long-term notes receivable, which have original maturity of more than one year, include consideration from the sale of certain investment interest entities and real estate. 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. Allowance for doubtful accounts balance related to accounts receivable was \$ 62,000 and \$ 30,000 as of September 30, 2023 and 2022, respectively (see [Note 4](#)). Allowance for doubtful accounts balance related to notes receivable was \$ 0 and \$ 0 as of September 30, 2023 and 2022, respectively.

Inventories

Inventories include alcoholic beverages, energy drinks, food, and Company merchandise. Inventories are carried at the lower of cost (on a first-in, first-out ("FIFO") basis), or net realizable value.

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 and equipment have estimated useful lives of 5 to 7 years, while leasehold improvements are depreciated at the shorter of the lease term or estimated useful life. 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, retired or abandoned and the related accumulated depreciation are written off from the accounts, and any gains or losses are charged or credited in the accompanying consolidated statement of income of the respective period. Interest expense from related debt incurred during site construction is capitalized, which amounted to \$ 0 in all three fiscal years presented.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite lives are not amortized but reviewed on an annual basis for impairment. Definite-lived intangible assets are amortized on a straight-line basis over their estimated lives.

The costs of transferable licenses purchased through open markets are capitalized as indefinite-lived intangible assets. The costs of obtaining non-transferable licenses that are directly issued by local government agencies are expensed as incurred. Annual license renewal fees are expensed over their renewal term.

Goodwill and other intangible assets that have indefinite useful lives are tested annually for impairment during our fourth fiscal quarter and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

For our goodwill impairment review, we have the option to first perform a qualitative assessment to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying value. This assessment is based on several factors, including industry and market conditions, overall financial performance, including an assessment of cash flows in comparison to actual and projected results of prior periods. If it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value based on our qualitative analysis, or if we elect to skip this step, we perform a Step 1 quantitative analysis to determine the fair value of the reporting unit. The fair value is determined using market-related valuation models, including discounted cash flows and comparable asset market values. We recognize goodwill impairment in the amount that the carrying value of the reporting unit exceeds the fair value of the reporting unit, not to exceed the amount of goodwill allocated to the reporting unit, based on the results of our Step 1 analysis. For the year ended September 30, 2023, we identified four reporting units that were impaired and recognized a goodwill impairment loss totaling \$ 4.2 million. For the year ended September 30, 2022, we identified one reporting unit that was impaired and recognized a goodwill impairment loss of \$ 566,000 . For the year ended September 30, 2021, we identified seven reporting units that were impaired and recognized a goodwill impairment loss totaling \$ 6.3 million.

For indefinite-lived intangibles, specifically sexually-oriented business ("SOB") licenses, we determine fair value by estimating the multiperiod excess earnings of the asset. For indefinite-lived tradename, we determine fair value by using the relief from royalty method. The fair value is then compared to the carrying value and an impairment charge is recognized by the amount by which the carrying amount exceeds the fair value of the asset. We recorded impairment charges for SOB licenses amounting to \$ 6.5 million in 2023 related to eight clubs, \$ 293,000 in 2022 related to one club, \$ 5.3 million in 2021 related to three clubs, which are included in other charges, net in the consolidated statements of income.

Impairment of Long-Lived Assets

The Company reviews long-lived assets , such as property and equipment, intangible assets subject to amortization, and right-of-use assets on operating leases for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. These events or changes in circumstances include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for the overall business, and significant negative industry or economic trends. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset group to the estimated undiscounted cash flows over the estimated remaining useful life of the primary asset included in the asset group. If the asset group is not recoverable, the impairment loss is calculated as the excess of the carrying value over the fair value. We define our asset group as an operating club or restaurant location, which is also our reporting unit or the lowest level for which cash flows can be identified. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. For assets held for sale, we measure fair value using an estimation based on quoted prices for similar items in active or inactive markets (level 2) developed using observable data. The assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet. During fiscal 2023, the Company impaired one club for \$ 58,000 ; during 2022, the Company impaired one club and one Bombshells for a total of \$ 1.0 million; and during fiscal 2021, the Company impaired five clubs (including one later reclassified as held for sale) for a total of \$ 2.0 million. The Company also impaired one club in fiscal 2023 for operating lease right-of-use assets amounting to \$ 1.0 million and software amounting to \$ 814,000 related to two venture projects. See [Notes 5](#) and [18](#).

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 notes receivable and 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.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

Revenue Recognition

The Company recognizes revenue from the sale of alcoholic beverages, food and merchandise, service and other revenues at the point-of-sale upon receipt of cash, check, or credit card charge, net of discounts and promotional allowances based on consideration specified in implied contracts with customers. Sales and liquor taxes collected from customers and remitted to governmental authorities are presented on a net basis in the accompanying consolidated statements of income. The Company recognizes revenue when it satisfies a performance obligation (point in time of sale) by transferring control over a product or service to a customer.

Commission revenues, such as ATM commission, are recognized when the basis for such commission has transpired. 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, which normally occurs during our fiscal fourth quarter. Lease revenue (included in other revenues) is recognized when earned (recognized over time) and is more appropriately covered by guidance under ASC 842, *Leases*. Lease revenue is generally recognized ratably over the term of the lease. A substantial portion of our lessor contracts are classified as operating lease and a number of them are month-to-month or short-term contracts.

Revenue from initial franchise and area development fees are recognized as the performance obligations are satisfied over the term of the franchise agreement. Franchise royalties and advertising contributions, which are a percentage of net sales of franchised restaurants, are recognized in the period the related sales occur.

Refer to [Notes 3](#) and [18](#) for additional disclosures on revenues and leases, 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 selling, general and administrative expenses in the accompanying consolidated statements of income. See [Note 4](#).

Income Taxes

The Company and its subsidiaries are subject to U.S. federal income tax and income taxes imposed in the state and local jurisdictions where we operate our businesses. Deferred income taxes are determined using the liability method. 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.

U.S. GAAP 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. We recognize penalties related to unrecognized tax benefits as a component of selling, general and administrative expenses, and recognize interest accrued related to unrecognized tax benefits in interest expense.

Investments

Investments in companies in which the company has a 20% to 50% interest are accounted for using the equity method, which are carried at cost and adjusted for the Company's proportionate share of their undistributed earnings or losses. Investments in companies in which the Company owns less than a 20% interest, or where the Company does not exercise significant influence, are accounted for at cost and reviewed for any impairment. Cost and equity method investments are included in other assets in the Company's consolidated balance sheets.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

Paycheck Protection Program

The Company's policy is to account for the Paycheck Protection Program ("PPP") loans as debt (see [Note 8](#)). The Company will continue to record the loans as debt until either (1) the loans are partially or entirely forgiven and the Company has been legally released from the obligation, at which point the amount forgiven will be recorded as income, or (2) the Company pays off the loans.

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 or losses of the Company. Potential common stock shares consist of shares that may arise from outstanding dilutive common restricted stock, 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 earnings per share considers the potential dilution that could occur if the Company's outstanding common restricted stock, stock options, warrants and convertible debentures were converted into common stock that then shared in the Company's earnings or losses (as adjusted for interest expense, that would no longer be incurred if the debentures were converted).

During the years ended September 30, 2023, 2022, and 2021, the Company did not have any adjustment items to reconcile the numerator and the denominator in the calculation of basic and diluted earnings per share. For fiscal 2023 and 2022, we excluded 300,000 stock options from the calculation of diluted earnings per share because the effect was anti-dilutive. There were no other potentially dilutive securities outstanding during fiscal 2021.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting, which requires the recognition of acquired tangible and identifiable intangible assets and assumed liabilities at their acquisition date fair values. The excess of the acquisition price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Results of operations related to acquired entities are included prospectively beginning with the date of acquisition. Acquisition-related costs are expensed as incurred.

Share Repurchases

The Company accounts for treasury stock transactions using the cost method. When treasury shares are retired, we charge the excess of the repurchase price over the par value of the repurchased shares to additional paid-in capital. We also charge additional paid-in capital for any excise tax incurred related to share repurchases.

Stock-based Compensation

The Company recognizes all employee stock-based compensation in selling, general and administrative expenses in our consolidated statements of operations. Equity-classified awards are measured at the grant date fair value of the award and recognized as expense over their requisite service period. The Company estimates grant date fair value of stock options using the Black-Scholes option-pricing model.

The following table provides the significant assumptions used in determining the estimated grant date fair value of the stock options granted in fiscal 2022. No grants were awarded in fiscal 2023 and 2021.

Expected term (in years)	4.45
Expected volatility	64.42 %
Expected dividend yield	0.20 %
Risk-free rate	3.23 %

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

The expected term was estimated using the historical exercise and post-vesting expiration behavior of grantees on stock options awarded prior to the 2022 Plan. The expected volatility was based on historical volatility of the Company's stock price for a period equal to the award's expected term. The expected dividend yield is based on the current dividend payout activity and the exercise price (that is, the expected dividends that would likely be reflected in an amount at which the stock option would be exchanged). The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. We recognize forfeitures when they occur.

Legal and Other Contingencies

The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In the opinion of management, there was not at least a reasonable possibility that we may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. The Company recognizes legal fees and expenses, including those related to legal contingencies, as incurred.

Generally, the Company recognizes gain contingencies when they are realized or when all related contingencies have been resolved.

The Company maintains insurance that covers claims arising from risks associated with the Company's business including claims for workers' compensation, general liability, property, auto, and business interruption coverage. The Company carries substantial insurance to cover such risks with large deductibles and/or self-insured retention. These policies have been structured to limit our per-occurrence exposure. The Company believes, and the Company's experience has been, that such insurance policies have been sufficient to cover such risks.

Fair Value Measurement

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels.

U.S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company classifies its marketable securities as available-for-sale, which are reported at fair value. Realized gains and losses (including unrealized holding gains and losses) from securities classified as available-for-sale are included in comprehensive income. The Company measures the fair value of its marketable securities based on quoted prices for identical securities in active markets, or Level 1 inputs.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

In accordance with U.S. GAAP, the Company reviews its marketable securities to determine whether a decline in fair value of a security below the cost basis is other than temporary. Should the decline be considered other than temporary, the Company writes down the cost basis of the security and include the loss in current earnings as opposed to an unrealized holding loss. No losses or other-than-temporary impairments in our marketable securities portfolio were recognized during the years ended September 30, 2023, 2022, and 2021.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to tangible property and equipment, goodwill and other intangible assets, which are remeasured when the derived fair value is below carrying value in the consolidated balance sheets. For these assets, the Company does not periodically adjust carrying value to fair value except in the event of impairment. If it is determined that impairment has occurred, the carrying value of the asset is reduced to fair value and the difference is included in other charges, net in the consolidated statements of operations.

Assets and liabilities that are measured at fair value on a nonrecurring basis are as follows (in thousands):

Description	September 30, 2023	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Property and equipment*	\$ 21,454	\$ —	\$ —	\$ 21,454
Indefinite-lived intangibles*	43,948	—	—	43,948
Indefinite-lived intangibles**	2,996	—	—	2,996
Definite-lived intangibles**	8,220	—	—	8,220
Goodwill*	6,881	—	—	6,881
Goodwill**	1,084	—	—	1,084
Current assets*	696	—	—	696

Description	September 30, 2022	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Property and equipment*	\$ 32,904	\$ —	\$ —	\$ 32,904
Property and equipment**	3,432	—	—	3,432
Indefinite-lived intangibles*	50,454	—	—	50,454
Definite-lived intangibles*	27,986	—	—	27,986
Goodwill*	20,608	—	—	20,608
Goodwill**	663	—	—	663
Current assets*	681	—	—	681

* Certain assets and liabilities measured at the acquisition dates.

** Measured at year-end impairment testing.

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RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

Description	Unrealized Gain (Loss/Impairments) Recognized		
	Years Ended September 30,		
	2023	2022	2021
Goodwill	\$ (4,239)	\$ (566)	\$ (6,307)
Property and equipment, net (including held for sale)	(58)	(1,029)	(2,202)
Indefinite-lived intangibles	(5,516)	(293)	(5,296)
Definite-lived intangibles	(1,813)	—	—
Operating lease right-of-use assets	(1,003)	—	—
Other assets (equity securities)	—	—	(84)

The significant unobservable inputs used in our level 3 fair value measurements are as follows:

Areas	Valuation Techniques	Unobservable Input	Range (Weighted Average)		
			2023	2022	2021
Property and equipment	Discounted cash flow	EBITDA multiple	1 x - 12 x (11 x)	9 x - 10 x (10 x)	8 x (8 x)
		Revenue/EBITDA growth rate	0 % - 2.5 % (1.25 %)	0 % - 2.5 % (1.5 %)	0 % - 2.5 % (1 %)
		Weighted average cost of capital	11 % (11.0 %)	12.5 % (12.5 %)	13 % - 17 % (15 %)
Goodwill	Discounted cash flow	EBITDA multiple	9 x - 12 x (12 x)	8 x - 10 x (9 x)	8 x (8 x)
		Revenue/EBITDA growth rate	0 % - 2.5 % (2.5 %)	0 % - 2.5 % (1.5 %)	0 % - 2.5 % (1 %)
		Weighted average cost of capital	11 % (11 %)	12.5 % (12.5 %)	13 % - 17 % (15 %)
SOB licenses	Multiperiod excess earnings	EBITDA multiple	12 x (12 x)	9 x - 10 x (10 x)	8 x (8 x)
		Revenue/EBITDA growth rate	0 % - 2.5 % (2.5 %)	0 % - 2.5 % (1.5 %)	0 % - 2.5 % (1 %)
		Weighted average cost of capital	11 % (11 %)	12.5 % (12.5 %)	13 % - 17 % (15 %)
		Contributory asset charges rate	10 % - 21.5 % (15 %)	0.5 % - 7.4 % (2.3 %)	1.4 % - 8.0 % (4 %)
Tradename	Relief-from-royalty method	Revenue growth rate	0 % - 2.5 % (2.5 %)	0 % - 2.5 % (1.5 %)	0 % - 2.5 % (2.5 %)
		Terminal multiple	12 x (12 x)	9 x - 10 x (9 x)	8 x (8 x)
		Royalty rate	3 % - 6 % (4.7 %)	3.5 % - 4.5 % (4 %)	None
		Weighted average cost of capital	11 % (11 %)	12.5 % (12.5 %)	15 % (15 %)
Operating lease right-of-use assets	Discounted cash flow	EBITDA growth rate	1.5 % - 2.5 % (2.3 %)	0 % - 2.5 % (1.5 %)	0 % - 2.5 % (1 %)
		Weighted average cost of capital	11 % (11 %)	12.5 % (12.5 %)	13 % - 17 % (15 %)
Business combinations	Various*	Growth rate	0 % - 11.2 % (5.5 %)	2.5 % - 10 % (4.8 %)	None
		Weighted average cost of capital	16.5 % - 18.0 % (17.8 %)	15 % - 19.5 % (18.1 %)	None
		Internal rate of return	16.5 % - 30.0 % (22.4 %)	15 % - 21.5 % (19.4 %)	None
		Contributory asset charges rate	15.6 % - 21.5 % (16.3 %)	8.5 % - 10.2 % (9.3 %)	None

* Includes all of the valuation techniques for each of the fair valued assets above as of each acquisition date.

Reclassification

We made certain reclassification adjustments to segment disclosures related to prepaid insurance and goodwill. These assets were acquired by the registrant and presented in Corporate segment but mostly benefit subsidiaries belonging to other reportable segments. Prior year disclosures were also made to conform to current year presentation. There is no impact in consolidated total assets, results of operations, and cash flows in all periods presented. See [Note 16](#).

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

Impact of Recently Issued Accounting Standards

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This ASU amends Accounting Standards Codification ("ASC") Topic 805 to require acquiring entities to apply ASC 606 to recognize and measure contract assets and contract liabilities in business combinations. The ASU is effective for public entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We are still evaluating the impact of this ASU but we do not expect it to have a material impact on our consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The amendments in this ASU clarify that an entity should measure the fair value of an equity security subject to contractual sale restriction the same way it measures an identical equity security that is not subject to such a restriction. The FASB said the contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, should not affect its fair value. The ASU is effective for public entities for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted. We have not yet evaluated the impact of this ASU on our consolidated financial statements.

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842): Common Control Arrangements*, which amends certain provisions of ASC 842 that apply to arrangements between related parties under common control. The ASU requires all companies to amortize leasehold improvements associated with common control leases over the asset's useful life to the common control group regardless of the lease term. It also allows private and certain not-for-profit entities to use the written terms and conditions of an agreement to account for common control leases without further assessing the legal enforceability of those terms. The guidance is effective for all entities in fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been made available for issuance. We are still evaluating the impact of this ASU on our consolidated financial statements.

In August 2023, the FASB issued ASU 2023-05, *Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*, which addresses the accounting for contributions made to a joint venture, upon formation, in a joint venture's separate financial statements. The objectives of the ASU are to (1) provide decision-useful information to investors and other allocators of capital in a joint venture's financial statements and (2) reduce diversity in practice. The FASB decided to require a joint venture to apply a new basis of accounting upon formation that will recognize and initially measure its assets and liabilities at fair value (with exceptions to fair value measurement that are consistent with the business combinations guidance). The amendments of this ASU are effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. Additionally, a joint venture that was formed before January 1, 2025 may elect to apply the amendments retrospectively if it has sufficient information. Early adoption is permitted in any interim or annual period in which financial statements have not yet been issued (or made available for issuance), either prospectively or retrospectively. We are still evaluating the impact of this ASU on our consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which aims to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In addition, the amendments in the ASU enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. The purpose of the amendments is to enable investors to better understand an entity's overall performance and assess potential future cash flows. The ASU applies to all public entities that are required to report segment information in accordance with ASC 280, and is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. We are evaluating the impact of this ASU on our consolidated financial statements.

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RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

3. Revenues

Revenues, as disaggregated by revenue type, timing of recognition, and reportable segment (see also [Note 16](#)), are shown below (in thousands).

	Fiscal 2023			
	Nightclubs	Bombshells	Other	Total
Sales of alcoholic beverages	\$ 96,325	\$ 30,937	\$ —	\$ 127,262
Sales of food and merchandise	19,995	23,911	—	43,906
Service revenues	103,217	360	—	103,577
Other revenues	17,211	515	1,319	19,045
	\$ 236,748	\$ 55,723	\$ 1,319	\$ 293,790
Recognized at a point in time	\$ 234,981	\$ 55,677	\$ 1,274	\$ 291,932
Recognized over time	1,767	46	45	1,858
	\$ 236,748	\$ 55,723	\$ 1,319	\$ 293,790
	Fiscal 2022			
	Nightclubs	Bombshells	Other	Total
Sales of alcoholic beverages	\$ 80,001	\$ 33,315	\$ —	\$ 113,316
Sales of food and merchandise	18,289	26,005	—	44,294
Service revenues	93,481	407	—	93,888
Other revenues	14,480	198	1,444	16,122
	\$ 206,251	\$ 59,925	\$ 1,444	\$ 267,620
Recognized at a point in time	\$ 204,644	\$ 59,918	\$ 1,443	\$ 266,005
Recognized over time	1,607	7	1	1,615
	\$ 206,251	\$ 59,925	\$ 1,444	\$ 267,620
	Fiscal 2021			
	Nightclubs	Bombshells	Other	Total
Sales of alcoholic beverages	\$ 54,305	\$ 32,380	\$ —	\$ 86,685
Sales of food and merchandise	17,221	23,890	—	41,111
Service revenues	55,146	315	—	55,461
Other revenues	10,676	36	1,289	12,001
	\$ 137,348	\$ 56,621	\$ 1,289	\$ 195,258
Recognized at a point in time	\$ 135,799	\$ 56,617	\$ 1,284	\$ 193,700
Recognized over time	1,549	4	5	1,558
	\$ 137,348	\$ 56,621	\$ 1,289	\$ 195,258

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

3. Revenues - continued

The Company does not have contract assets with customers. The Company's unconditional right to consideration for goods and services transferred to the customer is included in accounts receivable, net in our consolidated balance sheet. A reconciliation of contract liabilities with customers, included in accrued liabilities in our consolidated balance sheets, is presented below (in thousands):

	Balance at		Recognized in	Balance at		Consideration		Balance at	
	September 30,	2021		September 30,	2022	Received	(Refunded)	September 30,	2023
Ad revenue	\$ 84	\$ 611	\$ (613)	\$ 82	\$ 451	\$ (484)	\$ 49		
Expo revenue	151		426	(569)	8	574	(581)	1	
Other (including franchise fees, see below)	119		33	(8)	144	(51)	(47)	46	
	<u>\$ 354</u>	<u>\$ 1,070</u>	<u>\$ (1,190)</u>	<u>\$ 234</u>	<u>\$ 974</u>	<u>\$ (1,112)</u>	<u>\$ 96</u>		

Contract liabilities with customers are included in accrued liabilities as unearned revenues in our consolidated balance sheets (see also [Note 4](#)), while the revenues associated with these contract liabilities are included in other revenues in our consolidated statements of income.

On December 22, 2020, the Company signed a franchise development agreement with a group of private investors to open three Bombshells locations in San Antonio, Texas over a period of five years, and the right of first refusal for three more locations in Corpus Christi, New Braunfels, and San Marcos, all in Texas. Upon execution of the agreement, the Company collected \$ 75,000 in development fees representing 100 % of the initial franchise fee of the first restaurant and 50 % of the initial franchise fee of the second restaurant. The first Bombshells franchised location opened in June 2022. On May 2, 2022, the Company signed a franchise development agreement with a private investor to open three Bombshells locations in the state of Alabama over a period of five years. Upon execution of the agreement, the Company received \$ 50,000 in development fees representing 100 % of the initial franchise fee of the first restaurant. In February 2023, the Company purchased the franchised Bombshells unit in San Antonio, Texas.

4. Selected Account Information

The components of accounts receivable, net are as follows (in thousands):

	September 30,	
	2023	2022
Credit card receivables	\$ 4,141	\$ 2,687
Income tax refundable	2,989	2,979
ATM-in-transit	1,675	819
Other (net of allowance for doubtful accounts of \$ 62 and \$ 30, respectively)	1,041	2,025
Total accounts receivable, net	<u>\$ 9,846</u>	<u>\$ 8,510</u>

Notes receivable consist primarily of secured promissory notes executed between the Company and various buyers of our businesses and assets with interest rates ranging from 6 % to 9 % per annum and having original terms ranging from 1 to 20 years.

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RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

4. Selected Account Information - continued

The components of prepaid expenses and other current assets are as follows (in thousands):

	September 30,	
	2023	2022
Prepaid insurance	\$ 375	\$ 191
Prepaid legal	184	61
Prepaid taxes and licenses	486	391
Prepaid rent	346	296
Other	552	560
Total prepaid expenses and other current assets	\$ 1,943	\$ 1,499

The components of accrued liabilities are as follows (in thousands):

	September 30,	
	2023	2022
Payroll and related costs	\$ 4,412	\$ 3,186
Property taxes	3,086	2,618
Sales and liquor taxes	2,468	2,227
Insurance	9	30
Interest	654	499
Patron tax	914	467
Lawsuit settlement	2,448	246
Unearned revenues	96	234
Other	1,964	1,821
Total accrued liabilities	\$ 16,051	\$ 11,328

The components of selling, general and administrative expenses are as follows (in thousands):

	2023	2022	2021
Taxes and permits	\$ 11,966	\$ 9,468	\$ 8,701
Advertising and marketing	11,928	9,860	6,676
Supplies and services	10,724	8,614	6,190
Insurance	10,268	10,152	5,676
Lease	7,206	6,706	3,942
Legal	3,742	1,995	3,997
Utilities	5,760	4,585	3,366
Charge cards fees	7,090	6,292	3,376
Security	5,618	4,404	3,892
Accounting and professional fees	4,286	3,909	2,031
Repairs and maintenance	4,924	3,754	2,767
Stock-based compensation	2,588	2,353	—
Other	6,924	6,755	3,994
Total selling, general and administrative expenses	\$ 93,024	\$ 78,847	\$ 54,608

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

4. Selected Account Information - continued

The components of other charges, net are as follows (in thousands):

	2023	2022	2021
Impairment of assets	\$ 12,629	\$ 1,888	\$ 13,612
Settlement of lawsuits	3,759	1,417	1,349
Gain on sale of businesses and assets	(682)	(2,375)	(522)
Gain on insurance	(77)	(463)	(1,253)
Total other charges, net	<u><u>\$ 15,629</u></u>	<u><u>\$ 467</u></u>	<u><u>\$ 13,186</u></u>

5. Property and Equipment

Property and equipment consisted of the following (in thousands):

	September 30,	
	2023	2022
Land	\$ 95,018	\$ 78,116
Buildings and improvements	204,947	159,037
Equipment	49,632	45,648
Furniture	13,959	12,391
Total property and equipment	<u><u>363,556</u></u>	<u><u>295,192</u></u>
Less accumulated depreciation	(80,851)	(70,577)
Property and equipment, net	<u><u>\$ 282,705</u></u>	<u><u>\$ 224,615</u></u>

Included in buildings and leasehold improvements above are construction-in-progress amounting to \$ 7.7 million and \$ 1.5 million as of September 30, 2023 and 2022, respectively, which are mostly related to Bombshells development projects.

Depreciation expense was approximately \$ 11.6 million, \$ 10.3 million, and \$ 8.0 million for fiscal years 2023, 2022, and 2021, respectively. Impairment loss for property and equipment, including those later reclassified to assets held for sale, was \$ 58,000 , \$ 1.0 million, and \$ 2.0 million for fiscal 2023, 2022, and 2021, respectively.

6. Assets Held for Sale

As of September 30, 2022, the Company had one property classified as held for sale with an aggregate net realizable value less cost to sell of \$ 1.0 million, and with no associated liabilities.

On December 28, 2022, the Company sold the property classified as held-for-sale with a carrying value of \$ 1.049 million for \$ 1.7 million in cash. The Company used \$ 1.2 million of the proceeds to pay off a loan related to the property. Gains or losses on the sale of properties held for sale are included in other charges, net within the consolidated statements of income (see [Note 4](#)).

As of September 30, 2023, there were no assets held-for-sale.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

7. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consisted of the following (in thousands):

	September 30,	
	2023	2022
Indefinite useful lives:		
Goodwill	\$ 70,772	\$ 67,767
Licenses	135,735	103,972
Tradename and domain name	19,811	13,142
	<u>226,318</u>	<u>184,881</u>

	Amortization Period		
		Lease term	5 years
Definite useful lives:			
Discounted leases		811	78
Non-compete agreements	5 years	3	55
Software	5 years	55	723
Licenses	Lease term	22,597	25,962
Leases acquired in-place	Lease term	133	117
		<u>23,599</u>	<u>26,935</u>
Total goodwill and other intangible assets	<u>\$ 249,917</u>	<u>\$ 211,816</u>	

Substantially all of our goodwill and other intangible assets belong to our Nightclubs segment.

	2023			2022		
	Definite- Lived Intangibles	Indefinite- Lived Intangibles	Goodwill	Definite- Lived Intangibles	Indefinite- Lived Intangibles	Goodwill
Beginning balance	\$ 26,935	\$ 117,114	\$ 67,767	\$ 400	\$ 67,424	\$ 39,379
Acquisitions	2,005	43,948	7,244	28,653	50,453	28,954
Impairment	(1,813)	(5,516)	(4,239)	—	(293)	(566)
Dispositions	—	—	—	—	(470)	—
Amortization	(3,528)	—	—	(2,118)	—	—
Ending balance	<u>\$ 23,599</u>	<u>\$ 155,546</u>	<u>\$ 70,772</u>	<u>\$ 26,935</u>	<u>\$ 117,114</u>	<u>\$ 67,767</u>

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

7. Goodwill and Other Intangible Assets - continued

Definite-lived intangible assets consist of the following (in thousands):

	September 30,	
	2023	2022
Licenses	\$ 27,725	\$ 27,725
Software	2,332	1,671
Leases acquired in-place	826	261
Discounted leases	1,076	297
Non-compete agreements	1,100	1,100
Distribution agreements	317	317
Total definite-lived intangibles	33,376	31,371
Less accumulated amortization and impairment	(9,777)	(4,436)
Definite-lived intangibles, net	<u><u>\$ 23,599</u></u>	<u><u>\$ 26,935</u></u>

As of September 30, 2023 and 2022, the accumulated impairment balance of indefinite-lived intangibles was \$ 16.9 million and \$ 11.4 million, respectively, while the accumulated impairment balance of goodwill was \$ 25.4 million and \$ 21.2 million, respectively. As of September 30, 2023 and 2022, the gross amount of goodwill amounted to \$ 96.2 million and \$ 88.9 million, respectively. Future amortization expense related to definite-lived intangible assets that are subject to amortization at September 30, 2023 is: 2024 - \$ 2.5 million; 2025 - \$ 2.4 million; 2026 - \$ 2.4 million; 2027 - \$ 2.3 million; 2028 - \$ 1.5 million; and thereafter - \$ 12.5 million.

Indefinite-lived intangible assets consist of SOB licenses, liquor licenses, and tradenames, which were obtained as part of acquisitions. These licenses are the result of zoning ordinances, thus are valid indefinitely, subject to filing annual renewal applications, which are done at minimal costs to the Company. We considered certain licenses that are associated with leased locations as definite-lived. The discounted cash flow of the income approach method was used in calculating the value of these licenses in a business combination, while the relief-from-royalty method was used in calculating the value of tradenames. During the fiscal year ended September 30, 2023, the Company recognized a \$ 6.5 million impairment related to the SOB licenses of eight clubs and a \$ 4.2 million impairment related to goodwill of four reporting units. During the fiscal year ended September 30, 2022, the Company recognized a \$ 293,000 impairment related to the SOB license of one club and a \$ 566,000 impairment related to goodwill of one reporting unit. During the fiscal year ended September 30, 2021, the Company recognized a \$ 5.3 million impairment related to three clubs' SOB licenses and a \$ 6.3 million impairment related to the goodwill of seven reporting units.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

8. Debt

Debt consisted of the following (in thousands):

		September 30,	
		2023	2022
Notes payable at 5.5 %, fully paid in January 2023	(d)(1)	\$ —	\$ 678
Note payable at 8 %, matures October 2027, as amended	(b)(2)(6)	3,025	3,025
Note payable at 8 %, matures May 2029	(b)(2)	9,180	10,412
Note payable at 5.99 %, matures September 2033, as amended	(c) (3)	5,351	5,731
Note payable at 5.49 %, matures March 2039, as amended	(c)(4)	1,937	2,008
Note payable at 5.25 %, matures September 2031	*(a)(5)	87,937	92,062
Notes payable at 12 %, matures October 2024	(d)(7)	9,500	9,500
Notes payable at 12 %, matures October 2024	(d)(7)	3,331	3,561
Notes payable at 12 %, matures October 2024	(d)(7)	3,331	3,561
Note payable at 5.25 % matures October 2031	(a)(8)	1,136	1,172
Note payable at 6 % matures October 2031	(b)(8)	9,459	10,321
Note payable at 6 % matures October 2041	(b)(8)	7,611	7,828
Note payable at 6 % matures October 2041	(b)(8)	950	978
Note payable at 4 % matures November 2028	(b)(9)	764	895
Note payable at 5.25 % matures January 2032	*(a)(10)	16,622	18,391
Note payable at 4.25 % matures February 2043	*(a)(11)	2,583	2,625
Note payable at 10 % matures May 2025	(b)(12)	5,501	5,881
Note payable at 10 % matures May 2032	(b)(12)	5,000	5,000
Note payable at 5 % matures November 2023	*(a)(13)	2,195	2,195
Note payable at 6 % matures July 2029	(b)(14)	690	785
Note payable at 6 % matures July 2032	(b)(15)	9,119	9,880
Note payable at 6 % matures August 2032	(a)(15)	4,592	4,970
Note payable at 5.25 % matures February 2024	*(a)(16)	1,575	1,575
Note payable at 4.79 % matures October 2042	(c)(17)	2,731	2,806
Note payable initially at 6 % matures April 2024	*(a)(18)	2,259	—
Note payable at 6 % matures October 2037	(a)(19)	4,708	—
Note payable initially at 6 % matures May 2024	*(a)(20)	1,500	—
Note payable at 6.67 % matures January 2028	*(a)(21)	3,302	—
Notes payable at 7 % matures February 2025	(b)(22)	1,801	—
Notes payable at 7 % matures March 2033	(a)(b)(24)	24,603	—
Note payable initially at 8.75 % matures March 2025	(d)(23)	7,500	—
Note payable initially at 7.12 % matures June 2028	*(a)(25)	2,874	—
Total debt		242,667	205,840
Less unamortized debt discount and issuance costs		(2,916)	(3,377)
Less current portion		(22,843)	(11,896)
Total long-term portion of debt, net		\$ 216,908	\$ 190,567

* These commercial bank debts are guaranteed by the Company's CEO. See [Note 17](#).

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

8. Debt - continued

Following is a summary of long-term debt at September 30 (in thousands):

	2023	2022
(a) Secured by real estate	\$ 136,107	\$ 122,990
(b) Secured by stock in subsidiary	72,879	55,005
(c) Secured by other assets	10,019	10,545
(d) Unsecured	23,662	17,300
	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
	\$ 242,667	\$ 205,840

- (1) In connection with the acquisition of Silver City in January 2012, the Company executed notes to the seller in the amount of \$ 1.5 million. The notes are payable over eleven years at \$ 12,256 per month including interest and have an adjustable interest rate of 5.5 %. The rate adjusts to prime plus 2.5 % in the 61st month, not to exceed 9 %. In the same transaction, the Company also acquired the related real estate and executed notes to the seller for \$ 6.5 million, which have been paid off in December 2017. The notes were also payable over eleven years at \$ 53,110 per month including interest and have the same adjustable interest rate of 5.5 %. These notes were fully paid in January 2023.
- (2) On May 8, 2017, in relation to the Scarlett's acquisition, the Company executed two promissory notes with the sellers: (i) a 5 % short-term note for \$ 5.0 million payable in lump sum after six months from closing date and (ii) a 12-year amortizing 8 % note for \$ 15.6 million. The 12-year note is payable \$ 168,343 per month, including interest. The Company has amended the \$ 5.0 million short-term note payable several times, which has a remaining balance of \$ 3.0 million, extending the maturity date and increasing the interest rate. Presently, the maturity date is October 1, 2027 and the interest rate is 8 % for its remaining term.
- (3) On December 7, 2017, the Company borrowed \$ 7.1 million from a lender to purchase an aircraft at 5.99 % interest. The transaction was partly funded by trading in an aircraft that the Company owned with a carrying value of \$ 3.4 million, with an assumption of the old aircraft's note payable liability of \$ 2.0 million. The aircraft note is payable in 15 years with monthly payments of \$ 59,869 , which includes interest. In March 2020, this loan was extended to September 2033.
- (4) On December 11, 2018, the Company purchased an aircraft for \$ 2.8 million with a \$ 554,000 down payment and financed for the remaining \$ 2.2 million with a 5.49 % promissory note payable in 20 years with monthly payments of \$ 15,118 , including interest. Certain principal and interest payments during the quarter ended June 30, 2020 were deferred until maturity date.
- (5) On September 30, 2021, we entered into a \$ 99.1 million term loan refinancing \$ 85.7 million of existing bank and seller-financed real estate debt and to provide \$ 12.3 million in cash that will be used to pay off existing high-interest unsecured debt ("September 2021 Refinancing Note"), enabling those creditors to provide financing for the acquisition of 11 clubs and related real estate (see [Note 14](#)). The \$ 99.1 million note has a term of 10 years with an initial interest rate of 5.25 % per annum for the first five years , then adjusted to a rate equal to the then weekly average yield of U.S. Treasury Securities plus 350 basis points, with a floor rate of 5.25 %. The note is payable in monthly payments of principal and interest of \$ 668,051 , based on a 20-year amortization period, with the balance paid at maturity. In connection with the transaction, we wrote off to interest expense approximately \$ 103,000 of unamortized debt issuance costs related to the paid-off debts. We also paid approximately \$ 1.0 million in loan costs, approximately \$ 567,000 of which is capitalized and will be amortized together with the remaining unamortized debt issuance costs of some of the existing refinanced debts for the term of the new note using the effective interest method. There are certain financial covenants with which the Company is to be in compliance related to this loan.
- (6) On October 12, 2021, the Company amended the \$ 5.0 million short-term note payable related to the Scarlett's acquisition in May 2017, which had a balance of \$ 3.0 million as of the amendment date, extending the maturity date to October 1, 2027. The amendment did not have an impact in the Company's results of operations and cash flows.
- (7) On October 12, 2021, we closed on a debt financing transaction with 28 investors for unsecured promissory notes with a total principal amount of \$ 17.0 million, all of which bear interest at a rate of 12 % per annum. Of this amount, \$ 9.5

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

8. Debt - continued

million are promissory notes, payable interest only monthly (or quarterly) in arrears, with a final lump sum payment of principal and accrued and unpaid interest due on October 1, 2024. The remaining amount of the financing is \$ 7.5 million in promissory notes, payable in monthly payments of principal and interest based on a 10-year amortization period, with the balance of the entire principal amount together with all accrued and unpaid interest due and payable in full on October 12, 2024. Included in the \$ 17.0 million borrowing are two notes for \$ 500,000 and \$ 150,000 borrowed from related parties (see [Note 17](#)) and two notes for \$ 500,000 and \$ 300,000 borrowed from two non-officer employees in which the terms of the notes are the same as the rest of the lender group. See the October 25, 2023 extension of the term of the promissory notes, below.

- (8) On October 18, 2021, in relation to an acquisition (see [Note 14](#)), the Company executed four seller-financed promissory notes. The first promissory note was a 10-year \$ 11.0 million 6 % note payable in 120 equal monthly payments of \$ 122,123 in principal and interest. The second promissory note was a 20-year \$ 8.0 million 6 % note payable in 240 equal monthly payments of \$ 57,314 in principal and interest. The third promissory note was a 10-year \$ 1.2 million 5.25 % note payable in monthly payments of \$ 8,086 in principal and interest based on a 20-year amortization period, with the balance payable at maturity date. The fourth note was a 20-year \$ 1.0 million 6 % note payable in 240 equal monthly payments of \$ 7,215 in principal and interest.
- (9) On November 8, 2021, in relation to an acquisition (see [Note 14](#)), the Company executed a \$ 1.0 million 7-year promissory note with an interest rate of 4.0 % per annum. The note is payable \$ 13,669 per month, including principal and interest.
- (10) On January 25, 2022, the Company borrowed \$ 18.7 million from a bank lender for working capital purposes by executing a 10-year promissory note with an initial interest rate of 5.25 % per annum to be adjusted after five years to a rate equal to the weekly average yield on U.S. Treasury securities plus 3.98 % with a floor of 5.25 %. The note is payable in monthly payments of \$ 126,265 in principal and interest to be adjusted after five years. The promissory note is secured by eleven real estate properties and is personally guaranteed by the Company CEO, Eric Langan (see [Note 17](#)). After the 10-year term, the remaining balance of principal and interest are payable at maturity date. There are certain financial covenants with which the Company is to be in compliance related to this loan.
- (11) On March 1, 2022, the Company borrowed \$ 2.6 million from a bank lender in relation to a purchase of real estate (see [Note 14](#)). The 21-year promissory note has an initial interest rate of 4.25 % per annum, repriced after five years and then again annually to prime plus 1 % with a floor rate of 4.25 %. The note is payable interest only during the first 12 months; then the next 48 months with \$ 16,338 equal monthly payments of principal and interest; then the next 191 months at an equal monthly payment based on a 20-year amortization; with the balance of principal and interest payable at the 252nd month.
- (12) On May 2, 2022, in relation to a club acquisition (see [Note 14](#)), the Company executed two seller-financed notes totaling \$ 11.0 million, comprised of (1) \$ 6.0 million under a 10 % three-year promissory note payable in 35 equal monthly payments of \$ 79,290 in principal and interest based on a ten-year amortization schedule, with a balloon payment for the remaining principal plus accrued interest due at maturity and (2) \$ 5.0 million under a 10 % ten-year interest-only promissory note payable in 119 equal monthly payments of \$ 41,667 in interest, with a balloon payment of the total \$ 5.0 million in principal plus accrued interest due at maturity.
- (13) On May 23, 2022, the Company borrowed \$ 2.2 million from a bank lender in relation to a purchase of real estate (see [Note 14](#)). The 18-month promissory note has an initial interest rate of 4.5 % per annum to be adjusted daily to a rate equal to the Wall Street Journal prime rate plus 1 % with a floor of 4.5 %. The promissory note is payable in 17 monthly interest-only installments with the full principal and accrued interest payable at maturity. The Company paid loan costs amounting to \$ 25,000 for this note.
- (14) On July 21, 2022, the Company executed an \$ 800,000 6 % seller-financed promissory note in relation to an acquisition of a club in Odessa, Texas (see [Note 14](#)). The promissory note matures in seven years and is payable in 84 equal monthly installments of \$ 11,687 of principal and interest.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

8. Debt - continued

(15) On July 27, 2022, in relation to an acquisition of a club in Hallandale Beach, Florida (see [Note 14](#)), the Company executed two seller-financed promissory notes: (1) \$ 10.0 million 6 % ten-year promissory note payable in 120 equal monthly payments of \$ 111,020 in principal and interest, and (2) \$ 5.0 million 6 % ten-year promissory note payable in 120 equal monthly payments of \$ 55,510 in principal and interest.

(16) On August 18, 2022, in relation to a purchase of real estate for a future Bombshells location amounting to \$ 2.1 million (see [Note 14](#)), the Company borrowed \$ 1.6 million from a bank lender. The 5.25 % mortgage note is payable interest-only for eleven months and on its August 18, 2023 maturity date payable with the entire principal balance plus accrued interest. The maturity date of this mortgage note was extended to February 18, 2024.

(17) On September 23, 2022, in connection with the purchase of an aircraft worth \$ 3.5 million (see [Note 14](#)), the Company entered into a financing transaction for \$ 2.8 million. The financing agreement bears an interest of 4.79 % per annum and payable in 240 monthly installments of principal and interest amounting to \$ 18,298 .

(18) On October 10, 2022, in relation to a real estate purchase (see [Note 14](#)), the Company borrowed \$ 2.3 million from a bank lender. The 18-month promissory note bears an initial interest rate of 6 % per annum adjusted daily to a rate equal to the Wall Street Journal prime rate plus 0.5 % with a floor of 6 %. The promissory note is payable in 17 monthly interest-only installments with the full principal and accrued interest payable at maturity. The Company paid approximately \$ 26,000 in debt issuance cost at closing. This promissory note is secured by the purchased real estate property.

(19) On October 26, 2022, in relation to a club acquisition (see [Note 14](#)), the Company executed a promissory note for \$ 5.0 million with the seller. The 6 % 15-year promissory note is payable in 180 equal monthly payments of \$ 42,193 in principal and interest. This promissory note is secured by the purchased real estate property.

(20) On November 18, 2022, in relation to a real estate purchase on September 12, 2022 (see [Note 14](#)), the Company borrowed \$ 1.5 million from a bank lender. The 18-month promissory note bears an initial interest rate of 6 % per annum to be adjusted daily to a rate equal to the Wall Street Journal prime rate plus 0.5 % with a floor of 6 %. The promissory note is payable in 17 monthly interest-only installments with the full principal and accrued interest payable at maturity. This promissory note is secured by the purchased real estate property. There are certain financial covenants with which the Company is to be in compliance related to this loan.

(21) On December 20, 2022, the Company executed a promissory note for \$ 3.3 million with a bank lender in relation to a purchase of a food hall property (see [Note 14](#)). The 6.67 % five-year promissory note is payable in 59 equal monthly installments of \$ 22,805 in principal and interest, with the balance of principal and accrued interest payable at maturity. There are certain financial covenants with which the Company is to be in compliance related to this loan.

(22) On February 7, 2023, in relation to the acquisition of a franchised Bombshells location in San Antonio, Texas (see [Note 14](#)), the Company entered into six separate seller-financing promissory notes totaling \$ 2.0 million. Each of the promissory notes has an interest rate of 7 % per annum, has a term of 24 months, and is payable in monthly installments totaling \$ 39,602 of principal and interest for the first 23 months based on a 60-month amortization schedule with the remaining unpaid principal and interest paid at maturity.

(23) On March 9, 2023, the Company closed a \$ 10.0 million line-of-credit facility with a lender bank evidenced by a revolving promissory note, with an initial draw of \$ 10.0 million at closing. The facility has an initial term of 24 months with a variable interest rate equal to the Wall Street Journal prime rate plus 1 %. On such date that the principal balance is repaid to an amount less than \$ 5.0 million, the facility's revolver feature is activated where the Company may draw from the remaining availability up to a maximum of \$ 5.0 million. The Company shall also pay a non-usage fee of 0.5 % based on the amount by which the average outstanding balance for the prior twelve months was less than \$ 3.0 million or the amount by which the total aggregate advances during the prior twelve months totaled less than \$ 3.0 million. The Company paid \$ 115,000 in debt issuance costs, which is recorded as deferred charges to be amortized on a straight-line basis over 24 months. There are certain financial covenants with which the Company is to be in compliance related to this loan, including a compensating balance requirement of \$ 3.0 million and a minimum tangible net worth requirement of \$ 20.0 million. The compensating balance requirement does not contractually or legally restrict the withdrawal or use of cash.

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RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

8. Debt - continued

(24) On March 16, 2023, in relation to the acquisition of five clubs with associated real estate, automated teller machines, and intellectual property (see [Note 14](#)), the Company executed nine secured promissory notes with a total principal amount of \$ 25.5 million. Each of the nine promissory notes have an interest rate of 7 % per annum with a term of 10 years, payable in arrears in 120 equal monthly payments of principal and interest amounting to \$ 296,077 per month in the aggregate. The holder of the \$ 5.0 million promissory note related to the real estate properties may call due from the Company a principal payment of \$ 1.0 million once in every calendar year.

(25) On June 18, 2023, in relation to a purchase of a retail parcel in a condominium property (see [Note 14](#)), the Company executed a promissory note for \$ 2.9 million with a bank lender. The 7.12 % five-year promissory note is payable in monthly installments of \$ 20,654 in principal and interest, with the balance of principal and accrued interest payable at maturity.

Future maturities of debt obligations as of September 30, 2023 consist of the following (in thousands):

	Regular Amortization	Balloon Payments	Total Payments
2024	\$ 15,837	\$ 7,529	\$ 23,366
2025	12,149	26,772	38,921
2026	12,498	—	12,498
2027	13,287	—	13,287
2028	14,050	8,731	22,781
Thereafter	61,273	70,541	131,814
	<hr/> <u>\$ 129,094</u>	<hr/> <u>\$ 113,573</u>	<hr/> <u>\$ 242,667</u>

9. Income Taxes

Income tax expense consisted of the following (in thousands):

	2023	2022	2021
Current			
Federal	\$ 6,506	\$ 8,335	\$ 4,598
State and local	2,121	2,656	644
Total current income tax expense	<hr/> <u>8,627</u>	<hr/> <u>10,991</u>	<hr/> <u>5,242</u>
Deferred			
Federal	(1,294)	2,080	(161)
State and local	(487)	1,000	(1,092)
Total deferred income tax expense (benefit)	<hr/> <u>(1,781)</u>	<hr/> <u>3,080</u>	<hr/> <u>(1,253)</u>
Total income tax expense	<hr/> <u>\$ 6,846</u>	<hr/> <u>\$ 14,071</u>	<hr/> <u>\$ 3,989</u>

The Company and its subsidiaries do not operate in tax jurisdictions outside of the United States.

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RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

9. Income Taxes - continued

Income tax expense differs from the "expected" income tax expense computed by applying the U.S. federal statutory rate to earnings before income taxes for the years ended September 30 as a result of the following (in thousands):

	2023	2022	2021
Federal statutory income tax expense	\$ 7,549	\$ 12,628	\$ 7,169
State income taxes, net of federal benefit	1,620	1,801	716
Permanent differences	605	96	(434)
Change in tax rates	(255)	896	(804)
Change in valuation allowance	(176)	343	(632)
Tax credits	(2,131)	(1,796)	(1,207)
Other	(366)	103	(819)
Total income tax expense	\$ 6,846	\$ 14,071	\$ 3,989

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	September 30,	
	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	\$ 827	\$ 1,022
Capital loss carryforwards	651	234
Right-of-use assets	946	626
Accrued expenses	748	240
Stock-based compensation	1,185	569
Other	123	—
Valuation allowance	(808)	(984)
	3,672	1,707
Deferred tax liabilities:		
Intangibles	(21,468)	(21,927)
Property and equipment	(11,085)	(10,119)
Prepaid expenses	(262)	(205)
Other	—	(18)
	(32,815)	(32,269)
	\$ (29,143)	\$ (30,562)

The Company may recognize the tax benefit from uncertain tax positions only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement with the taxing authorities. We recognize accrued interest related to unrecognized tax benefits as a component of accrued liabilities. We recognize penalties related to unrecognized tax benefits as a component of selling, general and administrative expenses, and recognize interest accrued related to unrecognized tax benefits in interest expense.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

9. Income Taxes - continued

The full balance of uncertain tax positions, if recognized, would affect the Company's annual effective tax rate, net of any federal tax benefits. As of September 30, 2023 and 2022, the Company does not have any uncertain tax position. The Company does not expect any changes that will significantly impact its uncertain tax positions within the next twelve months.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states. The Company ordinarily goes through various federal and state reviews and examinations for various tax matters. Fiscal year ended September 30, 2020 and subsequent years remain open to federal tax examination.

On March 27, 2020, former President Trump signed the CARES Act into law. As a result of this, additional avenues of relief were available to workers and families through enhanced unemployment insurance provisions and to small businesses through programs administered by the Small Business Administration. The CARES Act included, among other items, provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also established a Paycheck Protection Program, whereby certain small businesses are eligible for a loan to fund payroll expenses, rent, and related costs. The loan may be forgiven if the funds are used for payroll and other qualified expenses. The Company submitted its application for a PPP loan and on May 8, 2020 received approval and funding for its restaurants, shared service entity and lounge. Ten of our restaurant subsidiaries received amounts ranging from \$ 271,000 to \$ 579,000 for an aggregate amount of \$ 4.2 million; our shared-services subsidiary received \$ 1.1 million; and one of our lounges received \$ 124,000. None of our adult nightclub and other non-core business subsidiaries received funding under the PPP. The Company believes it used the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The Company utilized all of the PPP funds and submitted its forgiveness applications. During fiscal 2022, we received 11 Notices of PPP Forgiveness Payment from the Small Business Administration out of the 12 of our PPP loans granted. All of the notices received forgave 100 % of each of the 11 PPP loans totaling the amount of \$ 5.3 million in principal and interest and were included in non-operating gains (losses), net in our consolidated statement of income for the fiscal year ended September 30, 2022. In November 2021, we received a partial forgiveness of the remaining \$ 124,000 PPP loan for \$ 85,000 in principal and interest. The remaining unforgiven portion of approximately \$ 41,000 in principal was fully paid as debt plus accrued interest in fiscal 2022.

10. Commitments and Contingencies

Legal Matters

Texas Patron Tax

A declaratory judgment action was brought by five operating subsidiaries of the Company to challenge a Texas Comptroller administrative rule related to the \$ 5 per customer Patron Tax Fee assessed against Sexually Oriented Businesses. An administrative rule attempted to expand the fee to cover venues featuring dancers using latex cover as well as traditional nude entertainment. The administrative rule was challenged on both constitutional and statutory grounds. On November 19, 2018, the Court issued an order that a key aspect of the administrative rule is invalid based on it exceeding the scope of the Comptroller's authority. On March 6, 2020, the U.S. District Court for the Western District of Texas, Austin Division, ruled that the Texas Patron Tax is unconstitutional as it has been applied and enforced by the Comptroller. The State of Texas appealed to the Fifth Circuit Court of Appeals, who affirmed that the Texas Patron Fee is unconstitutional as applied. The State of Texas next sought review from the Supreme Court, but the high court declined to take the case and in doing so exhausted the State's rights to appeal the judgment. The lawsuit was sent back to the trial court for post-trial proceedings, which resulted in the award of attorneys' fees to the operating subsidiaries. Pursuant to the rulings, the Texas Patron Fee is unconstitutional as applied to clubs featuring dancers using latex cover.

Indemnity Insurance Corporation

As previously reported, the Company and its subsidiaries were insured under a liability policy issued by Indemnity Insurance Corporation, RRG ("IIC") through October 25, 2013. The Company and its subsidiaries changed insurance companies on that date.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

10. Commitments and Contingencies - continued

On November 7, 2013, the Court of Chancery of the State of Delaware entered a Rehabilitation and Injunction Order ("Rehabilitation Order"), which declared IIC impaired, insolvent and in an unsafe condition and placed IIC under the supervision of the Insurance Commissioner of the State of Delaware ("Commissioner") in her capacity as receiver ("Receiver"). The Rehabilitation Order empowered the Commissioner to rehabilitate IIC through a variety of means, including gathering assets and marshaling those assets as necessary. Further, the order stayed or abated pending lawsuits involving IIC as the insurer until May 6, 2014.

On April 10, 2014, the Court of Chancery of the State of Delaware entered a Liquidation and Injunction Order With Bar Date ("Liquidation Order"), which ordered the liquidation of IIC and terminated all insurance policies or contracts of insurance issued by IIC. The Liquidation Order further ordered that all claims against IIC must have been filed with the Receiver before the close of business on January 16, 2015, and that all pending lawsuits involving IIC as the insurer were further stayed or abated until October 7, 2014. As a result, the Company and its subsidiaries no longer have insurance coverage under the liability policy with IIC. The Company has retained counsel to defend against and evaluate these claims and lawsuits. We are funding 100 % of the costs of litigation and will seek reimbursement from the bankruptcy receiver. The Company filed the appropriate claims against IIC with the Receiver before the January 16, 2015 deadline and has provided updates as requested; however, there are no assurances of any recovery from these claims. It is unknown at this time what effect this uncertainty will have on the Company. As previously stated, since October 25, 2013, the Company has obtained general liability coverage from other insurers, which have covered and/or will cover any claims arising from actions after that date. As of September 30, 2023, we had 1 remaining unresolved claim out of the original 71 claims.

Shareholder Derivative Action

On January 21, 2022, Shiva Stein and Kevin McCarty filed a shareholder derivative action in the Southern District of Texas, Houston Division against former director Nourdean Anakar, Yura Barabash, former director Steven L. Jenkins, Eric Langan, Luke Lirot, former CFO Phillip K. Marshall, Elaine J. Martin, Allan Priaulx, and Travis Reese as defendants, as well as against RCI Hospitality Holdings, Inc. as nominal defendant. The action, styled Stein v. Anakar, et al., No. 4:22-mc-00149 (S.D. Tex.), alleges claims for breach of fiduciary duty based on alleged dissemination of inaccurate information and failure to maintain internal controls. These allegations are substantively similar to claims asserted in a prior securities class action that was settled in August of 2022 and a prior derivative action that was dismissed in June of 2021. On July 24, 2023, the parties reached an agreement in principle to resolve the action. On October 10, 2023, the parties submitted an agreement to settle the action to the Court for the Court's preliminary approval. The Company believes that payments under the settlement agreement will be covered by insurance.

Other

On June 23, 2014, Mark H. Dupray and Ashlee Dupray filed a lawsuit against Pedro Antonio Panameno and our subsidiary JAI Dining Services (Phoenix) Inc. ("JAI Phoenix") in the Superior Court of Arizona for Maricopa County. The suit alleged that Mr. Panameno injured Mr. Dupray in a traffic accident after being served alcohol at an establishment operated by JAI Phoenix. The suit alleged that JAI Phoenix was liable under theories of common law dram shop negligence and dram shop negligence per se. After a jury trial proceeded to a verdict in favor of the plaintiffs against both defendants, in April 2017 the Court entered a judgment under which JAI Phoenix's share of compensatory damages is approximately \$ 1.4 million and its share of punitive damages is \$ 4 million. In May 2017, JAI Phoenix filed a motion for judgment as a matter of law or, in the alternative, motion for new trial. The Court denied this motion in August 2017. In September 2017, JAI Phoenix filed a notice of appeal. In June 2018, the matter was heard by the Arizona Court of Appeals. On November 15, 2018 the Court of Appeals vacated the jury's verdict and remanded the case to the trial court. It is anticipated that a new trial will occur at some point in the future. JAI Phoenix will continue to vigorously defend itself.

As set forth in the risk factors as disclosed in this report, the adult entertainment industry standard is to classify adult entertainers as independent contractors, not employees. While we take steps to ensure that our adult entertainers are deemed independent contractors, from time to time, we are named in lawsuits related to the alleged misclassification of entertainers. Claims are brought under both federal and where applicable, state law. Based on the industry standard, the manner in which the independent contractor entertainers are treated at the clubs, and the entertainer license agreements governing the entertainer's work at the clubs, the Company believes that these lawsuits are without merit. Lawsuits are handled by attorneys with an expertise in the relevant law and are defended vigorously.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

10. Commitments and Contingencies - continued

In March 2023, the New York State Department of Labor assessed a final judgment against one of our subsidiaries in a state unemployment tax matter for the years 2009-2022. The assessment of \$ 2.8 million, which was recorded by the Company during the quarter ended March 31, 2023, was issued in final notice by the NY DOL after several appeals were denied by the Supreme Court of the State of New York, Appellate Division, Third Department. In September 2023, the NY DOL assessed another of our subsidiaries for approximately \$ 280,000 on the same matter for the period January 2015 through June 2022. We recorded this latter assessment during the quarter ended September 30, 2023.

General

In the regular course of business affairs and operations, we are subject to possible loss contingencies arising from third-party litigation and federal, state, and local environmental, labor, health and safety laws and regulations. We assess the probability that we could incur liability in connection with certain of these lawsuits. Our assessments are made in accordance with generally accepted accounting principles, as codified in ASC 450-20, and is not an admission of any liability on the part of the Company or any of its subsidiaries. In certain cases that are in the early stages and in light of the uncertainties surrounding them, we do not currently possess sufficient information to determine a range of reasonably possible liability. In matters where there is insurance coverage, in the event we incur any liability, we believe it is unlikely we would incur losses in connection with these claims in excess of our insurance coverage.

Settlement of lawsuits for the years ended September 30, 2023, 2022, and 2021 total \$ 3.8 million, \$ 1.4 million, and \$ 1.3 million, respectively. As of September 30, 2023 and 2022, the Company has accrued \$ 2.4 million and \$ 246,000 in accrued liabilities, respectively, related to settlement of lawsuits.

Leases

See [Note 18](#) for lease commitments.

11. Stock-based Compensation

On February 7, 2022, our board of directors approved the 2022 Stock Option Plan (the "2022 Plan"). The board's adoption of the 2022 Plan was approved by the shareholders during the annual stockholders' meeting on August 23, 2022. The 2022 Plan provides that the maximum aggregate number of shares of common stock underlying options that may be granted under the 2022 Plan is 300,000 . The options granted under the 2022 Plan may be either incentive stock options or non-qualified options. The 2022 Plan is administered by the compensation committee of the board of directors. The compensation committee 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 not less than 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 2022 Plan. On February 9, 2022, the board of directors approved a grant of 50,000 stock options each to six members of management subject to the approval of the 2022 Plan.

Stock-based compensation expense for fiscal 2023, 2022, and 2021, which is included in corporate segment selling, general and administrative expenses, amounted to \$ 2.6 million, \$ 2.4 million, and \$ 0 , respectively, with related tax benefit amounting to \$ 616,000 , \$ 569,000 , and \$ 0 , respectively. No stock-based compensation was recognized during fiscal 2021. As of September 30, 2023, we had unrecognized compensation cost amounting to \$ 4.5 million related to stock-based compensation awards granted, which is expected to be recognized over a weighted average period of 2.4 years.

The February 9, 2022 stock options vest over four years with the first 20 % having vested on the approval of the 2022 Plan at the 2022 annual stockholders' meeting on August 23, 2022, and 20 % vesting on February 9 of each year thereafter, provided however that the options will be subject to earlier vesting under certain events set forth in the Plan, including without limitation a change in control. All of the options will expire, if not vested, at the end of five years . The weighted average grant-date fair value of the stock options was \$ 31.37 . No stock options were exercised in fiscal 2023.

The following table summarizes information about stock option activity under the 2022 Plan:

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RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

11. Stock-based Compensation - continued

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at September 30, 2022	300,000	\$ 100.00		
Granted	—			
Outstanding at September 30, 2023	<u>300,000</u>	<u>\$ 100.00</u>	<u>3.4</u>	<u>\$ —</u>
Exercisable at September 30, 2023	<u>60,000</u>	<u>\$ 100.00</u>	<u>3.4</u>	<u>\$ —</u>

12. Employee Retirement Plan

The Company sponsors a Simple IRA plan (the "Plan"), which covers all of the Company's corporate employees. The Plan allows corporate employees to contribute up to the maximum amount allowed by law, with the Company making a matching contribution of up to 3 % of the employee's salary. Expenses related to matching contributions to the Plan approximated \$ 287,000 , \$ 258,000 , and \$ 209,000 for the years ended September 30, 2023, 2022, and 2021, respectively.

13. Insurance Recoveries

One of our clubs in Washington Park, Illinois was temporarily closed due to a fire during the third quarter of 2019, and another club in Fort Worth, Texas sustained weather-related damage toward the end of fiscal 2019. Both of these casualties received insurance recoveries in subsequent fiscal years. During the fourth quarter of 2021, one club in Sulphur, Louisiana incurred damage from a hurricane. We wrote off the net carrying value of the assets destroyed in the said events and recorded corresponding recovery of losses or gains in as much as the insurers have paid us or where contingencies relating to the insurance claims have been resolved.

In relation to these casualty events, we recorded the following in our consolidated financial statements (in thousands):

	Included in	2023	2022	2021
<i>Consolidated balance sheets (period end)</i>				
Insurance receivable	Account receivable, net	\$ —	\$ —	\$ 186
<i>Consolidated statements of income – gain</i>				
Property	Other charges, net	\$ (77)	\$ (463)	\$ (1,337)
<i>Consolidated statements of cash flows</i>				
Proceeds from business interruption insurance claims	Operating activity	\$ —	\$ —	\$ 106
Proceeds from property insurance claims	Investing activity	\$ 86	\$ 648	\$ 1,152

The net property insurance gain/loss amount in fiscal 2023, 2022, and 2021 was net of assets written off and expenses amounting to \$ 9,000 , \$ 0 , and \$ 88,000 , respectively.

14. Acquisitions and Dispositions

2021 Acquisitions

On December 28, 2020, the Company acquired the real estate and other business assets of a club in Centreville, Illinois for \$ 500,000 in cash.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

14. Acquisitions and Dispositions – continued

On January 26, 2021, the Company acquired land for a future Bombshells location in Arlington, Texas for \$ 2.9 million. The Company paid approximately \$ 754,000 in cash including closing costs and financed \$ 2.175 million with a bank lender for a 20-year promissory note with an initial interest rate of 3.99 % per annum. See [Note 8](#).

On March 10, 2021, the Company acquired approximately 57,000 -square foot of land across the street from our corporate office for \$ 475,000 in cash. The Company plans to build a warehouse on that land.

On March 22, 2021, the Company acquired land adjacent to a Bombshells location in Houston, Texas for \$ 1.04 million in cash.

On April 7, 2021, the Company acquired land near our Bombshells location in Pearland, Texas for \$ 1.275 million in cash.

2021 Dispositions

On May 7, 2021, the Company sold one of the properties held for sale for \$ 3.1 million. The property had a carrying value of \$ 2.3 million. We recorded a net gain of approximately \$ 657,000 after closing costs and we paid related debt amounting to \$ 2.0 million from the proceeds of the sale.

On September 21, 2021, the Company sold land where a club used to be operated for \$ 2.25 million with a net gain of approximately \$ 54,000 after closing costs. We paid \$ 1.2 million of related debt with the proceeds of the sale.

2022 Acquisitions

On October 18, 2021, we and certain of our subsidiaries completed our acquisition of eleven gentlemen's clubs, six related real estate properties, and associated intellectual property for a total agreed acquisition price of \$ 88.0 million (with a total consideration fair value of \$ 87.9 million based on the Company's stock price at acquisition date and discounted due to the lock-up period, with interest rates on promissory notes reflective of market yields). We used the Finnerty Model to estimate the discount on stock marketability. The acquisition was structured by entering into nine asset purchase agreements, which allowed the Company to acquire from each club all of the tangible and intangible assets and personal property in that business except certain excluded assets, and two stock purchase agreements, where a newly formed subsidiary purchased 100 % of the capital stock of two club-owning entities. Along with the asset and stock purchase agreements, the Company also entered into a real estate purchase and sale agreement for six real estate properties, and an intellectual property purchase agreement for substantially all of the intellectual property used in the adult entertainment establishment business owned and operated by the sellers. The acquisition gives the Company presence in four additional states. We paid for the acquisition with \$ 36.8 million in cash, \$ 21.2 million in four seller-financed notes (see [Note 8](#)), and 500,000 shares of our common stock.

The fair value of the consideration transferred is as follows (in thousands):

Cash	\$ 36,800
Notes payable	21,200
Common stock	29,933
Total consideration fair value	\$ 87,933

We recognized the assets and liabilities for this acquisition based on our estimates of their acquisition date fair values, all in our Nightclubs reportable segment. Based on the allocation of the fair value of the acquisition price, measurement period adjustments, and subject to any working capital adjustments, the amount of goodwill was estimated at \$ 15.4 million. Goodwill represents the excess of the acquisition price fair value over the fair values of the tangible and identifiable intangible assets acquired and liabilities assumed, which is essentially the forward earnings potential of the acquired entities. Goodwill will not be amortized but will be tested at least annually for impairment. Approximately \$ 7.1 million of the recognized goodwill for this transaction will be deductible for tax purposes.

The following is our allocation of the fair value of the acquisition price (in thousands) as of October 18, 2021:

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

14. Acquisitions and Dispositions – continued

Current assets	\$ 386
Property and equipment	19,273
Licenses	47,390
Tradenames	6,934
Leases acquired in-place	261
Deferred tax liability	(1,741)
Total net assets acquired	72,503
Goodwill	15,430
Acquisition price fair value	<u><u>\$ 87,933</u></u>

Licenses and tradenames, except for those associated with certain leased locations, will not be amortized but will be tested at least annually for impairment.

The Company entered into leases with third parties for certain acquired clubs where the real estate was not part of the acquisition.

In connection with this acquisition, we incurred acquisition-related expenses of approximately \$ 414,000 , of which \$ 173,000 was recognized in fiscal 2021 and \$ 241,000 was recognized in fiscal 2022, and in both periods included in selling, general and administrative expenses in our consolidated statements of income. We recorded \$ 1.8 million in measurement period adjustments related to amortization of definite-lived intangibles and debt discount during fiscal 2022.

On November 8, 2021, the Company acquired a club and related real estate in Newburgh, New York for a total acquisition price of \$ 3.5 million, of which \$ 2.5 million was paid in cash at closing and \$ 1.0 million through a seller-financed 7-year promissory note with an interest rate of 4.0 % per annum. The \$ 3.5 million acquisition price was allocated \$ 2.1 million to real estate, \$ 200,000 to tangible assets, and \$ 1.2 million to goodwill, which is deductible for tax purposes. The note is payable \$ 13,669 per month, including principal and interest. See [Note 8](#). The Company incurred approximately \$ 21,000 of acquisition-related costs for this acquisition, of which \$ 11,000 was incurred in fiscal 2021 and \$ 10,000 was incurred in fiscal 2022, both of which were included in selling, general and administrative expenses in our consolidated statements of income.

On December 30, 2021, the Company acquired the real estate of one of its clubs in South Florida, which the Company previously leased, for \$ 7.0 million in an all-cash purchase. At closing, the Company wrote off the balance of its operating lease right-of-use assets and corresponding operating lease liability related to the discontinued lease, both of which amounted to \$ 5.9 million.

On March 1, 2022, the Company acquired real estate in Stafford, Texas for \$ 3.5 million for a future Bombshells location. The Company secured a \$ 2.6 million loan in relation to the purchase. See [Note 8](#).

On March 1, 2022, the Company acquired real estate in Lubbock, Texas for \$ 400,000 to move one of our existing clubs due to eminent domain on the current location. See 2023 Disposition below.

On May 2, 2022, the Company completed an acquisition of a club in Miami, Florida for a total acquisition price of \$ 16.0 million. The acquisition price includes \$ 3.0 million for the real estate property covered in a stock purchase agreement payable in cash at closing, and \$ 13.0 million for the adult entertainment business covered in a separate stock purchase agreement payable as follows: (1) \$ 2.0 million in cash at closing; (2) \$ 6.0 million under a 10 % three-year promissory note payable in 35 equal monthly payments of \$ 79,290 in principal and interest based on a ten-year amortization schedule, with a balloon payment for the remaining principal plus accrued interest due at maturity; and (3) \$ 5.0 million under a 10 % ten-year interest-only promissory note payable in 119 equal monthly payments of \$ 41,667 in interest, with a balloon payment of the total \$ 5.0 million in principal plus accrued interest due at maturity. The Company acquired 100 % of the capital stock of the acquired companies in each of the stock purchase agreements mentioned above. The \$ 5.0 million promissory note may be earlier canceled if there are any regulatory changes that would prohibit the business from operating as an adult entertainment establishment within ten years of the closing date of the stock purchase

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

14. Acquisitions and Dispositions – continued

agreement. Based on recent renewals of licenses of similar businesses in the region where the club operates, the Company believes that the probability of any changes to the regulatory environment is low as of the reporting date and would not materially impact the fair value of the debt.

We recognized the assets and liabilities for this acquisition based on our estimates of their acquisition date fair values, all in our Nightclubs reportable segment. Based on the allocation of the fair value of the acquisition price, measurement period adjustments, and subject to any working capital adjustments, the amount of goodwill was estimated to be \$ 6.8 million. Goodwill represents the excess of the acquisition price fair value over the fair values of the tangible and identifiable intangible assets acquired and liabilities assumed, which is essentially the forward earnings potential of the acquired entities. Goodwill will not be amortized but will be tested at least annually for impairment. The recognized goodwill will not be deductible for tax purposes.

The following is our allocation of the fair value of the acquisition price (in thousands) as of May 2, 2022:

Current assets	\$ 172
Property and equipment	5,336
Licenses	4,900
Tradenames	1,460
Deferred tax liability	(2,627)
Total net assets acquired	9,241
Goodwill	6,759
Acquisition price fair value	<u><u>\$ 16,000</u></u>

Licenses and tradenames will not be amortized but will be tested at least annually for impairment.

In connection with the acquisition, we incurred acquisition-related expenses of approximately \$ 28,000 , which is included in selling, general and administrative expenses in our consolidated statement of income for the year ended September 30, 2022.

On May 23, 2022, the Company acquired real estate in Rowlett, Texas for \$ 3.3 million for a future Bombshells location. The Company secured a \$ 2.2 million loan in relation to the purchase. See [Note 8](#).

On July 21, 2022, the Company acquired a club in Odessa, Texas for a total acquisition price of \$ 1.8 million, of which \$ 1.0 million was for the real estate and \$ 800,000 for the adult entertainment business. The Company paid \$ 1.0 million in cash at closing for the real estate and executed an \$ 800,000 6 % seller-financed promissory note for the business. The promissory note matures in seven years and is payable in 84 equal monthly installments of \$ 11,687 of principal and interest. See [Note 8](#). The \$ 1.8 million acquisition price was allocated \$ 11,000 to current assets, \$ 1.1 million to property and equipment, and \$ 684,000 to licenses.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

14. Acquisitions and Dispositions – continued

On July 27, 2022, the Company completed the acquisition of a club in Hallandale Beach, Florida for a total acquisition price of \$ 25.0 million. The acquisition includes (1) \$ 20.0 million for the adult entertainment business covered in a stock purchase agreement paid \$ 10.0 million in cash at closing and \$ 10.0 million under a 6 % ten-year promissory note payable in 120 equal monthly payments of \$ 111,020 in principal and interest, and (2) \$ 5.0 million for the real estate property covered in an asset purchase agreement payable under a 6 % ten-year promissory note payable in 120 equal monthly payments of \$ 55,510 in principal and interest. In the stock purchase agreement, the Company acquired 100 % of the capital stock of the company which owned the adult entertainment business. The total fair value of the consideration transferred is \$ 23.4 million, which includes a discount on the \$ 10.0 million promissory note to reflect market participant yield expectations.

We recognized the assets and liabilities for this acquisition based on our estimates of their acquisition date fair values, all in our Nightclubs reportable segment. Based on the allocation of the fair value of the acquisition price, measurement period adjustments, and subject to any working capital adjustments, the amount of goodwill was estimated to be \$ 5.6 million. Goodwill represents the excess of the acquisition price fair value over the fair values of the tangible and identifiable intangible assets acquired and liabilities assumed, which is essentially the forward earnings potential of the acquired entities. Goodwill will not be amortized but will be tested at least annually for impairment. The recognized goodwill will not be deductible for tax purposes.

The following is our allocation of the fair value of the acquisition price (in thousands) as of July 27, 2022:

Current assets	\$ 71
Property and equipment	4,921
Licenses	16,810
Deferred tax liability	(3,979)
Total net assets acquired	17,823
Goodwill	5,577
Acquisition price fair value	<u><u>\$ 23,400</u></u>

On August 18, 2022, the Company purchased real estate in Huntsville, Alabama amounting to \$ 2.1 million for a future Bombshells location. The Company paid \$ 525,000 in cash at closing and entered into a bank financing for the \$ 1.6 million remainder (see [Note 8](#)).

On September 12, 2022, the Company entered into a joint venture with a private investment company to acquire real estate in Austin, Texas amounting to \$ 2.2 million for a future Bombshells location. The Company has a 51 % interest in the joint venture and paid its \$ 1.1 million share for the real estate purchase while the investment of the private investment company was recorded as noncontrolling interest in our consolidated balance sheet.

2022 Dispositions

On October 8, 2021, the Company sold one of its clubs in South Houston for \$ 300,000 .

On July 12, 2022, the Company received \$ 6.0 million from the Philadelphia Regional Port Authority for one of the Company's rental properties, with a carrying value of \$ 4.9 million, due to eminent domain. The Company paid the current lessee a termination fee of \$ 250,000 , which is included in other charges, net in our consolidated statement of income. The Company used \$ 2.1 million of the proceeds to pay down a loan related to the property.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

14. Acquisitions and Dispositions – continued

2023 Acquisitions

On October 10, 2022, the Company purchased real estate in Lubbock, Texas amounting to \$ 3.4 million for a future Bombshells location. The Company paid \$ 1.2 million in cash at closing and obtained bank financing for the \$ 2.3 million remainder (see [Note 8](#)). The site includes extra land that will be listed for sale once the Bombshells unit is completed.

On October 11, 2022, the Company purchased a hangar in Arcola, Texas amounting to \$ 754,000 in cash.

On October 26, 2022, the Company completed the acquisition of a club in Dickinson, Texas for a total agreed acquisition price of \$ 9.0 million (with an acquisition date fair value of \$ 8.9 million based on certain legal contingencies that existed pre-acquisition). The acquisition includes (1) \$ 2.5 million for the adult entertainment business covered in a stock purchase agreement paid fully in cash at closing and (2) \$ 6.5 million for the real estate property covered in a real estate purchase agreement paid \$ 1.5 million in cash at closing and \$ 5.0 million under a 6 % 15-year promissory note (see [Note 8](#)). In the stock purchase agreement, the Company acquired 100 % of the capital stock of the company which owned the adult entertainment business. The acquisition gives the Company its first adult club in the Galveston, Texas area market.

The following is our allocation of the fair value of the acquisition price (in thousands) as of October 26, 2022:

Current assets	\$ 64
Property and equipment	4,884
Licenses	1,170
Tradename	340
Accrued liability	(95)
Deferred tax liability	(363)
Total net assets acquired	6,000
Goodwill	2,905
Acquisition price fair value	<u><u>\$ 8,905</u></u>

We believe that in this acquisition goodwill represents the existing customer base of the club in the area and the added synergy profitability expansion when we implement the Company's processes into the club. Goodwill, licenses, and tradename will not be amortized but will be tested at least annually for impairment. Approximately \$ 1.5 million of the recognized goodwill will be deductible for tax purposes.

In connection with this acquisition, we incurred approximately \$ 23,000 in acquisition-related expenses during 2023, which is included in selling, general and administrative expenses in our consolidated statement of income. From the date of acquisition until September 30, 2023, the club contributed revenues \$ 2.0 million and loss from operations of \$ 3.1 million, which are included in our consolidated statement of income. The Company is not providing supplemental pro forma disclosures for this acquisition as it does not materially contribute to the consolidated operations of the Company.

On November 8, 2022, the Company purchased real estate in Aurora, Colorado amounting to \$ 850,000 in cash for a future Bombshells location.

On December 5, 2022, the Company purchased real estate in Central City, Colorado amounting to \$ 2.5 million in cash for the development of a Rick's Cabaret Steakhouse and Casino business.

On December 16, 2022, the Company purchased real estate in Fort Worth, Texas amounting to \$ 2.4 million in cash. The property has two buildings, one of which the Company is leasing out to an existing tenant and the other building the Company is remodeling for future adult club operations.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

14. Acquisitions and Dispositions – continued

On December 20, 2022, the Company purchased a food hall property in Greenwood Village, Colorado for \$ 5.3 million, including direct transaction costs and net of certain accrued taxes amounting to \$ 102,000. The purchase price was paid \$ 1.9 million in cash at closing and \$ 3.3 million under a 6.67 % five-year promissory note (see [Note 8](#)). The Company allocated \$ 2.1 million to land, \$ 2.6 million to building improvements, \$ 98,000 to furniture, fixtures and equipment, and \$ 565,000 to in-place leases based on their relative fair values. The in-place lease intangible has a weighted average amortization period of 1.7 years.

On February 6, 2023, in view of the increasing business presence of the Company in the Denver, Colorado area, the Company acquired a non-income-producing corporate property for \$ 458,000 in cash, to be used for office space and employee housing.

On February 6, 2023, the Company purchased real estate in Central City, Colorado amounting to \$ 2.2 million in cash for the development of another casino business.

On February 7, 2023, the Company completed the acquisition of a previously franchised Bombshells location in San Antonio, Texas for a total acquisition price of \$ 3.2 million. The transaction was effected through a membership interest purchase agreement under which a subsidiary of the Company purchased 100 % of the issued and outstanding membership interests of the target limited liability company that owns and operates the Bombshells location from the six previous owners of the entity (the "Sellers"). At acquisition date, the Sellers were paid \$ 1.2 million in cash and were issued six seller-financed promissory notes totaling \$ 2.0 million (see [Note 8](#)). The Company allocated the acquisition price \$ 61,000 to inventory, \$ 2.7 million to property and equipment, and \$ 480,000 to favorable lease intangible and right-of-use assets (which both have amortizable life of 13.4 years), net of lease liability.

On March 16, 2023, the Company and certain of its subsidiaries completed the acquisition of five gentlemen's clubs, five related real estate properties, associated intellectual properties, and certain automated teller machines for a total agreed acquisition price of \$ 66.5 million, payable with a total of \$ 25.0 million in cash, a total of \$ 25.5 million in 10-year 7 % seller financing promissory notes, and 200,000 restricted shares of common stock based on an \$ 80 per share price, subject to lock-up, leak out restrictions. The five clubs, which are all located in Texas, were purchased through four different asset purchase agreements and one stock purchase agreement, under each of which a newly formed wholly-owned subsidiary of the Company acquired from each club-owning entity all of the tangible and intangible assets and personal property used in the business of that club, except for certain excluded assets. The fair value of the common stock consideration was discounted due to lack of marketability during the lock-up period. The cash consideration at closing was partially funded by the \$ 10.0 million line of credit secured by the Company on March 9, 2023 (see [Note 8](#)).

The fair value of the consideration transferred is as follows:

Cash	\$ 25,000
Notes payable	25,500
Common stock	12,847
Total consideration fair value	\$ 63,347

We recognized the assets and liabilities for this acquisition based on our estimates of their acquisition date fair values, all in our Nightclub reportable segment. Upon finalization of our valuation of the assets acquired in this transaction, we reallocated certain amounts from goodwill to indefinite-lived intangible assets. Based on the allocation of the fair value of the acquisition price, measurement period adjustments, and subject to any working capital adjustments, the amount of goodwill is estimated at \$ 4.3 million. Goodwill represents the excess of the acquisition price fair value over the fair values of the tangible and identifiable intangible assets acquired and liabilities assumed, which is essentially the forward earnings potential of the acquired entities. This acquisition also gives the Company a bigger market share in the Hispanic demographic in the Texas metropolitan areas. Goodwill will not be amortized but will be tested at least annually for impairment. Approximately \$ 4.3 million of the recognized goodwill will be deductible for tax purposes.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

14. Acquisitions and Dispositions – continued

The following is our allocation of the fair value of the acquisition price (in thousands) as of March 16, 2023:

Current assets	\$ 632
Property and equipment	16,570
Licenses	36,110
Tradename	6,328
Accounts payable	(632)
Total net assets acquired	59,008
Goodwill	4,339
Acquisition price fair value	<u><u>\$ 63,347</u></u>

Licenses and tradenames will not be amortized but will be tested at least annually for impairment.

In connection with this acquisition, we incurred approximately \$ 304,000 in acquisition-related expenses during 2023, which is included in selling, general and administrative expenses in our consolidated statement of income. From the date of acquisition until September 30, 2023, the clubs contributed revenues of \$ 16.1 million and income from operations of \$ 4.8 million, which are included in our consolidated statement of income.

The following table presents the unaudited pro forma combined results of operations of the Company and the five acquired clubs and related assets in the March 16, 2023 acquisition transaction above as though the acquisition occurred at the beginning of fiscal 2022 (in thousands, except per share amount and number of shares):

	2023	2022
Pro forma revenues	\$ 306,729	\$ 291,764
Pro forma net income attributable to RCIHH common stockholders	\$ 28,329	\$ 51,198
Pro forma earnings per share - basic and diluted	\$ 3.01	\$ 5.34
Pro forma weighted average number of common shares outstanding - basic and diluted	9,426,942	9,583,445

The above unaudited pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2022. The unaudited pro forma financial information reflects material, nonrecurring adjustments directly attributable to the acquisition including acquisition-related expenses, interest expense, and any related tax effects. The unaudited pro forma financial information includes adjustments related to changes in recognized expenses caused by the fair value of assets acquired, such as depreciation and amortization and related tax effects. Pro forma net income and pro forma earnings per share include the impact of acquisition-related expenses and interest expense related to the \$ 10.0 million line-of-credit facility (see [Note 8](#)) and the nine seller-financed notes in the acquisition as if they were incurred as of the first day of fiscal 2022. Pro forma weighted average number of common shares outstanding includes the impact of 200,000 shares of our common stock issued as partial consideration for the acquisition.

On June 20, 2023, the Company purchased a restaurant parcel located in a condominium building in Denver, Colorado amounting to \$ 4.6 million for a future Bombshells location. The purchase price was paid \$ 1.7 million in cash and \$ 2.9 million under a 7.12 % five-year promissory note (see [Note 8](#)).

On August 3, 2023, the Company purchased real estate and office space in Central City, Colorado amounting to \$ 2.9 million in cash to house administrative operations in the region.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

14. Acquisitions and Dispositions – continued

2023 Disposition

On November 4, 2022, the Company received \$ 1.0 million from the Texas Department of Transportation for one of the Company's club properties in Lubbock, Texas due to eminent domain.

On June 29, 2023, the Company sold a property with a carrying value of \$ 1.1 million for \$ 1.5 million in cash. The Company used \$ 904,000 of the proceeds to pay off a loan related to the property.

See also [Note 6](#) for dispositions of real estate properties that had been classified as held-for-sale.

15. Quarterly Results of Operations (Unaudited)

The following tables summarize unaudited quarterly data for fiscal 2023, 2022, and 2021 (in thousands, except share and per share data):

	For the Three Months Ended				
	March 31,		June 30,		September 30, 2023
	December 31, 2022	2023	2023		
Revenues ⁽¹⁾	\$ 69,968	\$ 71,517	\$ 77,055	\$ 75,250	
Income from operations ⁽¹⁾	\$ 16,898	\$ 13,427	\$ 15,515	\$ 5,644	
Net income attributable to RCIHH stockholders ⁽¹⁾	\$ 10,238	\$ 7,732	\$ 9,085	\$ 2,191	
Earnings per share ⁽¹⁾					
Basic and diluted	\$ 1.11	\$ 0.83	\$ 0.96	\$ 0.23	
Weighted average number of common shares outstanding					
Basic and diluted	9,230,258	9,265,781	9,430,225	9,417,166	
Dividends per share declared and paid	\$ 0.05	\$ 0.06	\$ 0.06	\$ 0.06	
For the Three Months Ended					
	March 31,		June 30,		September 30, 2022
	December 31, 2021	2022	2022		
	\$ 61,836	\$ 63,692	\$ 70,714	\$ 71,378	
Revenues ⁽²⁾	\$ 15,911	\$ 17,081	\$ 20,507	\$ 17,960	
Income from operations ⁽²⁾	\$ 10,575	\$ 10,952	\$ 13,902	\$ 10,612	
Net income attributable to RCIHH stockholders ⁽²⁾					
Earnings per share ⁽²⁾					
Basic and diluted	\$ 1.12	\$ 1.15	\$ 1.48	\$ 1.15	
Weighted average number of common shares outstanding					
Basic and diluted	9,407,519	9,489,085	9,389,675	9,249,864	
Dividends per share declared and paid	\$ 0.04	\$ 0.05	\$ 0.05	\$ 0.05	

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

15. Quarterly Results of Operations (Unaudited) – continued

	For the Three Months Ended				
	December 31, 2020		March 31, 2021		June 30, 2021
	2020	2021	2021	September 30, 2021	
Revenues	\$ 38,398	\$ 44,059	\$ 57,860	\$ 54,941	
Income from operations ⁽³⁾	\$ 6,583	\$ 9,841	\$ 18,507	\$ 3,617	
Net income attributable to RCIHH stockholders ⁽³⁾	\$ 9,643	\$ 6,091	\$ 12,302	\$ 2,300	
Earnings per share ⁽³⁾					
Basic and diluted	\$ 1.07	\$ 0.68	\$ 1.37	\$ 0.26	
Weighted average number of common shares outstanding					
Basic and diluted	9,019,088	8,999,910	8,999,910	8,999,910	
Dividends per share declared and paid	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.04

- (1) Fiscal year 2023 results of operations mainly impacted by the six newly acquired clubs and the lower same-store sales. Net income attributable to RCIHH stockholders and earnings per share were impacted by \$ 12.6 million in asset impairments (\$ 662,000 in the second quarter, \$ 2.6 million in the third quarter, and \$ 9.3 million in the fourth quarter) and \$ 3.8 million in lawsuit settlements (\$ 3.1 million in the second quarter, \$ 63,000 in the third quarter, and \$ 576,000 in the fourth quarter). Quarterly effective income tax expense (benefit) rate was 22.8 %, 21.8 %, 20.1 %, and (39.6)% from first to fourth quarter, respectively, including the impact of the release of a \$ 176,000 deferred tax asset valuation allowance and the pretax loss in the fourth quarter.
- (2) Fiscal year 2022 results of operations were significantly higher than prior year due to the fifteen acquired clubs and one new Bombshells. Net income attributable to RCIHH stockholders and earnings per share were impacted by \$ 1.9 million in asset impairments (\$ 1.7 million in the third quarter and \$ 166,000 in the fourth quarter) and \$ 2.4 million gain on sale or disposition of businesses and assets (\$ 342,000 in the first quarter, \$ 58,000 in the second quarter, \$ 266,000 in the third quarter, and \$ 1.7 million in the fourth quarter). Quarterly effective income tax expense rate was 21.7 %, 23.4 %, 21.3 %, and 27.1 % from first to fourth quarter, respectively, including the impact of the \$ 343,000 deferred tax asset valuation allowance in the fourth quarter.
- (3) Fiscal year 2021 revenues were significantly higher compared to prior year, except for the first quarter, which was still affected by the lockdowns and social restrictions of the COVID-19 pandemic. Net income attributable to RCIHH stockholders and earnings per share were heavily impacted by the gain on debt extinguishment (\$ 4.9 million in the first quarter and \$ 380,000 in the second quarter), asset impairments totaling \$ 13.6 million (\$ 1.4 million in the second quarter, \$ 271,000 in the third quarter, and \$ 11.9 million in the fourth quarter), and gain on insurance totaling \$ 1.3 million (\$ 197,000 in the first quarter, \$ 12,000 in the second quarter, and \$ 1.0 million in the fourth quarter). Quarterly effective income tax expense (benefit) rate was (4.2)%, 24.3 %, 24.4 %, and (210.4)% from first to fourth quarter, respectively, including the impact of the release of a \$ 462,000 deferred tax asset valuation allowance in the fourth quarter.

Our nightclub operations are normally affected by seasonal factors. Historically, we have experienced reduced revenues from April through September (our fiscal third and fourth quarters) with the strongest operating results occurring during October through March (our fiscal first and second quarters). Our revenues in certain markets are also affected by sporting events that cause unusual changes in sales from year to year.

16. Segment Information

The Company owns and operates adult nightclubs and Bombshells Restaurants and Bars. The Company has identified such segments based on management responsibility and the nature of the Company's products, services and costs. There are no major distinctions in geographical areas served as all operations are in the United States. The Company measures segment profit (loss) as income (loss) from operations. Segment assets are those assets controlled by each reportable segment. The Other category below includes our media and energy drink divisions that are not significant to the consolidated financial statements.

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RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

16. Segment Information – continued

Below is the financial information related to the Company's reportable segments (in thousands):

	2023	2022	2021
Revenues (from external customers)			
Nightclubs	\$ 236,748	\$ 206,251	\$ 137,348
Bombshells	55,723	59,925	56,621
Other	1,319	1,444	1,289
	\$ 293,790	\$ 267,620	\$ 195,258
Income (loss) from operations			
Nightclubs	\$ 73,187	\$ 82,798	\$ 43,815
Bombshells	6,502	11,504	13,264
Other	(1,446)	57	35
General corporate	(26,759)	(22,900)	(18,566)
	\$ 51,484	\$ 71,459	\$ 38,548
Capital expenditures			
Nightclubs	\$ 11,840	\$ 17,477	\$ 6,890
Bombshells	16,578	3,586	5,895
Other	8,400	841	157
General corporate	3,566	2,099	569
	\$ 40,384	\$ 24,003	\$ 13,511
Depreciation and amortization			
Nightclubs	\$ 10,871	\$ 9,604	\$ 5,494
Bombshells	2,574	1,783	1,824
Other	495	85	87
General corporate	1,211	919	833
	\$ 15,151	\$ 12,391	\$ 8,238
	September 30, 2023	September 30, 2022	
Total assets			
Nightclubs	\$ 483,563	\$ 437,096	
Bombshells	85,215	62,021	
Other	6,936	2,635	
General corporate	35,170	28,986	
	\$ 610,884	\$ 530,738	

Excluded from revenues in the table above are intercompany rental revenues of the Nightclubs segment amounting to \$ 16.6 million, \$ 14.0 million, and \$ 11.5 million for 2023, 2022, and 2021, respectively, and intercompany sales of Robust Energy Drink of Other segment amounting to \$ 254,000 , \$ 261,000 , and \$ 141,000 for the same respective years. These intercompany revenue amounts are eliminated upon consolidation.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

16. Segment Information – continued

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.

Certain real estate assets previously wholly assigned to Bombshells have been subdivided and allocated to other future development or investment projects. Accordingly, those asset costs have been transferred out of the Bombshells segment.

As of September 30, 2022, we reclassified \$ 9.0 million of goodwill from Corporate to Nightclubs to conform to current year presentation. See [Note 2](#).

17. Related Party Transactions

Presently, our Chairman and President, Eric Langan, personally guarantees all of the commercial bank indebtedness of the Company. Mr. Langan receives no compensation or other direct financial benefit for any of the guarantees. The balance of our commercial bank indebtedness, net of debt discount and issuance costs, as of September 30, 2023 and 2022 was \$ 119.2 million and \$ 115.1 million, respectively.

Included in the \$ 17.0 million borrowing on October 12, 2021 (see [Note 8](#)) are notes borrowed from related parties—one note for \$ 500,000 (Ed Anakar, President of RCI Management Services, Inc. and our Director of Operations) and another note for \$ 150,000 (from a brother of Company CFO, Bradley Chhay, see above) in which the terms of the notes are the same as the rest of the lender group. Refer to [Note 8](#) for October 2023 extension of term of promissory notes.

We used the services of Nottingham Creations, and previously Sherwood Forest Creations, LLC, both furniture fabrication companies that manufacture tables, chairs and other furnishings for our Bombshells locations, as well as providing ongoing maintenance. Nottingham Creations is owned by a brother of Eric Langan (as was Sherwood Forest). Amounts billed to us for goods and services provided by Nottingham Creations and Sherwood Forest were approximately \$ 195,000 in fiscal 2023, \$ 207,000 in fiscal 2022, and \$ 118,000 in fiscal 2021. As of September 30, 2023 and 2022, we owed Nottingham Creations and Sherwood Forest \$ 10,700 and \$ 92,808 , respectively, in unpaid billings.

TW Mechanical LLC ("TW Mechanical") provided plumbing and HVAC services to both a third-party general contractor providing construction services to the Company, as well as directly to the Company during fiscal 2023, 2022, and 2021. A son-in-law of Eric Langan owns a 50 % interest in TW Mechanical. Amounts billed by TW Mechanical to the third-party general contractor were approximately \$ 443,295 , \$ 3,809 , and \$ 0 for the fiscal years 2023, 2022, and 2021, respectively. Amounts billed directly to the Company were approximately \$ 9,430 , \$ 133,000 , and \$ 425,000 for the fiscal years 2023, 2022, and 2021, respectively. As of September 30, 2023 and 2022, the Company owed TW Mechanical approximately \$ 0 and \$ 9,338 , respectively, in unpaid direct billings.

18. Leases

The Company leases certain facilities and equipment under operating leases per ASC 842. These leases include renewal or termination options for varying periods which we deemed reasonably certain to exercise. This determination is based on our consideration of certain economic, strategic and other factors that we evaluate at lease commencement date and reevaluate throughout the lease term.

Some leasing arrangements require variable payments that are dependent on usage or may vary for other reasons, such as payments for insurance and tax payments and additional lease payments contingent on sales. The variable portion of lease payments is not included in our right-of-use assets or lease liabilities. Rather, variable payments, other than those dependent upon an index or rate, are expensed when the obligation for those payments is incurred and are included in lease expenses recorded in selling, general and administrative expenses in our consolidated statement of income.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

18. Leases – continued

We have elected to apply the short-term lease exception for all underlying asset classes, which mainly includes equipment leases. That is, leases with a term of 12 months or less are not recognized on the balance sheet, but rather expensed on a straight-line basis over the lease term. We do not include significant restrictions or covenants in our lease agreements, and residual value guarantees are generally not included within our operating leases.

Future maturities of operating lease liabilities as of September 30, 2023 are as follows (in thousands):

	Principal Portion	Interest Portion	Total Payments
October 2023 - September 2024	\$ 2,977	\$ 2,056	\$ 5,033
October 2024 - September 2025	3,227	1,881	5,108
October 2025 - September 2026	3,516	1,691	5,207
October 2026 - September 2027	3,532	1,487	5,019
October 2027 - September 2028	2,982	1,300	4,282
Thereafter	21,918	4,630	26,548
	<hr/> <u>\$ 38,152</u>	<hr/> <u>\$ 13,045</u>	<hr/> <u>\$ 51,197</u>

Total lease expense under ASC 842 was included in selling, general and administrative expenses in our consolidated statement of income, except for sublease income which was included in other revenue, for the years ended September 30, 2023, 2022, and 2021 as follows (in thousands):

	2023	2022	2021
Operating lease expense – fixed payments	\$ 5,166	\$ 4,738	\$ 3,325
Variable lease expense	1,629	1,397	349
Short-term equipment and other lease expense (includes \$ 357 , \$ 258 and \$ 298 recorded in advertising and marketing for fiscal 2023, 2022, and 2021, respectively, and \$ 557 , \$ 435 and \$ 397 recorded in repairs and maintenance, respectively; see Note 4)	1,325	1,264	955
Sublease income	—	(4)	(6)
Total lease expense, net	<hr/> <u>\$ 8,120</u>	<hr/> <u>\$ 7,395</u>	<hr/> <u>\$ 4,623</u>

Other information:

Operating cash outflows from operating leases	\$ 7,949	\$ 7,200	\$ 4,522
Weighted average remaining lease term	10.5 years	11 years	12 years
Weighted average discount rate	5.8 %	5.6 %	6.0 %

In relation to certain rent concessions that we received from certain of our lessors in view of the COVID-19 pandemic, we accounted for those rent concessions as deferral of payments as if the lease is unchanged. Any reduction in total lease expense during the period caused by either an extension of the lease term or a forgiveness of certain lease payments is accounted for as variable lease payment adjustments.

We recorded impairment charges of operating lease right-of-use assets amounting to \$ 1.0 million, \$ 0 , and \$ 0 during fiscal years 2023, 2022, and 2021, respectively.

We recorded third-party operating lease revenue under ASC 842 amounting to \$ 1.8 million, \$ 1.6 million, and \$ 1.5 million for fiscal 2023, 2022, and 2021, respectively. Minimum future base rentals are as follows: \$ 1.7 million for 2024, \$ 1.4 million for 2025, \$ 380,000 for 2026, \$ 320,000 for 2027, \$ 292,000 for 2028, and \$ 802,000 thereafter.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

19. Subsequent Events

Debt

On October 25, 2023, the Company entered into a debt modification transaction under which 26 investors holding a total principal amount of \$ 15.7 million in unsecured promissory notes agreed to extend the maturity dates of such notes, with no other changes to the terms and conditions of the original promissory notes, which original promissory notes were issued in October 2021 and had original maturity dates in October 2024. The transaction was effected by the 26 investors returning for cancellation their original promissory notes, with us issuing new amended and restated promissory notes to such investors. The original promissory notes will be deemed cancelled as of the end of the day on October 31, 2023, and the new amended promissory notes will have an original issue date, and be deemed effective, as of November 1, 2023.

Other than the extension of the maturity dates, there were no other changes to the terms and conditions of the original promissory notes (except for the reduction in principal, as described below, and the corresponding reduction in monthly installments of principal and interest). The new amended notes will continue to bear interest at the rate of 12 % per annum. Of the new amended promissory notes, \$ 9.1 million are payable interest-only monthly (or quarterly) in arrears, with a final lump sum payment of principal and accrued and unpaid interest due on October 1, 2026. The remaining \$ 6.6 million in promissory notes are payable in monthly payments of principal and interest based on a 10 -year amortization period, with the balance of the entire principal amount together with all accrued and unpaid interest due and payable in full on November 1, 2027. The original promissory notes that were returned and cancelled as consideration for the issuance of the \$ 6.6 million in new amended promissory notes had an original principal amount of \$ 7.5 million in October 2021.

On November 17, 2023, the Company closed on a construction loan agreement with a bank lender for a total amount of \$ 7.2 million bearing an interest rate of 8.5 % per annum for the construction of a Bombshells restaurant in Rowlett, Texas. The promissory note is payable in 120 monthly payments, the first 18 months of which will be interest-only. The succeeding 101 monthly payments will be payable in equal installments of \$ 63,022 in principal and interest, and the remaining balance in principal and accrued interest payable on the 120th month.

Share Repurchase

Subsequent to September 30, 2023 through the filing date of this report, we purchased 37,954 shares of the Company's common stock at a cost of \$ 2.1 million. These shares were subsequently retired.

RCI HOSPITALITY HOLDINGS, INC.
Schedule of Valuation and Qualifying Accounts
(Amounts in Thousands)

	Balance at beginning of year	Charged to costs and expenses ⁽¹⁾	Deductions ⁽²⁾	Balance at end of year
Allowance for doubtful accounts receivable				
Fiscal 2021	\$ 261	\$ 215	\$ (94)	\$ 382
Fiscal 2022	\$ 382	\$ 191	\$ (543)	\$ 30
Fiscal 2023	\$ 30	\$ 47	\$ (15)	\$ 62
Allowance for doubtful notes receivable				
Fiscal 2021	\$ 182	\$ (80)	\$ —	\$ 102
Fiscal 2022	\$ 102	\$ 753	\$ (855)	\$ —
Fiscal 2023	\$ —	\$ —	\$ —	\$ —
Deferred tax asset valuation allowance⁽³⁾				
Fiscal 2021	\$ 1,273	\$ —	\$ (632)	\$ 641
Fiscal 2022	\$ 641	\$ 343	\$ —	\$ 984
Fiscal 2023	\$ 984	\$ —	\$ (176)	\$ 808

(1) Charged to bad debts expense (under other selling, general and administrative expenses) in the consolidated statements of income.

(2) Written off against gross receivable and allowance.

(3) Included in deferred tax liability, net in the consolidated balance sheets.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There have been no disagreements with accountants on accounting and financial disclosure.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this report, an evaluation was carried out by certain members of Company management, with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the effectiveness of the Company's disclosure controls and procedures (as defined in Securities and Exchange Commission's ("SEC") Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act") as of September 30, 2023. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the CEO and the CFO, to allow timely decisions regarding required disclosures.

Due to material weaknesses in internal control over financial reporting described below, management concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2023. Notwithstanding the existence of these material weaknesses, management believes that the consolidated financial statements in this annual report filed on Form 10-K present, in all material respects, the Company's financial condition as reported, in conformity with United States Generally Accepted Accounting Principles ("U.S. GAAP").

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets; (2) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of and with the participation of our management, we assessed the effectiveness of our internal control over financial reporting as of September 30, 2023, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework (2013). A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. We have identified material weaknesses in internal control related to (1) proper design and implementation of controls over management's review of the Company's accounting for business combinations, specifically related to the identification of and accounting for, intangible assets acquired in a business combination, and over the precision of management's review of certain valuation assumptions; (2) the impairment of goodwill, indefinite-lived intangibles, and long-lived assets, specifically over the precision of management's review of certain assumptions; and (3) ineffective information technology general controls (ITGCs) in the areas of user access and program change-management over certain information technology ("IT") systems that support the Company's financial reporting processes. Our business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted. We believe that these control deficiencies were a result of inadequate IT controls over the review of user access and imprecise documentation of procedures related to program change management. Additionally, we rely upon a variety of outsourced IT service providers for key elements of the technology infrastructure impacting our financial reporting process. Certain outsourced IT service providers could not provide System and Organization Controls ("SOC") reports for periods that closely align with our fiscal year end. Given

that management did not effectively assess the design and operation of these outsourced IT service providers' internal controls, some of our controls over IT systems and business processes were also deemed ineffective, but only to the extent that we rely upon information that was subject to the outsourced IT service providers' control environment. These deficiencies may have an impact on our financial statements, account balances, and disclosures. Based on our evaluation, our management, with the participation of our chief executive officer and chief financial officer, concluded that our internal control over financial reporting was not effective as of September 30, 2023.

Following identification of these material weaknesses, and prior to filing this Annual Report on Form 10-K, we completed substantive procedures for the year ended September 30, 2023. Based on these procedures, management believes that the consolidated financial statements included in this Form 10-K have been prepared in accordance with U.S. GAAP. Our CEO and CFO have certified that, based on their knowledge, the financial statements, and other financial information included in this Form 10-K, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Form 10-K.

The Company's independent registered public accounting firm, Marcum LLP, has expressed an unqualified opinion on our financial statements and an adverse opinion on our internal control over financial reporting as of September 30, 2023, in the audit report that appears at the end of Part II of this Annual Report on Form 10-K.

Remediation Plan for Existing Material Weaknesses

Review of Accounting for Business Combinations

Management is committed to the remediation of the material weakness described above. As such, controls will be added to both increase precision of management's review of each component of business combinations, and if necessary, retain the services of a third-party consultant to assist in the valuation and accounting for intangible assets acquired in a business combination.

Review of Accounting for Impairment of Goodwill and Intangible Assets

As most of the assumptions used in the valuation models employed in impairment analyses are subjective in nature, Management will employ additional controls to validate these assumptions, including the engagement of a third-party consultant to assist developing valuation models and establishing sound and reasonable assumptions.

Information Technology General Controls

As a result of the material weakness, we have initiated and will continue to implement remediation measures to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively. The remediation actions include: (i) strengthening and enhancing the review and documentation procedures in our controls over user access review; (ii) define and communicate clear and concise program change management policy and procedures; (iii) enhancing the reporting requirements of accounting system audit logs; (vi) continuous improvement over our ITGC controls related to third party applications; and (vi) enhanced quarterly reporting on the remediation measures to the Audit Committee of the board of directors.

It is our belief that these added controls will effectively remediate the existing material weaknesses.

We believe that these actions will remediate the material weaknesses. The material weaknesses will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of these material weaknesses will be completed prior to the end of fiscal 2024.

Changes in Internal Control Over Financial Reporting

During fiscal year 2023, the Company completed several business combinations as described in Note 14 - Acquisitions and Dispositions to our audited Consolidated Financial Statements.

- On October 26, 2022, the Company completed the acquisition of a club in Dickinson, Texas.
- On March 16, 2023, the Company and certain of its subsidiaries completed the acquisition of five gentlemen's clubs, five related real estate properties, associated intellectual properties, and certain automated teller machines.

The scope of management's assessment of the effectiveness of the Company's disclosure controls and procedures for fiscal year end 2023 did not include the internal control over the financial reporting of these acquisitions, in accordance with the SEC's staff guidance that permits exclusion of acquisitions from their final assessment of internal control over financial reporting for the fiscal year in which the acquisition occurred. Due to the size, breadth and complexity of the acquisition of these businesses, management's evaluation of internal control over financial reporting for the fiscal year ended September 30, 2023, did exclude those internal control activities. The businesses are wholly owned subsidiaries whose total assets and total revenues are excluded from management's assessment and represent approximately 7% and 6%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2023.

Except for the remediation efforts as discussed above, there have been no other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Stockholders and Board of Directors of
RCI Hospitality Holdings, Inc.

Adverse Opinion on Internal Control over Financial Reporting

We have audited RCI Hospitality Holdings, Inc.'s (the "Company's") internal control over financial reporting as of September 30, 2023, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weaknesses described in the following paragraph on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of September 30, 2023, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in Management's Annual Report on Internal Control Over Financial Reporting:

- The Company had ineffective design, implementation and, operation of controls over program change management, user access and vendor management controls to ensure:
 - 1) IT program and data changes affecting the Company's financial IT applications and underlying accounting records, are identified, tested, authorized, and implemented appropriately to validate that data produced by its relevant IT system(s) were complete and accurate. Automated process-level and manual controls that are dependent upon the information derived from such financially relevant systems were also determined to be ineffective as a result of such deficiency;
 - 2) appropriate restrictions that would adequately prevent users from gaining inappropriate access to the financially relevant systems;
 - 3) key third party service provider SOC reports were obtained and reviewed.
- Ineffective design, implementation, and operation of controls, which include management review controls, over the accounting for business combinations.
- Ineffective design, implementation, and operation of controls, which include management review controls, over the Company's assessments of potential impairment.

These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the fiscal 2023 consolidated financial statements and financial statement schedule, and this report does not affect our report dated December 14, 2023 on those consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheet as of September 30, 2023 and the related consolidated statement of operations, changes in equity, and cash flows and the related financial statement schedule for the year ended September 30, 2023 of the Company and our report dated December 14, 2023 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

Explanatory Paragraph – Excluded Subsidiaries

As described in "Management's Annual Report on Internal Control Over Financial Reporting", management has excluded the Company's acquisition of two businesses that occurred during the year ended September 30, 2023, from its assessment of internal control over financial reporting as of September 30, 2023 because these entities were acquired by the Company in purchase business combinations during the year ended September 30, 2023. We have also excluded these two businesses from our audit of internal control over financial reporting. These businesses are wholly owned subsidiaries whose

combined total assets and total revenues represent approximately 7% and 6%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2023.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management Annual Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that degree of compliance with the policies or procedures may deteriorate.

/s/ Marcum LLP

Marcum LLP
Marlton, New Jersey
December 14, 2023

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

DIRECTORS AND EXECUTIVE OFFICERS

Our Directors are elected annually and hold office until the next annual meeting of our stockholders or until their successors are elected and qualified. Officers are appointed by the board of directors annually and serve at the discretion of the board of directors (subject to any existing employment agreements). There is no family relationship between or among any of our directors and executive officers. Our board of directors consists of six persons. The following table sets forth our Directors and executive officers as of December 13, 2023:

Name	Age	Position
Eric S. Langan	55	Director, Chairman, Chief Executive Officer, President
Bradley Chhay	40	Chief Financial Officer
Travis Reese	54	Director and Executive Vice President
Luke Lirot	67	Director
Yura Barabash	49	Director
Elain J. Martin	67	Director
Arthur Allan Priaulx	83	Director

Eric S. Langan has been a director since 1998, and our President, CEO and Chairman since 1999. He began his career in the hospitality industry in 1989 and has developed significant expertise in sports bar/restaurants and adult entertainment nightclubs, including related areas of real estate development and finance. Mr. Langan built the XTC Cabaret nightclub brand and merged it into RCI in 1998, expanding the scope of the company. He has been instrumental in bringing professional marketing, management, finance, and technology practices and systems to the gentlemen's club industry. As one of the original founders of the National Association of Club Executives (ACE), Mr. Langan has been an active member of its board of directors since 1999. Through these activities, Mr. Langan has acquired the knowledge and skills necessary to successfully operate adult entertainment businesses.

Involvement in certain legal proceedings: On September 21, 2020, as part of the settlement of a civil administrative proceeding with the SEC, the Company, Mr. Langan, and Phil Marshall (our former chief financial officer) agreed, without admitting or denying the findings, to a cease-and-desist order regarding certain sections of the Securities Exchange Act of 1934 and certain rules promulgated thereunder.

The SEC's order as to the Company, Mr. Langan, and Mr. Marshall found that, from fiscal 2014 through 2019, the Company failed to disclose a total of \$615,000 in executive compensation in the form of perquisites. According to the order, these undisclosed perquisites included the cost of the personal use of the Company's aircraft and Company-provided vehicles, reimbursements for personal airline flights, charitable corporate contributions to the school two of Mr. Langan's children attended, and housing costs and meal allowance for Mr. Marshall. In addition, the order found that the Company failed to disclose related party transactions involving Mr. Langan's father and brother and a director's brother. The order further found that the Company failed to keep books and records that allowed it to report, and lacked sufficient internal controls concerning, these executive perquisites and related party transactions.

The SEC's order as to the Company, Mr. Langan, and Mr. Marshall found that the Company and Mr. Langan violated, and Mr. Langan and Mr. Marshall caused the Company to violate, the proxy solicitation provisions of Section 14(a) of the Securities Exchange Act of 1934 and Rules 14a-3 and 14a-9 thereunder. The order further found that the Company violated, and Mr. Langan and Mr. Marshall caused the Company to violate, the reporting provisions of Section 13(a) of the Exchange Act and Rules 13a-1 and 12b-20 thereunder, the books and records provisions of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, and the disclosure controls provision of Rule 13a-15(a) under the Exchange Act. The Company, Mr. Langan, and Mr. Marshall agreed, without admitting or denying the SEC's findings, to a cease-and-desist order and to pay civil penalties in the amounts of \$400,000, \$200,000, and \$35,000, respectively.

Bradley Chhay was appointed as our CFO on September 14, 2020. He is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), and Certified Information Systems Auditor (CISA). He joined us in November 2015 as Controller in charge of migrating the company to an upgraded ERP system and enhancing internal and external audit and SEC

reporting functions. From 2007 through 2009, he was an auditor for Deloitte & Touche LLP. From 2009 through 2013, he served as Internal Audit Senior, IT Auditor, and Senior Fraud Auditor for Live Nation Entertainment, Inc. of Beverly Hills, a publicly-traded company that markets tickets for live entertainment worldwide, owns and operates entertainment venues, and manages music artists. From 2013 through 2015, Mr. Chhay was an Audit Supervisor and Global ERP Project Lead for RigNet, Inc. of Houston, a publicly-traded digital technology company serving the oil and gas, maritime and government markets. After RigNet, he briefly served as CFO for a smaller, privately-held, multi-unit restaurant chain.

Travis Reese became a director and our Executive Vice President in 1999. Throughout his time with the Company, Mr. Reese has served many different roles, including without limitation overseeing information technology, working to create the company's intranet, permit tracking, and incident reporting systems as well as other technology platforms the Company uses. Additionally, with his family history in military and aviation, he created the Company's Bombshells Restaurant and Sports Bar concept in 2013. Mr. Reese has been involved in the adult entertainment industry since 1992. His experience and knowledge in this industry is essential to the Board's oversight of our businesses.

Luke Lirot became a director on July 31, 2007. Mr. Lirot received his law degree from the University of San Francisco in 1986. After serving as an intern in the San Francisco Public Defender's Office in 1986, Mr. Lirot returned to Florida and established a private law practice where he continues to practice and specializes in adult entertainment issues. He is a past President of the First Amendment Lawyers' Association and has actively participated in numerous state and federal legal matters. Mr. Lirot represents as counsel scores of individuals and entities within our industry. Having practiced in this area for over 30 years, he is aware of virtually every type of legal issue that can arise, making him an important member of the Board.

Yura Barabash became a director on September 19, 2017. Since October 2021, he has served as the Vice President of Business Development at AVI-SPL, the world's largest AV/UCC integrator, and digital solutions provider based in Florida. Mr. Barabash brings with him extensive corporate finance experience across various industries both domestically and internationally. He has played a key role in numerous equity and debt financings, as well as mergers and acquisitions transactions involving public and private companies in the United States, Mexico, China, Brazil and the European Union. From August 2019 to January 2021, Mr. Barabash was a Chief Operating Officer of Gingko Online Learning LLC, private online learning company in Florida and a consultant to Chengdu Gingko Education Management, educational management company in Chengdu, China. From 2016 to June 2019, he was a Senior Vice President of Finance at Motorsport Network LLC (www.motorsportnetwork.com) in Miami, the largest motorsport digital media company in the world. Prior to joining Motorsport Network, he was an investment banker at Primary Capital from 2011 until 2016. Previously, Mr. Barabash was an investment banker at Rodman & Renshaw and Merrill Lynch. He holds a B.A. from Sevastopol City University in Ukraine and a Master in International Affairs from Columbia University in New York City, and is fluent in Russian. Mr. Barabash has recently attended the Harvard Business School Executive Education programs focusing on Audit and Compensation Committees.

Elaine J. Martin became a director on August 8, 2019. She is co-founder and general partner of two privately-held Houston area businesses for which she provides a broad array of management and accounting functions on a day-to-day basis. In 1993, she co-founded Medco Manufacturing LLC, which develops, manufactures and sells, under Food and Drug Administration (FDA) guidelines, equipment and disposable products used by plastic surgeons in domestic and international markets. In 1989, Ms. Martin co-founded Aero Tech Aviation LLC, which trains foreign nationals for the Federal Aviation Administration (FAA) Air Frame and Power Plant examination, for their license to repair US-origin aircraft. Earlier in her career, she was a Registered Nurse specializing in cosmetic surgery. Ms. Martin received her BS in Biology and Chemistry from Houston Baptist University. Her volunteer activities have included serving as a member of the board of directors of Texas A&M University Mothers' Club (Aggie Moms). Ms. Martin's business acumen and experience running companies make her an important member of the Board.

Arthur Allan Priaulx became a director on August 8, 2019. He has more than 45 years of experience in the communications industry. Earlier in his career, he was Vice President and General Manager of King Features Division of Hearst Corporation, in charge of worldwide newspaper activities and product licensing. He was also publisher of American Banker, a leading trade publication in the financial services industry, when it was owned by Thomson Financial. In 1993, he founded Resource Media Group, a New York-based financial media and investor relations firm. His clients included a wide range of companies, including RCI Hospitality Holdings, Inc., for which he provided public and investor relations services from 1994 to 2013. Mr. Priaulx has been retired since 2014. He attended Dartmouth College and University of Southampton in the U.K. He has also completed graduate-level courses at INSEAD Business School in France and the Wharton School of the University of Pennsylvania. His volunteer activities have included serving as national vice president of United Cerebral Palsy.

COMMITTEES OF THE BOARD OF DIRECTORS

AUDIT COMMITTEE

We have an Audit Committee whose members are Yura Barabash, Elaine Martin and Arthur Allan Priaulx. All members of the Audit Committee are independent directors. The purpose of the Audit Committee is to (i) oversee our accounting and financial reporting processes, our disclosure controls and procedures and system of internal controls and audits of our consolidated financial statements, (ii) oversee the relationship with our independent auditors, including appointing or changing our auditors and ensuring their independence, and (iii) provide oversight regarding significant financial matters. The Audit Committee meets privately with our Chief Financial Officer and with our independent registered public accounting firm and evaluates the responses by the Chief Financial Officer both to the facts presented and to the judgments made by our outside independent registered public accounting firm. Yura Barabash serves as the Audit Committee's financial expert.

In August 2015, our Board adopted a new Charter for the Audit Committee. A copy of the Audit Committee Charter can be found on our website at www.rcihospitality.com/investor. The Charter establishes the independence of our Audit Committee and sets forth the scope of the Audit Committee's duties. The Audit Committee conducts an ongoing review of our financial reports and other financial information prior to their being filed with the SEC, or otherwise provided to the public. The Audit Committee also reviews our systems, methods and procedures of internal controls in the areas of: financial reporting, audits, treasury operations, corporate finance, managerial, financial and SEC accounting, compliance with law, and ethical conduct. NASDAQ Stock Market Rules require all members of the Audit Committee to be independent. The Audit Committee is objective, and reviews and assesses the work of our independent registered public accounting firm and our internal accounting department.

NOMINATING COMMITTEE

We have a Nominating Committee whose current members are Elaine Martin, Luke Lirot, Yura Barabash and Arthur Allan Priaulx. In July 2004, the Board unanimously adopted a Charter with regard to the process to be used for identifying and evaluating nominees for director. The Charter establishes the independence of our Nominating Committee and sets forth the scope of the Nominating Committee's duties. NASDAQ Stock Market Rules require all members of the Nominating Committee to be independent. Pursuant to its Charter, the Committee has the power and authority to consider Board nominees and proposals submitted by our stockholders and to establish any procedures, including procedures to facilitate stockholder communication with the board of directors, and to make any such disclosures required by applicable law in the course of exercising such authority. A copy of the Nominating Committee's Charter can be found on our website at www.rcihospitality.com/investor.

COMPENSATION COMMITTEE

We have a Compensation Committee whose current members are Elaine Martin, Luke Lirot, Yura Barabash and Arthur Allan Priaulx. In June 2014, the Compensation Committee adopted a Charter with regard to the Compensation Committee's responsibilities, including evaluating, reviewing and determining the compensation of our Chief Executive Officer and other executive officers. A copy of the Compensation Committee's Charter can be found on our website at www.rcihospitality.com/investor.

DELINQUENT SECTION 16(A) REPORTS

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own beneficially more than ten percent of our common stock, to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Based solely upon a review of Forms 3, 4 and 5 furnished to us during the fiscal year ended September 30, 2023, we believe that the directors, executive officers, and greater than ten percent beneficial owners have complied with all applicable filing requirements during the fiscal year ended September 30, 2023.

CODE OF ETHICS

We have adopted a code of ethics for our principal executive and senior financial officers, a copy of which can be found on our website at www.rcihospitality.com.

Item 11. Executive Compensation.

COMPENSATION DISCUSSION AND ANALYSIS

This compensation discussion and analysis describes the material elements of the Company's compensation programs as they relate to our executive officers who are listed in the compensation tables appearing below. This compensation discussion and analysis focuses on the information contained in the following tables and related footnotes. The individuals who served as the Company's Chief Executive Officer and Chief Financial Officer during fiscal 2023, as well as any other individuals included in the Summary Compensation Table, are referred to as "named executive officers" ("NEOs").

Overview of Compensation Committee Role and Responsibilities

The Compensation Committee of the board of directors oversees our compensation plans and policies, reviews and approves all decisions concerning the named executive officers' compensation, which may further be approved by the Board, and administers our stock option and equity plans, including reviewing and approving stock option grants and equity awards under the plans. The Compensation Committee's membership is determined by the Board and is composed entirely of independent directors.

Management plays a role in the compensation-setting process. The most significant aspects of management's role are to evaluate employee performance and recommend salary levels and equity compensation awards. Our Chief Executive Officer often makes recommendations to the Compensation Committee and the Board concerning compensation for other executive officers. Our Chief Executive Officer is a member of the Board but does not participate in Board decisions regarding any aspect of his own compensation. The Compensation Committee can retain independent advisors or consultants.

Compensation Committee Process

The Compensation Committee reviews executive compensation in connection with the evaluation and approval of an employment agreement, an increase in responsibilities or other factors. With respect to equity compensation awarded to other employees, the Compensation Committee or the Board may grant stock options, often after receiving a recommendation from our Chief Executive Officer. The Compensation Committee also evaluates proposals for incentive and performance equity awards, and other compensation.

Compensation Philosophy

The Compensation Committee emphasizes the important link between the Company's performance, which ultimately affects stockholder value, and the compensation of its executives. Therefore, the primary goal of the Company's executive compensation policy is to try to align the interests of the executive officers with the interests of the stockholders. In order to achieve this goal, the Company attempts to (i) offer compensation opportunities that attract and retain executives whose abilities and skills are critical to the long-term success of the Company and reward them for their efforts in ensuring the success of the Company, (ii) align the Company's compensation programs with the Company's long-term business strategies and objectives, and (iii) provide variable compensation opportunities that are directly linked to the Company's performance and stockholder value, including an equity stake in the Company. Our named executive officers' compensation utilizes two primary components — base salary and long-term equity compensation — to achieve these goals. Additionally, the Compensation Committee may award discretionary bonuses to certain executives based on the individual's contribution to the achievement of the Company's strategic objectives.

Setting Executive Compensation

We fix executive base compensation at a level we believe enables us to hire and retain individuals in a competitive environment and to reward satisfactory individual performance and a satisfactory level of contribution to our overall business goals. We also take into account the compensation that is paid by companies that we believe to be our competitors and by other companies with which we believe we generally compete for executives.

In establishing compensation packages for executive officers, numerous factors are considered, including the particular executive's experience, expertise and performance, our company's overall performance and

compensation packages available in the marketplace for similar positions. In arriving at amounts for each component of compensation, our Compensation Committee strives to strike an appropriate balance between base compensation and incentive compensation. The Compensation Committee also endeavors to properly allocate between cash and non-cash compensation and between annual and long-term compensation.

The Role of Shareholder Say-on-Pay Votes

At our annual meeting of shareholders held on August 28, 2023, approximately 96% of the shareholders who voted (including abstentions) on the "say-on-pay" proposal approved the compensation of our named executive officers, as disclosed in the proxy statement. Although this advisory shareholder vote on executive compensation is non-binding, the Compensation Committee will consider the outcome of the vote when making future compensation decisions for named executive officers.

Base Salary

The Company provides executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. Subject to the provisions contained in employment agreements with executive officers concerning base salary amounts, base salaries of the executive officers are established based upon compensation data of comparable companies in our market, the executive's job responsibilities, level of experience, individual performance and contribution to the business. We believe it is important for the Company to provide adequate fixed compensation to highly qualified executives in our competitive industry. In making base salary decisions, the Compensation Committee uses its discretion and judgment based upon personal knowledge of industry practice but does not apply any specific formula to determine the base salaries for the executive officers.

Retirement Savings Plan

The Company maintains a retirement savings plan for the benefit of our executives and employees. Our Simple IRA Plan is intended to qualify as a defined contribution arrangement under the Internal Revenue Code (the "Code"). Participants may elect to defer a percentage of their eligible pretax earnings each year or contribute a fixed amount per pay period up to the maximum contribution permitted by the Code. All participants' plan accounts are 100% vested at all times. All assets of our Simple IRA Plan are invested based on participant-directed elections. We make certain matching contributions to the Simple IRA Plan, which are also 100% vested.

Perquisites and Other Personal Benefits

The Company's executive officers participate in the Company's other benefit plans on the same terms as other employees on a non-discriminatory basis. These plans include medical, dental, life and disability insurance. Relocation benefits also are reimbursed and are individually negotiated when they occur. The Company reimburses each executive officer for all reasonable business and other expenses incurred by them in connection with the performance of their duties and obligations. The Company does not provide named executive officers with any significant perquisites or other personal benefits except for personal travel using Company-owned automobiles and aircrafts. On August 28, 2023, the board of directors, after a recommendation from the Audit Committee, amended the corporate aircraft policy changing the allowed use to a maximum personal use each fiscal year, as follows: (i) 100 hours flown for the CEO and (ii) 48 hours flown each for other executive officers. Refer to footnote on All Other Compensation in the Summary Compensation Table below.

SUMMARY COMPENSATION TABLE

The following table reflects all forms of compensation for services to us for the fiscal years ended September 30, 2023, 2022, and 2021 of our named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards ⁽¹⁾ (\$)	All Other Compensation ⁽²⁾ (\$)	Total (\$)
Eric S. Langan	2023	1,700,000	—	—	167,388	1,867,388
<i>President and Chief Executive Officer</i>	2022	1,700,000	—	1,568,500	151,353	3,419,853
<i>Officer</i>	2021	1,436,539	—	—	108,679	1,545,218
Bradley Chhay	2023	472,789	—	—	61,676	534,465
<i>Chief Financial Officer</i>	2022	428,077	—	1,568,500	77,374	2,073,951
	2021	431,442	7,500	—	66,055	504,997
Travis Reese	2023	460,000	25,000	—	51,534	536,534
<i>Executive Vice President</i>	2022	423,077	—	1,568,500	66,862	2,058,439
	2021	437,827	—	—	65,537	503,364

(1) Amounts represent the aggregate grant date fair value of the stock options granted during the fiscal year, computed in accordance with FASB ASC Topic 718. Information about the assumptions used to value these stock option awards can be found in Note 2 to the consolidated financial statements in this Annual Report on Form 10-K.

(2) All Other Compensation consists of SIMPLE IRA matching contributions, automobile expenses, and personal use of aircraft. We account for personal use of aircraft to be the aggregate incremental cost of personal use of the company aircraft as calculated based on a cost-per-flight-hour charge developed by a nationally recognized and independent service. The charge reflects the direct cost of operating the aircraft, including fuel, additives, lubricants, maintenance labor, airframe parts, engine restoration, and major periodic maintenance. We added actual airport/hangar fees charged to the company on a per-flight basis. The charge does not include fixed costs that do not change based on usage, such as aircraft depreciation, home hangar expenses, and general taxes and insurance. We value automobile expenses based on the annual depreciation rate of automobiles assigned for use by the particular officer, plus cost of insurance, registration, repairs, maintenance, tolls, and fuel. Tax reimbursement benefit is based on automobile fringe benefits.

A table of All Other Compensation for fiscal 2023 for our named executive officers is presented below:

Name	SIMPLE IRA		Personal Use of Aircraft		Total All Other Compensation	
	Matching Contribution	Automobile Expenses	(\$)	(\$)	Tax Reimbursement	(\$)
Eric S. Langan	18,539	23,740	—	114,401	10,708	167,388
Bradley Chhay	14,069	39,225	—	—	8,382	61,676
Travis Reese	13,800	22,095	—	10,420	5,219	51,534

CEO Pay Ratio

We reviewed a comparison of annual total compensation of our CEO to the annual compensation of our median employee who was selected from all employees who were employed (other than the CEO) during our fiscal year ended September 30, 2023.

The SEC's rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their employee populations and compensation practices. As a result, the pay ratio reported by other companies may not be comparable to the pay ratio reported below, as other companies have different employee populations and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

The compensation for our CEO in fiscal 2023 of \$1,862,465 was approximately 57 times the \$32,496 compensation of our fiscal 2023 median employee.

Pay vs. Performance

We are providing the following information about the relationship between executive compensation actually paid and certain financial performance measures of the Company as required by Section 953(a) of the Dodd-Frank and Consumer Protection Act, and Item 402(v) of Regulation S-K for fiscal 2023, 2022, and 2021, as it relates to our principal executive officer ("PEO") and certain non-PEO NEOs.

Year	Summary Compensation	Value of Initial Fixed \$100 Investment							
		Average Summary				Based On:			
		Compensation	Compensation	Compensation	RICK Total	Shareholder	DJUSRU Total		
Year	Table Total for PEO	Actually Paid to	Table Total for Non-PEO NEOs	Actually Paid to	Shareholder	Shareholder	Net Income	Free Cash Flow	
Year	Table Total for PEO	PEO	PEO NEOs	Non-PEO NEOs	Return	Shareholder Return	Net Income	Free Cash Flow	
2023	\$1,862,465	\$ 1,900,987	\$ 536,608	\$ 575,130	\$ 296.39	\$ 98.12	\$ 29,100,000	\$ 53,176,000	
2022	\$3,419,853	\$ 3,329,003	\$ 2,066,195	\$ 1,975,345	\$ 319.02	\$ 129.93	\$ 46,060,000	\$ 58,911,000	
2021	\$1,545,218	\$ 1,545,218	\$ 504,181	\$ 504,181	\$ 336.19	\$ 88.89	\$ 30,150,000	\$ 36,084,000	

(1) Non-PEO NEOs represent Bradley Chhay and Travis Reese for each of the fiscal years presented.

(2) We selected the Dow Jones U.S. Restaurants & Bars Index as our peer group for the purpose of calculating comparable total shareholder return ("TSR"). Also refer to [Item 5](#) of this report for our and our peer group's five-year TSR.

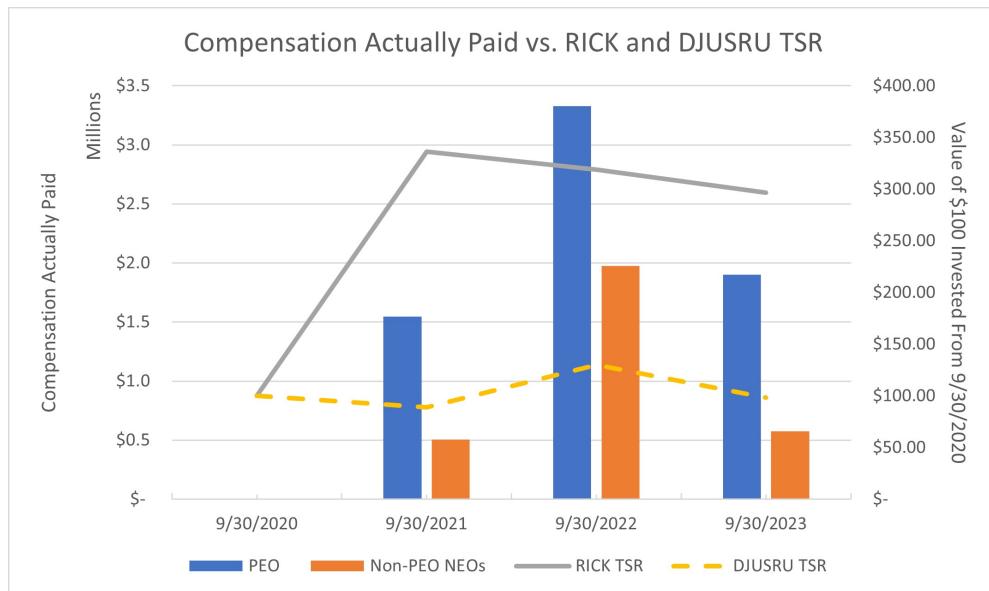
(3) We selected free cash flow as our Company-selected measure for this purpose.

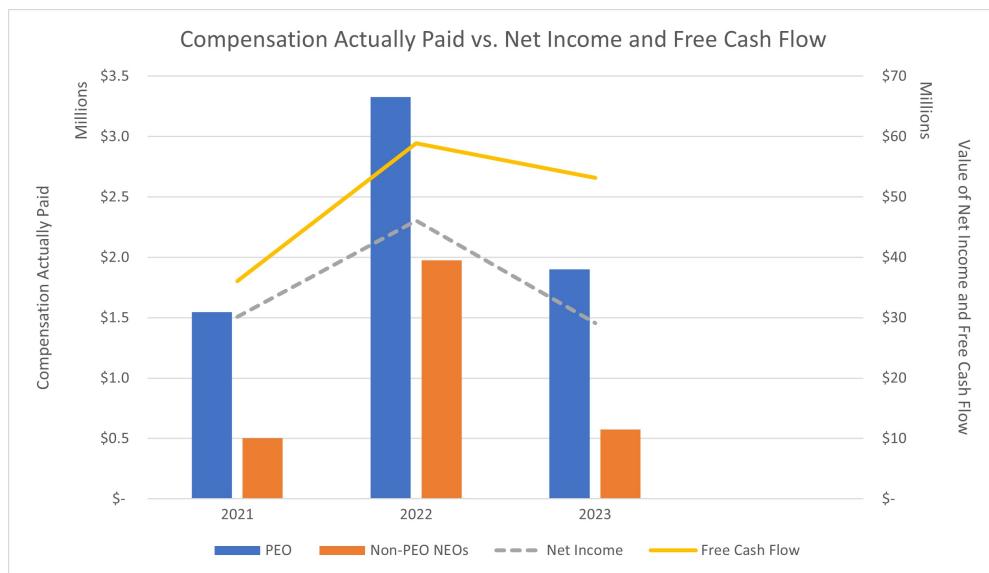
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(4) "Compensation Actually Paid" is computed in the table below, in accordance with Item 402(v) of Regulation S-K.

	2023		2022		2021	
	Average for Non- PEO		Average for Non- PEO NEOs		Average for Non- PEO	
	PEO	PEO NEOs	PEO	PEO NEOs	PEO	PEO NEOs
Summary Compensation Table total	\$ 1,862,465	\$ 536,608	\$ 3,419,853	\$ 2,066,195	\$ 1,545,218	\$ 504,181
Adjustments:						
Deduct option awards granted during the year	—	—	(1,568,500)	(1,568,500)	—	—
Add fair value of options granted and vested at the same year	—	—	313,700	313,700	—	—
Add fair value of options granted during the year and remain unvested at year-end	—	—	1,163,950	1,163,950	—	—
Increase (decrease) for change in fair value from prior year-end to current year-end of options granted in prior year	(62,527)	(62,527)	—	—	—	—
Increase (decrease) for change in fair value from prior year-end to current year vesting date of options granted in prior year	101,049	101,049	—	—	—	—
Compensation Actually Paid	\$ 1,900,987	\$ 575,130	\$ 3,329,003	\$ 1,975,345	\$ 1,545,218	\$ 504,181

The mix of compensation paid to our PEO and non-PEO NEOs is mostly cash salary that is fixed, as shown in the Summary Compensation Table above. Except for the stock options granted in fiscal 2022, there had been no stock-based compensation awarded since fiscal 2014. We also currently do not have long-term incentive plans that are based on the Company's stock price or any of our financial measures. As shown in the charts below, the compensation actually paid to our PEO and non-PEO NEOs is not directly aligned with our Company and peer group total shareholder return or with our Company's net income and free cash flow in the fiscal years presented.





GRANTS OF PLAN-BASED AWARDS

There were no grants of plan-based awards for fiscal 2023.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth information with respect to outstanding stock options awards for each of our named executive officers as of September 30, 2023.

Name	Grant Date	Option Awards				
		Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$/Sh)	Option Expiration Date	
Eric S. Langan	2/9/2022	20,000	30,000	100.00	2/9/2027	
Bradley Chhay	2/9/2022	20,000	30,000	100.00	2/9/2027	
Travis Reese	2/9/2022	20,000	30,000	100.00	2/9/2027	

OPTION EXERCISES AND STOCK VESTED IN FISCAL YEAR 2023

There were no stock options exercised nor stock that vested during the fiscal year ended September 30, 2023.

DIRECTOR COMPENSATION

We pay the expenses of our directors in attending board meetings. We paid no equity-based compensation during the fiscal year ended September 30, 2023, and we paid our independent directors \$40,000 in cash for the fiscal year. The Audit Committee chair received additional compensation of \$10,000 in cash. Following is a schedule of all compensation paid to our directors in the year ended September 30, 2023:

Name	Fees earned or paid in cash (\$)
Luke C. Lirot	40,000
Yura Barabash	50,000
Elaine Martin	40,000
Arthur Allan Priaulx	40,000
Eric S. Langan	—
Travis Reese	—

EMPLOYMENT AGREEMENTS

On August 25, 2022, we entered into new two-year employment agreements with each of our executive officers, including Eric Langan, our Chief Executive Officer and President; Bradley Chhay, our Chief Financial Officer; and Travis Reese, our Executive Vice President and Secretary. Under their respective new agreements, Mr. Chhay's annual salary increased to \$465,000; Mr. Reese's annual salary increased to \$460,000; and Mr. Langan's annual salary remained the same at \$1,700,000. The term of each of the agreements commenced on September 1, 2022, and will end on August 31, 2024.

On August 28, 2023, we entered into a new two-year employment agreement with Bradley Chhay, which terminated his employment agreement mentioned above. Under the agreement, Mr. Chhay's annual salary increased to \$600,000. The term of the agreement commenced on August 28, 2023, and will end on August 31, 2025.

Each of the new employment agreements also provides for bonus eligibility, expense reimbursement, health benefits, participation in our benefit plans, use of a company-owned automobile, access to company-owned aircraft (subject to the terms and conditions of our corporate aircraft policy), and two weeks paid vacation annually. Under the terms of the new agreements, each executive is bound to a confidentiality provision and cannot compete with us for a period upon termination of the agreement.

Currently, our executive officers do not have long-term incentive plans or defined benefit or actuarial plans outstanding.

EMPLOYEE STOCK OPTION PLANS

On February 7, 2022, our board of directors approved the 2022 Stock Option Plan (the "2022 Plan"). The board's adoption of the 2022 Plan was approved by the shareholders during the annual stockholders' meeting on August 23, 2022. The 2022 Plan provides that the maximum aggregate number of shares of common stock underlying options that may be granted under the 2022 Plan is 300,000. The options granted under the 2022 Plan may be either incentive stock options or non-qualified options. The 2022 Plan is administered by the compensation committee of the board of directors. The compensation committee 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 not less than 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 2022 Plan. On February 9, 2022, the board of directors approved a grant of 50,000 stock options each to six members of management subject to the approval of the 2022 Plan.

COMPENSATION POLICIES AND PRACTICES AS THEY RELATE TO RISK MANAGEMENT

We attempt to make our compensation programs discretionary, balanced and focused on the long term. We believe goals and objectives of our compensation programs reflect a balanced mix of quantitative and qualitative performance measures to avoid excessive weight on a single performance measure. Our approach to compensation practices and policies applicable to employees and consultants is consistent with that followed for our executives. Based on these factors, we believe that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on us.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis to be included in this Form 10-K. Based on the reviews and discussions referred to above, the Compensation Committee recommends to the board of directors that the Compensation Discussion and Analysis referred to above be included in this report. This report is furnished by the Compensation Committee of our board of directors, whose members are:

Elaine Martin
Luke Lirot
Yura Barabash
Arthur Allan Priaulx

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is comprised of Ms. Martin and Messrs. Lirot, Barabash, and Priaulx. No interlocking relationship exists between any member of the Compensation Committee and any member of any other company's board of directors or compensation committee.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information at December 8, 2023, with respect to the beneficial ownership of shares of common stock by (i) each person known to us who owns beneficially more than 5% of the outstanding shares of common stock, (ii) each of our directors, (iii) each of our executive officers and (iv) all of our executive officers and directors as a group. Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o RCI Hospitality Holdings, Inc., 10737 Cutten Road, Houston, Texas 77066. We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws. Applicable percentage ownership is based on 9,359,685 shares of common stock outstanding at December 8, 2023. Generally, in computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deem outstanding shares of common stock subject to stock options or warrants held by that person that are currently exercisable or exercisable within 60 days of December 8, 2023 and shares of common stock issuable upon conversion of other securities held by that person that are currently convertible or convertible within 60 days of December 8, 2023; we do not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Beneficial ownership representing less than 1% is denoted with an asterisk (*).

Name/Address	Common Stock	Percent of Class ⁽¹⁾
Executive Officers and Directors		
Eric S. Langan	723,870 ⁽²⁾	7.72 %
Bradley Chhay	25,474 ⁽³⁾⁽⁴⁾	*
Yura Barabash	961	*
Travis Reese	34,541 ⁽⁵⁾	*
Luke Lirot	518	*
Elaine Martin	9,085	*
Arthur Allan Priaulx	2,000	*
All of our Directors and Officers as a Group of seven persons	792,709	8.42 %
Other > 5% Security Holders		
BlackRock, Inc. ⁽⁶⁾	575,106	6.14 %
ADW Capital Partners, L.P. ⁽⁷⁾	941,000	10.00 %

(1) These percentages exclude treasury shares in the calculation of percentage of class.

(2) Includes stock options that are currently exercisable into 20,000 shares of common stock. Also includes 1,870 shares held in an investment club over which Mr. Langan has shared voting and investment power. As of the date of this report, Mr. Langan owns less than 0.1% of the investment club.

(3) Number of shares is rounded to the nearest whole number. The actual amount is 5,474.317 shares. Includes stock options that are currently exercisable into 20,000 shares of common stock.

- (4) Includes 1,870 shares held in an investment club over which Mr. Chhay has shared voting and investment power. As of the date of this report, Mr. Chhay owns approximately 4.7% of the investment club.
- (5) Includes stock options that are currently exercisable into 20,000 shares of common stock. Also includes 1,870 shares held in an investment club over which Mr. Reese has shared voting and investment power. As of the date of this report, Mr. Reese owns approximately 1.8% of the investment club.
- (6) Based on the most recently available Schedule 13G filed with the SEC on February 1, 2023 by BlackRock Inc. BlackRock beneficially owned 575,106 shares, with sole voting power over 565,882 shares and sole dispositive power over 575,106 shares. The address of BlackRock is 55 East 52nd Street, New York, New York 10055.
- (7) Based on the most recently available Form 4 filed with the SEC on September 28, 2023 by ADW Capital Partners, L.P., ADW Capital Management, LLC and Adam D. Wyden. ADW Capital Management, LLC is the general partner and investment manager of ADW Capital Partners, L.P. Mr. Wyden is the sole manager of ADW Capital Management, LLC. ADW Capital Partners, L.P. is the record and direct beneficial owner of 941,000 shares, with sole voting power and sole dispositive power over all such shares. The address of each of these reporting persons is 6431 Allison Road, Miami Beach, Florida 33141.

The Company is not aware of any arrangements that could result in a change in control of the Company.

The disclosure required by Item 201(d) of Regulation S-K is set forth in Item 5 herein and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Presently, our Chairman and President, Eric Langan, personally guarantees all of the commercial bank indebtedness of the company. Mr. Langan receives no compensation or other direct financial benefit for any of the guarantees. Three adult children of Mr. Langan are also employed by the Company in corporate shared services. Colby Langan, one of Eric Langan's adult children mentioned above, is currently the President of RCI Development Services, Inc., which manages strategy on the Company's new business ventures, and received \$184,068 and \$138,762 in employment compensation during the fiscal year ended September 30, 2023 and 2022, respectively.

In October 2021, we borrowed \$500,000 from Ed Anakar, President of RCI Management Services, Inc. and our Director of Operations and brother of former director Nourdean Anakar, and \$150,000 from Allen Chhay, brother of Company CFO, Bradley Chhay, as part of a larger group of private lenders (see Note 8 to our consolidated financial statements). Their promissory notes bear interest at the rate of 12% per annum and mature in October 2024. The notes are payable in monthly installments of interest only with a balloon payment of all unpaid principal and interest due at maturity. The terms of the notes are the same as the rest of the lender group. Refer to Note 8 to our consolidated financial statements for the October 2023 extension of term of promissory notes.

We paid Ed Anakar employment compensation of \$718,539, \$720,492, and \$655,289 during the fiscal years ended September 30, 2023, 2022, and 2021, respectively.

We used the services of Nottingham Creations, and previously Sherwood Forest Creations, LLC, both furniture fabrication companies that manufacture tables, chairs and other furnishings for our Bombshells locations, as well as providing ongoing maintenance. Nottingham Creations is owned by a brother of Eric Langan (as was Sherwood Forest). Amounts billed to us for goods and services provided by Nottingham Creations and Sherwood Forest were approximately \$195,000 in fiscal 2023, \$207,000 in fiscal 2022, and \$118,000 in fiscal 2021. As of September 30, 2023 and 2022, we owed Nottingham Creations and Sherwood Forest \$10,700 and \$92,808, respectively, in unpaid billings.

TW Mechanical LLC ("TW Mechanical") provided plumbing and HVAC services to both a third-party general contractor providing construction services to the Company, as well as directly to the Company during fiscal 2023, 2022, and 2021. A son-in-law of Eric Langan owns a 50% interest in TW Mechanical. Amounts billed by TW Mechanical to the third-party general contractor were approximately \$443,295, \$3,809, and \$0 for the fiscal years 2023, 2022, and 2021, respectively. Amounts billed directly to the Company were approximately \$9,430, \$133,000, and \$425,000 for the fiscal years 2023, 2022, and 2021, respectively. As of September 30, 2023 and 2022, the Company owed TW Mechanical approximately \$0 and \$9,338, respectively, in unpaid direct billings.

Review, Approval, or Ratification of Related Transactions

On September 23, 2019, the board of directors, acting upon the recommendation of its Audit Committee, adopted a written related party transaction policy, under which related party transactions are subject to review, approval, rejection, modification and/or ratification by the Audit Committee. The policy provides that prior to the entry into any transaction between the Company and one of its officers, directors, 5% shareholders or an immediate family member of any of the foregoing (a "related party"), such transaction will be reported to the Company's chief compliance officer. The Company's chief compliance officer will undertake an evaluation of the transaction. If that evaluation indicates that the transaction would require the Audit Committee's approval, the Company's chief compliance officer will report this transaction to the Audit Committee. The Audit Committee will review the material facts of all related party transactions that require the Audit Committee's approval and either approve or disapprove of the entry into the related party transaction. If advance Audit Committee approval of a related party transaction is not feasible, then the related party transaction will be considered and, if the Audit Committee determines it to be appropriate, ratified at the Audit Committee's next regularly scheduled meeting. In determining whether to approve or ratify a related party transaction, the Audit Committee will take into account factors it deems appropriate. In the event that the Audit Committee determines not to ratify and approve the related party transaction, then the Audit Committee will instruct that the related party transaction be rescinded or unwound. The Audit Committee will not approve or ratify any related party transaction unless it deems that the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction. No director will participate in any discussion or approval of a related party transaction for which he or she is a related party, except that the director shall provide all material information concerning the transaction to the Audit Committee.

In reviewing related party transactions under the policy, the Audit Committee will review and consider one or more of the following as it seems appropriate for the circumstances: (1) the related party's interest in the related party transaction; (2) the approximate dollar value of the amount involved in the related party transaction; (3) the approximate dollar value of the amount of the related party's interest in the transaction without regard to the amount of any profit or loss; (4) whether the transaction was undertaken in the ordinary course of business of the Company; (5) whether the transaction with the related party is proposed to be, or was, entered into on terms no less favorable to the Company than terms that could have been reached with an unrelated third party; (6) the purpose of, and the potential benefits to the Company of, the related party transaction; (7) whether the related party transaction would impair the independence of an outside director; (8) required public disclosure, if any; and (9) any other information regarding the related party transaction or the related party in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction. The Audit Committee will review all relevant information available to it about the related party transaction. The Audit Committee may approve or ratify the related party transaction only if the Audit Committee determines in good faith that, under all of the circumstances, the transaction is fair as to the Company. The Audit Committee, in its sole discretion, may impose such condition as it deems appropriate on the Company or the related party in connection with approval of the related party transaction.

Our Audit Committee is composed of all independent directors, including Yura Barabash, Elaine Martin and Arthur Allan Priaulx. We additionally have one other independent director, Luke Lirot, who is not on the Audit Committee. The definition of "independent" used herein is based on the independence standards of The NASDAQ Stock Market LLC.

Item 14. Principal Accounting Fees and Services.

The following table sets forth the aggregate fees paid or accrued for professional services and the aggregate fees paid or accrued for audit-related services and all other services rendered by Marcum LLP and Friedman LLP for the fiscal 2023 and 2022.

	Marcum 2023	Friedman 2023	Friedman 2022
Audit fees	\$ 659,789	\$ 523,017	\$ 1,256,537
Audit-related fees	—	—	—
Tax fees	—	—	—
All other fees	—	—	—
Total	\$ 659,789	\$ 523,017	\$ 1,256,537

Effective September 1, 2022, Friedman LLP, our independent registered public accounting firm of record in fiscal 2022, combined with Marcum LLP and continued to operate as an independent registered public accounting firm.

"Audit fees" include fees billed for professional services rendered in connection with the annual audit and quarterly reviews of the Company's consolidated financial statements, the audit of internal control over financial reporting as required by the Sarbanes-Oxley Act of 2002, and assistance with securities filings other than periodic reports.

"Audit-related fees" include professional services in relation to a Form S-3 filing.

"Tax fees" include consultation related to tax compliance and tax structuring.

"All other fees" include fees billed for professional services rendered in connection with the SEC investigation.

All above audit services, audit-related services and tax services were pre-approved by the Audit Committee, which concluded that the provision of such services by Marcum LLP and Friedman, LLP was compatible with the maintenance of those firms' independence in the conduct of their auditing functions. The Audit Committee's outside auditor independence policy provides for pre-approval of all services performed by the outside auditors.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

Exhibit No.	Description
3.1	Articles of Incorporation dated December 9, 1994. (Incorporated by reference from Form SB-2 filed with the SEC on January 11, 1995.) *
3.2	Certificate of Amendment to Articles of Incorporation dated September 9, 2008. (Incorporated by reference from Definitive Schedule 14A filed with the SEC on July 21, 2008.) *
3.3	Certificate of Amendment to Articles of Incorporation dated August 6, 2014. (Incorporated by reference from Definitive Schedule 14A filed with the SEC on June 24, 2014.) *
3.4	Amended and Restated Bylaws (Incorporated by reference from Form 8-K filed with the SEC on March 16, 2016.) *
4.1	Consolidated, Amended and Restated Promissory Note for \$99,145,838.22 with Centennial Bank (Incorporated by reference from Form 8-K filed with the SEC on October 4, 2021) *
4.2	10-Year Secured Promissory Note for \$11,000,000 by Big Sky Hospitality Holdings, Inc. to Family Dog, LLC (Incorporated by reference from Form 8-K filed with the SEC on October 21, 2021) *
4.3	20-Year Secured Promissory Note for \$8,000,000 by Big Sky Hospitality Holdings, Inc. to Family Dog, LLC (Incorporated by reference from Form 8-K filed with the SEC on October 21, 2021) *
4.4	10-Year Promissory Note for \$1,200,000 by RCI Holdings, Inc. to 3480 South Galena, LLC (Incorporated by reference from Form 8-K filed with the SEC on October 21, 2021) *
4.5	IP Promissory Note for \$1,000,000 by Big Sky Hospitality Holdings, Inc. to Club Licensing, LLC (Incorporated by reference from Form 8-K filed with the SEC on October 21, 2021) *
4.6	Promissory Note for \$18,740,000 with Centennial Bank (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2022) *
4.7	Revolving Promissory Note for \$10,000,000 with Centennial Bank (Incorporated by reference from Form 8-K filed with the SEC on March 15, 2023) *
4.8	Form of Promissory Note dated March 16, 2023 (in connection with Baby Dolls/Chicas Locas acquisition transaction) (Incorporated by reference from Form 8-K filed with the SEC on March 17, 2023) *
4.9	Promissory Note (Real Estate) with Duncan Burch dated March 16, 2023 (Incorporated by reference from Form 8-K filed with the SEC on March 17, 2023) *
4.10	Amended and Restated 12% Unsecured Promissory Note (form of interest-only version of the note) (Incorporated by reference from Form 8-K filed with the SEC on October 26, 2023) *
4.11	Amended and Restated 12% Unsecured Promissory Note (form of amortizing payment schedule version of the note) (Incorporated by reference from Form 8-K filed with the SEC on October 26, 2023) *
4.1	The description of our common stock (Incorporated by reference from Form 10-K filed with the SEC on December 14, 2020) *

10.1	Employment Agreement with Eric S. Langan. (Incorporated by reference from Form 8-K filed with the SEC on July 2, 2021) *
10.2	Employment Agreement with Bradley Chhay (Incorporated by reference from Form 8-K filed with the SEC on August 30, 2023) *
10.3	Employment Agreement with Travis Reese (Incorporated by reference from Form 8-K filed with the SEC on July 2, 2021) *
10.4	Loan Agreement between RCI Holdings, Inc. and Centennial Bank (Incorporated by reference from Form 8-K filed with the SEC on October 4, 2021) *
10.5	Absolute Unconditional and Continuing Guaranty of RCI Hospitality Holdings, Inc. (Incorporated by reference from Form 8-K filed with the SEC on October 4, 2021) *
10.6	Absolute Unconditional and Continuing Guaranty of Eric S. Langan (Incorporated by reference from Form 8-K filed with the SEC on October 4, 2021) *
10.7	Guaranty by RCI Hospitality Holdings, Inc. in favor of Family Dog (Incorporated by reference from Form 8-K filed with the SEC on October 21, 2021) *
10.8	Guaranty by RCI Hospitality Holdings, Inc. in favor of 3480 South Galena LLC (Incorporated by reference from Form 8-K filed with the SEC on October 21, 2021) *
10.9	Guaranty by RCI Hospitality Holdings, Inc. in favor of Club Licensing, LLC (Incorporated by reference from Form 8-K filed with the SEC on October 21, 2021) *
10.10	Lock-Up Agreement between RCI Hospitality Holdings, Inc. and Family Dog, LLC (Incorporated by reference from Form 8-K filed with the SEC on October 21, 2021) *
10.11	Lock-Up Agreement by RCI Hospitality Holdings, Inc. in favor of Club Licensing, LLC (Incorporated by reference from Form 8-K filed with the SEC on October 21, 2021) *
10.12	Loan Agreement between RCI Holdings, Inc. and Centennial Bank dated January 25, 2022 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2022) *
10.13	Absolute Unconditional and Continuing Guaranty of RCI Hospitality Holdings, Inc. dated January 25, 2022 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2022) *
10.14	Absolute Unconditional and Continuing Guaranty of Eric S. Langan dated January 25, 2022 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2022) *
10.15	Asset Purchase Agreement with TTNA, Inc. dated December 12, 2022 (Incorporated by reference from Form 8-K filed with the SEC on December 15, 2022) *
10.16	Asset Purchase Agreement with DB Entertainment, Inc. dated December 12, 2022 (Incorporated by reference from Form 8-K filed with the SEC on December 15, 2022) *
10.17	Asset Purchase Agreement with Duncan Burch, Inc. dated December 12, 2022 (Incorporated by reference from Form 8-K filed with the SEC on December 15, 2022) *

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10.18	Asset Purchase Agreement with Millennium Restaurants Group, Inc. dated December 12, 2022 (Incorporated by reference from Form 8-K filed with the SEC on December 15, 2022)*
10.19	Asset Purchase Agreement with T&N, Inc. dated December 12, 2022 (Incorporated by reference from Form 8-K filed with the SEC on December 15, 2022)*
10.20	Intellectual Property Purchase Agreement with HQ Real Estate Management LLC dated December 12, 2022 (Incorporated by reference from Form 8-K filed with the SEC on December 15, 2022)*
10.21	Intellectual Property Purchase Agreement with ERAF, Inc. dated December 12, 2022 (Incorporated by reference from Form 8-K filed with the SEC on December 15, 2022)*
10.22	Asset Purchase Agreement with ECAL-D&D, Inc. dated December 12, 2022 (Incorporated by reference from Form 8-K filed with the SEC on December 15, 2022)*
10.23	Purchase and Sale Agreement with Duncan Burch dated December 12, 2022 (Incorporated by reference from Form 8-K filed with the SEC on December 15, 2022)*
10.24	Cooperation Agreement dated December 12, 2022 (Incorporated by reference from Form 8-K filed with the SEC on December 15, 2022)*
10.25	Amendment to Asset Purchase Agreement with TTNA, Inc. dated January 25, 2023 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2023)*
10.26	Amendment to Asset Purchase Agreement with DB Entertainment, Inc. dated January 25, 2023 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2023)*
10.27	Amendment to Asset Purchase Agreement with Duncan Burch, Inc. dated January 25, 2023 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2023)*
10.28	Amendment to Asset Purchase Agreement with Millennium Restaurants Group, Inc. dated January 25, 2023 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2023)*
10.29	Second Amendment to Asset Purchase Agreement with T AND N, INCORPORATED dated January 25, 2023 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2023)*
10.30	Amendment to Intellectual Property Purchase Agreement with HQ Real Estate Management LLC dated January 25, 2023 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2023)*
10.31	Amendment to Intellectual Property Purchase Agreement with ERAF, Inc. dated January 25, 2023 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2023)*
10.32	Amendment to Asset Purchase Agreement with ECAL-D&D, Inc. dated January 25, 2023 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2023)*
10.33	Amendment to Purchaser and Sale Agreement with Duncan Burch dated January 26, 2023 (Incorporated by reference from Form 8-K filed with the SEC on January 27, 2023)*
10.34	Second Amendment to Asset Purchase Agreement with TTNA, Inc. dated February 27, 2023 (Incorporated by reference from Form 8-K filed with the SEC on February 28, 2023)*
10.35	Second Amendment to Asset Purchase Agreement with DB Entertainment, Inc. dated February 27, 2023 (Incorporated by reference from Form 8-K filed with the SEC on February 28, 2023)*

10.36	Second Amendment to Asset Purchase Agreement with Duncan Burch, Inc. dated February 27, 2023 (Incorporated by reference from Form 8-K filed with the SEC on February 28, 2023) *
10.37	Second Amendment to Asset Purchase Agreement with Millennium Restaurants Group, Inc. dated February 27, 2023 (Incorporated by reference from Form 8-K filed with the SEC on February 28, 2023) *
10.38	Third Amendment to Asset Purchase Agreement with T AND N, INCORPORATED dated February 27, 2023 (Incorporated by reference from Form 8-K filed with the SEC on February 28, 2023) *
10.39	Second Amendment to Intellectual Property Purchase Agreement with HQ Real Estate Management LLC dated February 27, 2023 (Incorporated by reference from Form 8-K filed with the SEC on February 28, 2023) *
10.40	Second Amendment to Intellectual Property Purchase Agreement with ERAF, Inc. dated February 27, 2023 (Incorporated by reference from Form 8-K filed with the SEC on February 28, 2023) *
10.41	Second Amendment to Asset Purchase Agreement with ECAL-D&D, Inc. dated February 27, 2023 (Incorporated by reference from Form 8-K filed with the SEC on February 28, 2023) *
10.42	Second Amendment to Purchase and Sale Agreement with Duncan Burch dated February 27, 2023 (Incorporated by reference from Form 8-K filed with the SEC on February 28, 2023) *
10.43	Loan Agreement with Centennial Bank (Incorporated by reference from Form 8-K filed with the SEC on March 15, 2023) *
10.44	Absolute Unconditional and Continuing Guaranty of RCI Hospitality Holdings, Inc. (Incorporated by reference from Form 8-K filed with the SEC on March 15, 2023) *
10.45	Absolute Unconditional and Continuing Guaranty of Eric Langan (Incorporated by reference from Form 8-K filed with the SEC on March 15, 2023) *
10.46	Form of Absolute Unconditional and Continuing Guaranty of Burch Management Company, Inc. dated March 16, 2023 (Incorporated by reference from Form 8-K filed with the SEC on March 17, 2023) *
10.47	Form of Absolute Unconditional and Continuing Guaranty of BD Hospitality Acquisition, Inc. dated March 16, 2023 (Incorporated by reference from Form 8-K filed with the SEC on March 17, 2023) *
10.48	Lock-Up Agreement with Duncan Burch dated March 16, 2023 (Incorporated by reference from Form 8-K filed with the SEC on March 17, 2023) *
10.49	Non-Competition Agreement with Duncan Burch dated March 16, 2023 (Incorporated by reference from Form 8-K filed with the SEC on March 17, 2023) *
21.1	Subsidiaries
23.1	Consent of Marcum LLP
23.2	Consent of Friedman LLP

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31.1	Certification of Chief Executive Officer of RCI Hospitality Holdings, 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.
31.2	Certification of Chief Financial Officer of RCI Hospitality Holdings, 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.
32.1	Certification of Chief Executive Officer and Chief Financial Officer of RCI Hospitality Holdings, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.
97.1	Policy for Recovery of Erroneously Awarded Incentive Compensation
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definitions Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Incorporated by reference from our previous filings with the SEC.

Item 16. Form 10-K Summary.

None.

SIGNATURES

In accordance with the requirements of Section 13 of 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on December 14, 2023.

RCI Hospitality Holdings, Inc.

By: /s/ Eric S. Langan

Eric S. Langan

Chief Executive Officer and President

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
<u>/s/ Eric S. Langan</u>	Director, Chief Executive Officer, and President	December 14, 2023
Eric S. Langan		
<u>/s/ Bradley Chhay</u>	Chief Financial Officer and Principal Accounting Officer	December 14, 2023
Bradley Chhay		
<u>/s/ Travis Reese</u>	Director and Executive Vice President	December 14, 2023
Travis Reese		
<u>/s/ Yura Barabash</u>	Director	December 14, 2023
Yura Barabash		
<u>/s/ Luke Lirot</u>	Director	December 14, 2023
Luke Lirot		
<u>/s/ Elaine Martin</u>	Director	December 14, 2023
Elaine Martin		
<u>/s/ Arthur Allan Priaulx</u>	Director	December 14, 2023
Arthur Allan Priaulx		

Subsidiaries of the Registrant

Name	State of Organization
10557 Wireway, Inc.	Texas
12-18 Lagrange Street, Inc.	Massachusetts
12291 CBW LLC	Texas
183 Landco, Inc.	Texas
200 Riverside, Inc.	Maine
2151 Manana, Inc.	Texas
7916 Pendleton, Inc.	Indiana
A & D Interests, Inc.	Texas
Baby Dolls Topless Saloons, Inc.	Texas
BB LQ PRMT San Antonio 1, LLC	Texas
BB San Antonio 1, LLC	Texas
BD Hospitality Acquisition, Inc.	Texas
BGC 135 9th Street, Inc.	Pennsylvania
Big Sky Dining Services (Louisville), Inc.	Kentucky
Big Sky Dining Services (Mississippi), Inc.	Illinois
Big Sky Dining Services (Monsanto), Inc.	Illinois
Big Sky Dining Services (Raleigh), Inc.	North Carolina
Big Sky Hospitality Holdings, Inc.	Texas
BMB Dining Services (249), Inc.	Texas
BMB Dining Services (290), Inc.	Texas
BMB Dining Services (360), Inc.	Texas
BMB Dining Services (59), Inc.	Texas
BMB Dining Services (Arapahoe), Inc.	Colorado
BMB Dining Services (Austin), Inc.	Texas
BMB Dining Services (Aurora), Inc.	Colorado
BMB Dining Services (Beaumont), Inc.	Texas
BMB Dining Services (Central City), Inc.	Colorado
BMB Dining Services (Frisco), Inc.	Texas
BMB Dining Services (Fuqua), Inc.	Texas
BMB Dining Services (Grapevine), Inc.	Texas
BMB Dining Services (I-10 East), Inc.	Texas
BMB Dining Services (Katy), Inc.	Texas
BMB Dining Services (Lewisville), Inc.	Texas
BMB Dining Services (Lubbock), Inc.	Texas
BMB Dining Services (Pearland), Inc.	Texas
BMB Dining Services (Pembroke Pines), Inc.	Florida
BMB Dining Services (Research), Inc.	Texas
BMB Dining Services (Spring), Inc.	Texas
BMB Dining Services (Stafford), Inc.	Texas
BMB Dining Services (Stemmons), Inc.	Texas
BMB Dining Services (Willowbrook), Inc.	Texas

Name	State of Organization
BMB Franchising Services, Inc.	Texas
BMB Mobile Food Services, Inc.	Texas
Bobby's Novelty, Inc.	Texas
Broadstreets Cabaret, Inc.	Texas
CA Ault Investments, Inc.	Texas
Cabaret North Parking, Inc.	Texas
California Grill LLC	Texas
Citation Land LLC	Texas
Drink Robust, Inc.	Texas
E. D. Publications, Inc.	Texas
Evans Dining Services, Inc.	Colorado
Fantastic Dining, Inc.	Texas
Fantastic Dining #2, Inc.	Texas
Fine Dining Club Inc.	Texas
Forest Lane Ventures, Inc.	Texas
Galena Dining Services, Inc.	Colorado
Glenarm Dining Services, Inc.	Colorado
Global Marketing Agency, Inc.	Texas
Green Star Inc.	Texas
Hotel Development Texas Ltd.	Texas
Illusions Dallas Private Club, LLC	Texas
Indy Restaurant Concepts, Inc.	Indiana
Jaguars Acquisition, Inc.	Texas
Jaguars Holdings, Inc.	Texas
JAI Dining Services (Beaumont), Inc.	Texas
JAI Dining Services (Edinburg), Inc.	Texas
JAI Dining Services (El Paso), Inc.	Texas
JAI Dining Services (Harlingen), Inc.	Texas
JAI Dining Services (Longview), Inc.	Texas
JAI Dining Services (Lubbock), Inc.	Texas
JAI Dining Services (Odessa II), Inc.	Texas
JAI Dining Services (Odessa), Inc.	Texas
JAI Dining Services (Phoenix), Inc.	Texas
JAI Dining Services (Tye), Inc.	Texas
Joint Ventures, Inc.	Texas
JW Lee, Inc.	Florida
Kenkev, Inc.	Maine
Kenkev II, Inc.	Maine
Kingsbury Acquisition, Inc.	Illinois
Main Street Casino Concepts, Inc.	Colorado
Manana Entertainment, Inc.	Texas
Memphis Ventures, Inc.	Texas
Miami Gardens Square One, Inc.	Florida
New Spiros, LLC	Texas
North IH 35 Investments, Incorporated	Texas

Name	State of Organization
Peregrine Enterprises, Inc.	New York
PNC Marketing, Inc.	Texas
Pooh Bah Enterprises, Inc.	Illinois
RB Restaurants, Inc.	Texas
RCI 33 rd Street Ventures, Inc.	New York
RCI Casino Management Services, Inc.	Colorado
RCI Dating Services, Inc.	Texas
RCI Debit Services, Inc.	Texas
RCI Development Services, Inc.	Texas
RCI Dining (DFW), LLC	Texas
RCI Dining Services (16328 I-35), Inc.	Texas
RCI Dining Services (37th Street), Inc.	New York
RCI Dining Services (Airport Freeway), Inc.	Texas
RCI Dining Services (Aledo), Inc.	Texas
RCI Dining Services (Beaumont), Inc.	Texas
RCI Dining Services (Broward), Inc.	Florida
RCI Dining Services (Central City), Inc.	Colorado
RCI Dining Services (Charlotte), Inc.	North Carolina
RCI Dining Services (Composite), Inc.	Texas
RCI Dining Services (Dickinson), Inc.	Texas
RCI Dining Services (Euless), Inc.	Texas
RCI Dining Services (Glenwood), Inc.	Minnesota
RCI Dining Services (Hallandale), Inc.	Florida
RCI Dining Services (Harvey), Inc.	Illinois
RCI Dining Services (Hobby), Inc.	Texas
RCI Dining Services (Imperial Valley), Inc.	Texas
RCI Dining Services (Inwood), Inc.	Texas
RCI Dining Services (Kappa), Inc.	Illinois
RCI Dining Services (Majesty), Inc.	Texas
RCI Dining Services (Manana), Inc.	Texas
RCI Dining Services (Mark IV), Inc.	Texas
RCI Dining Services (Miami), Inc.	Florida
RCI Dining Services (Nashville), Inc.	Tennessee
RCI Dining Services (New York), Inc.	New York
RCI Dining Services (Newburgh), Inc.	New York
RCI Dining Services (Odessa), Inc.	Texas
RCI Dining Services (Pembroke Park), Inc.	Florida
RCI Dining Services (Providence), Inc.	Rhode Island
RCI Dining Services (Round Rock), Inc.	Texas
RCI Dining Services (Sable), Inc.	Texas
RCI Dining Services (Southwest Freeway), Inc.	Texas
RCI Dining Services (Stemmons), Inc.	Texas
RCI Dining Services (Stemmons2), Inc.	Texas
RCI Dining Services (Sulphur), Inc.	Louisiana
RCI Dining Services (Superior Parkway), Inc.	Texas

Name	State of Organization
RCI Dining Services (Tarrant County), Inc.	Texas
RCI Dining Services (Vee), Inc.	Texas
RCI Dining Services (Washington Park), Inc.	Illinois
RCI Dining Services MN (115 S 4th Street), Inc.	Minnesota
RCI Dining Services MN (4th Street), Inc.	Minnesota
RCI Entertainment (3105 I-35), Inc.	Texas
RCI Entertainment (3315 N FWY FW), Inc.	Texas
RCI Entertainment (Austin), Inc.	Texas
RCI Entertainment (Dallas), Inc.	Texas
RCI Entertainment (Fort Worth), Inc.	Texas
RCI Entertainment (Media Holdings), Inc.	Texas
RCI Entertainment (Minnesota), Inc.	Minnesota
RCI Entertainment (New York), Inc.	New York
RCI Entertainment (North Carolina), Inc.	North Carolina
RCI Entertainment (North FW), Inc.	Texas
RCI Entertainment (Northwest Hwy), Inc.	Texas
RCI Entertainment (Philadelphia), Inc.	Pennsylvania
RCI Entertainment (San Antonio), Inc.	Texas
RCI Entertainment (Texas), Inc.	Texas
RCI Entertainment MN (300 South 3rd Street), Inc.	Minnesota
RCI Holdings, Inc.	Texas
RCI IH 635 Property, Inc.	Texas
RCI Internet Holdings, Inc.	Texas
RCI Internet Services, Inc.	Texas
RCI Leasing LLC	Texas
RCI Management Services, Inc.	Texas
RCI Wireway, Inc.	Texas
Rockwall Restaurant Group, Inc.	Texas
S Willy's Lubbock LLC	Texas
Sadco, Inc.	Texas
Solo Concessions, Inc.	Texas
SP Administration, Inc.	Texas
Spiros Partners Ltd.	Texas
ST Dining Services, Inc.	Texas
Stellar Management Corporation	Florida
StorErotica, Inc.	Delaware
Stout Dining Services, Inc.	Colorado
Sunshine Mortgage Investors, Inc.	Florida
Tantra Dance, Inc.	Texas
Tantra Parking, Inc.	Texas
Tennessee Tech Holdings, Inc.	Texas
TEZ Management LLC	Pennsylvania
TEZ Real Estate LP	Pennsylvania
The Grange, Inc.	Colorado
The Set Enterprises, Inc.	Florida

Name	State of Organization
Top Shelf Entertainment LLC	North Carolina
Triple Vision, Inc.	Florida
Trumps, Inc.	Texas
TRR Leasing, Inc.	Texas
TT Leasing LLC	Texas
Virginia Dining Services, Inc.	Colorado
WKC, Inc.	Texas
XTC Cabaret (Dallas), Inc.	Texas
XTC Cabaret, Inc.	Texas

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statements of RCI Hospitality Holdings, Inc. (the "Company") on Form S-3 (No. 333-174207, No. 333-194343 and No. 333-256158) of our report dated December 14, 2023, with respect to our audit of the consolidated financial statements and related consolidated financial statement schedule of the Company as of September 30, 2023 and for the year then ended and our report dated December 14, 2023 with respect to our audit of internal control over financial reporting of the Company as of September 30, 2023, which reports are included in this Annual Report on Form 10-K of the Company for the year ended September 30, 2023.

Our report on the effectiveness of internal control over financial reporting expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of the existence of material weaknesses.

/s/ Marcum LLP

Marcum LLP
Marlton, New Jersey
December 14, 2023

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statements of RCI Hospitality Holdings, Inc. (the "Company") on Form S-3 (No. 333-174207, No. 333-194343 and No. 333-256158) of our report dated December 14, 2022, with respect to our audits of the consolidated financial statements and related consolidated financial statement schedule of the Company as of September 30, 2022 and for each of the years in the two-year period ended September 30, 2022, which report is included in this Annual Report on Form 10-K of the Company for the year ended September 30, 2023. We were dismissed as auditors on January 12, 2023, and, accordingly, we have not performed and audit or review procedures with respect to any financial statements by reference for the periods after the date of our dismissal.

/s/ Friedman LLP

Friedman LLP
Marlton, New Jersey
December 14, 2023

**CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Eric S. Langan, Chief Executive Officer of RCI Hospitality Holdings, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of RCI Hospitality Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2023

By: /s/ Eric S. Langan

Eric S. Langan

Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Bradley Chhay, Chief Financial Officer and Principal Accounting Officer of RCI Hospitality Holdings, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of RCI Hospitality Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2023

By: /s/ Bradley Chhay

Bradley Chhay

Chief Financial Officer/Principal Accounting Officer

**CERTIFICATION PURSUANT TO RULE 13a-14(b) OR
RULE 15d-14(b) and 18 U.S.C. Sec.1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of RCI Hospitality Holdings, Inc. (the "Company") on Form 10-K for the year ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on their knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eric S. Langan

Eric S. Langan
Chief Executive Officer
December 14, 2023

/s/ Bradley Chhay

Bradley Chhay
Chief Financial Officer
December 14, 2023

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to RCI Hospitality Holdings, Inc. and will be retained by RCI Hospitality Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-K and shall not be considered filed as part of the Form 10-K.

RCI HOSPITALITY HOLDINGS, INC.
POLICY FOR RECOVERY OF ERRONEOUSLY AWARDED INCENTIVE
COMPENSATION

(Adopted November 30, 2023)

1. INTRODUCTION

RCI Hospitality Holdings, Inc. (the "Company") is adopting this policy (this "Policy") to provide for the Company's recovery of certain Incentive Compensation (as defined below) awarded to Affected Officers and Key Employees (as defined below) under certain circumstances.

This Policy is administered by the Compensation Committee (the "Committee") of the Company's Board of Directors (the "Board"). The Committee shall have full and final authority to make any and all determinations required or permitted under this Policy. Any determination by the Committee with respect to this Policy shall be final, conclusive and binding on all parties. The Board may amend or terminate this Policy at any time.

This Policy is intended to comply with Section 10D of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), Rule 10D-1 thereunder and the applicable rules of any national securities exchange on which the Company's securities are listed (the "Exchange") and will be interpreted and administered consistent with that intent.

2. DEFINITIONS

For purposes of this Policy, the following terms shall have the meanings set forth below:

"Affected Officer" means any current or former "officer" as defined in Exchange Act Rule 16a-1, and any other senior executive as determined by the Committee.

"Cause" means (x) if an Affected Officer or Key Employee is a party to an employment or a severance agreement with the Company or one of its subsidiaries in which "cause" is defined, the occurrence of any circumstances defined as "cause" in such employment or severance agreement, or (y) if an Affected Officer or Key Employee is not a party to an employment or severance agreement with the Company or one of its subsidiaries in which "cause" is defined, Cause means that the Affected Officer or Key Employee has, during their employment with the Company and its subsidiaries:

1. Engaged in misconduct resulting in either a violation of law or Company policy or procedures, that, in either case, causes significant financial or reputational harm to the Company (or any of its subsidiaries); or
2. Committed a felony or any crime involving fraud, embezzlement or dishonesty; or
3. Violated any securities or employment laws or regulations that in either case resulted in material financial or reputational harm to the Company or any of its subsidiaries; or
4. Materially breached the Company's employment or ethics policies applicable to the Affected Officer or Key Employee or any agreement between the Affected Officer or Key Employee and the Company or any of its subsidiaries (including, without limitation, non-competition, non-solicitation, confidentiality, ownership of works, cooperation, or similar agreements); or
5. Embezzled or misappropriated any property of the Company (or any of its subsidiaries).

"Detrimental Activity" means that the Committee has determined that the Affected Officer or Key Employee has:

1. During their employment with the Company and its subsidiaries, engaged in misconduct, including a material violation of the written policies of the Company or otherwise, or engaged in criminal,

dishonest, fraudulent or unlawful activity, in any event that caused (or would be likely to cause) material financial or reputational harm to the Company, a subsidiary or a business segment; or

2. Materially breached any agreement between the Affected Officer or Key Employee and the Company or any of its subsidiaries, including, without limitation, non-competition, non-solicitation, confidentiality, ownership of works, cooperation, or similar agreements, while employed by the Company or a subsidiary or (if the agreement applies to that timeframe) after termination of employment, in any event that caused (or would be likely to cause) material financial or reputational harm to the Company, a subsidiary or a business segment; or

3. Materially breached their fiduciary duties of loyalty or care to the Company or its subsidiaries.

“Erroneously Awarded Compensation” means the amount of Incentive Compensation received that exceeds the amount of Incentive Compensation that otherwise would have been received had it been determined based on the Restatement, computed without regard to any taxes paid. In the case of Incentive Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the Restatement, the amount shall reflect a reasonable estimate of the effect of the Restatement on the stock price or total shareholder return upon which the Incentive Compensation was received, as determined by the Committee in its sole discretion. The Committee may determine the form and amount of Erroneously Awarded Compensation in its sole discretion.

“Financial Reporting Measure” means any measure that is determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures, whether or not such measure is presented within the financial statements or included in a filing with the Securities and Exchange Commission. Stock price and total shareholder return are Financial Reporting Measures.

“Incentive Compensation” means any compensation that is granted, earned or vested based in whole or in part on the attainment of a Financial Reporting Measure. For purposes of clarity, base salaries, bonuses or equity awards paid solely upon satisfying one or more subjective standards, strategic or operational measures, or continued employment are not considered Incentive Compensation, unless such awards were granted, paid or vested based in part on a Financial Reporting Measure.

“Key Employees” means all employees or former employees of the Company and its subsidiaries who receive or have received Incentive Compensation.

“Recovery Amount” means any Erroneously Awarded Compensation or any amount sought to be recovered from an Affected Officer or Key Employee under Section 4 below. “Restatement” means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (i.e., a “Big R” restatement), or that would result in a material misstatement if the error was corrected in the current period or left uncorrected in the current period (i.e., a “little r” restatement).

3. RECOVERY FOR RESTATEMENT

If the Company is required to prepare a Restatement, the Company shall seek to recover and claw back from any Affected Officer reasonably promptly the Erroneously Awarded Compensation that is received by the Affected Officer:

- A. After the person begins service as an Affected Officer;
- B. Who serves as an Affected Officer at any time during the performance period for that Incentive Compensation;
- C. While the Company has a class of securities listed on the Exchange; and

D. During the three completed fiscal years immediately preceding the date on which the Company was required to prepare the Restatement (including any transition period within or immediately following those years that results from a change in the Company's fiscal year, provided that a transition period of nine to 12 months will be deemed to be a completed fiscal year).

If, after the release of earnings for any period for which a Restatement subsequently occurs and prior to the announcement of the Restatement for such period, the Affected Officer sold any securities constituting, or any securities issuable on exercise, settlement or exchange of any equity award constituting, Incentive Compensation, the excess of (a) the actual aggregate sales proceeds from the Affected Officer's sale of those shares, over (b) the aggregate sales proceeds the Affected Officer would have received from the sale of those shares at a price per share determined appropriate by the Committee in its discretion to reflect what the Company's common stock price would have been if the Restatement had occurred prior to such sales, shall be deemed to be Erroneously Awarded Compensation; provided, however, that the aggregate sales proceeds determined by the Committee under this clause (b) with respect to shares acquired upon exercise of an option shall not be less than the aggregate exercise price paid for those shares.

For purposes of this Policy:

1. Erroneously Awarded Compensation is deemed to be received in the Company's fiscal year during which the Financial Reporting Measure specified in the Incentive Compensation is attained, even if the payment or grant of the Incentive Compensation occurs after the end of that period; and

2. The date the Company is required to prepare a Restatement is the earlier of (x) the date the Board, the Committee or any officer of the Company authorized to take such action concludes, or reasonably should have concluded, that the Company is required to prepare the Restatement, or (y) the date a court, regulator, or other legally authorized body directs the Company to prepare the Restatement.

For purposes of clarity, in no event shall the Company be required to award any Affected Officers an additional payment or other compensation if the Restatement would have resulted in the grant, payment or vesting of Incentive Compensation that is greater than the Incentive Compensation actually received by the Affected Officer. The recovery of Erroneously Awarded Compensation is not dependent on if or when the Restatement is filed.

4. RECOVERY FOR OTHER CIRCUMSTANCES

A. Detrimental Activity

1. Application. This Section applies to all Affected Officers and Key Employees.

2. Triggering Event. This Section shall apply if the Affected Officer or Key Employee engages in Detrimental Activity during their employment with the Company and its subsidiaries, and the Company becomes aware of the Detrimental Activity either during (A) the Affected Officer or Key Employee's employment with the Company or any subsidiary, or (B) the two-year period following the termination of the Key Employee's employment with the Company and its subsidiaries for any reason or no reason, or

3. Consequences. If this Section applies, then to the fullest extent permitted by applicable law, if and to the extent directed by the Committee in its sole discretion, the Affected Officer or Key Employee shall:

i. Immediately forfeit all outstanding Incentive Compensation then held that has not yet been paid or exercised; and

ii. Immediately forfeit the remaining payments and benefits, if any, due to him or her under the Company's severance policy or an individually negotiated separation agreement with the Company or a subsidiary (collectively, the "Severance Program"), and

iii. Immediately upon written demand repay to the Company the severance amounts, if any, paid to the Affected Officer or Key Employee under the Severance Program prior to the date that the Affected Officer or Key Employee receives the written demand.

B. Termination For Cause

1. Application. This Section applies to all Affected Officers and Key Employees.

2. Triggering Event. This Section shall apply if:

i. The Company terminates an Affected Officer or Key Employee's employment for Cause, or

ii. The Affected Officer or Key Employee committed any act or omission during their employment with the Company and its subsidiaries that would have constituted Cause while he or she was employed by the Company or any subsidiary, and the Company becomes aware of such act or omission during the two-year period following the termination of the Affected Officer or Key Employee's employment with the Company and its subsidiaries for any reason or no reason.

3. Consequences. If this Section applies, then to the fullest extent permitted by applicable law, if and to the extent directed by the Committee in its sole discretion, the Affected Officer or Key Employee shall:

i. Immediately forfeit all outstanding Incentive Compensation then held that have not yet been paid or exercised, and

ii. Immediately forfeit the remaining payments and benefits, if any, due to him or her under the Severance Program, and

iii. Immediately upon written demand repay to the Company the severance amounts, if any, paid to the Affected Officer or Key Employee under the Severance Program prior to the date that the Affected Officer or Key Employee receives the written demand.

5. SOURCES OF RECOUPMENT

To the extent permitted by applicable law, the Committee may, in its discretion, seek recoupment from the Affected Officer or Key Employee through any means it determines, which may include any of the following sources: (i) prior Incentive Compensation payments; (ii) future payments of Incentive Compensation; (iii) cancellation of outstanding Incentive Compensation; (iv) direct repayment; and (v) non-Incentive Compensation or securities held by the Affected Officer or Key Employee. To the extent permitted by applicable law, the Company may offset such amount against any compensation or other amounts owed by the Company to the Affected Officer or Key Employee.

6. LIMITED EXCEPTIONS TO RECOVERY

Notwithstanding the foregoing, the Committee, in its discretion, may choose to forgo recovery of any Recovery Amount under the following circumstances, provided that the Committee has made a determination that recovery would be impracticable because:

A. The direct expense paid to a third party to assist in enforcing this Policy would exceed the recoverable amounts; provided that the Company has made a reasonable attempt to recover such Recovery Amount, has documented such attempt and has (to the extent required) provided that documentation to the Exchange; or

B. Recovery would violate home country law where the law was adopted prior to November 28, 2022, and the Company provides an opinion of home country counsel to that effect to the Exchange that is acceptable to the Exchange; or

C. Recovery would likely cause an otherwise tax-qualified retirement plan to fail to meet the requirements of the Internal Revenue Code of 1986, as amended.

7. MISCELLANEOUS

A. Effective Date. This Policy shall apply to all Incentive Compensation paid or awarded on or after the date of adoption of this Policy, and to the extent permitted or required by applicable law.

B. Incorporation into Covered Agreements. Each award agreement or other document setting forth the terms and conditions of Incentive Compensation or a Severance Program (collectively, a "Covered Agreement") shall include a provision incorporating the terms and conditions of the Recoupment Policy; provided that the Company's failure to incorporate the Recoupment Policy into any Covered Agreement shall not waive the Company's right to enforce the Policy. In the event of any inconsistency between the provisions of the Policy and the applicable Covered Agreement, the terms of the Policy shall govern.

C. Not Exclusive Of Other Remedies. This Policy does not preclude the Company from taking any other action to enforce an Affected Officer's or Key Employee's obligations to the Company, including termination of employment, institution of civil proceedings, or reporting of any misconduct to appropriate government authorities. This Policy is in addition to the requirements of Section 304 of the Sarbanes-Oxley Act of 2002 ("Section 304") that are applicable to the Company's Chief Executive Officer and Chief Financial Officer. However, any amount recovered from the Company's Chief Executive Officer or Chief Financial Officer under Section 304 shall offset any Erroneously Awarded Compensation amount due from either person.

D. No Indemnification, Insurance Or Reimbursement. The Company will not indemnify, insure or otherwise reimburse any Affected Officer or Key Employee against the recovery of Recovery Amount.

E. Severability. If any provision of this Policy is determined to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted by applicable law, and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law.

F. Waiver. The waiver by the Company or the Committee with respect to compliance of any provision of this Policy by a Covered Employee or Key Employee shall not operate or be construed as a waiver of any other provision of this Policy, or of any subsequent acts or omissions by an Affected Officer or Key Employee under this Policy.