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

FORM 10-K

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

For the fiscal year ended September 30, 2017

☐ 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 (I.R.S. Employer incorporation or organization Identification No.)

10737 Cutten Road, Houston, Texas 77066

(Address of principal executive offices)

(281) 397-6730

Registrant's telephone number, including area code

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

Common Stock, \$0.01 Par Value

(Title of class)

NASDAQ Stock Market LLC

Name of each exchange on which registered

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☒

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 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 \$155,616,355.

As of January 31, 2018, there were approximately 9,718,711 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 operating and managing an adult business, the business climates in cities where it operates, the success or lack thereof in launching and building the company’s businesses, risks and uncertainties related to cyber security, conditions relevant to real estate transactions, and 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.

INTRODUCTION

RCI Hospitality Holdings, Inc. (sometimes referred to as RCIHH herein) is a holding company engaged in a number of activities in the hospitality and related businesses. All services and management operations are conducted by subsidiaries of RCIHH, including RCI Management Services, Inc.

Through our subsidiaries, as of November 30, 2017, we operated a total of 45 establishments that offer live adult entertainment, and/or restaurant and bar operations. We also operated a leading business communications company (the “Media Group”) serving the multibillion-dollar adult nightclubs industry. We have two principal reportable segments: Nightclubs and Bombshells. In the context of club and restaurant/sports bar operations, the terms “Company,” “we,” “our,” “us” and similar terms used in this Form 10-K refer to subsidiaries of RCIHH. Excepting executive officers of RCIHH, any employment referenced in this document is not with RCIHH but solely with one of its subsidiaries. RCIHH was incorporated in the State of Texas in 1994.

Our fiscal year ends on September 30. References to years 2017, 2016 and 2015 are for fiscal years ended September 30, 2017, 2016 and 2015, respectively. Our fiscal quarters chronologically end on December 31, March 31, June 30 and September 30.

Our 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. Information contained in the website shall not be construed as part of this Form 10-K.

OUR BUSINESS

We operate several businesses, which we aggregate for financial reporting into two reportable segments – Nightclubs and Bombshells – and combine other operating segments into “Other.”

Nightclubs

We operate our nightclubs through the following brands that target many different demographics of customers by providing a unique, quality entertainment environment. Our adult entertainment clubs do business as Rick’s Cabaret, Jaguar’s Club, Tootsie’s Cabaret, XTC Cabaret, Club Onyx, Hoops Cabaret and Sports Bar, Scarlett’s Cabaret, Temptations Adult Cabaret, Foxy’s Cabaret, Vivid Cabaret, Downtown Cabaret, Cabaret East, The Seville, and Silver City Cabaret. We also operate dance clubs under the brand name Studio 80.

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

During fiscal 2017, Nightclub segment sales mix was 47% service revenue; 39% alcoholic beverages; and 14% food, merchandise and other, which had a combined segment gross margin (revenues less cost of goods sold) of approximately 87%.

We acquired Hollywood Showclub and other properties in the Greater St. Louis area in April 2017 for a total purchase price of \$4.2 million. In May 2017, we acquired Scarlett's Cabaret Miami for a total purchase price of approximately \$26.0 million. In July 2017, we relaunched Hollywood Showclub as Scarlett's Cabaret St. Louis, and in August 2017, we opened Hollywood Hunt Club, a 51% joint venture, located on one of the other Greater St. Louis properties we acquired.

A list of our nightclub locations is in Item 2—“Properties.”

Bombshells

As of September 30, 2017, our five Bombshells were located in Texas with one in Dallas, one in Austin and three in the Houston area. In 2015, our subsidiary, BMB Franchising Services, Inc. (“BMB Franchising”), announced that it was beginning a nationwide franchising program for Bombshells. As of March 2016, BMB Franchising has received approval to sell franchises in all 50 states. The restaurant 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.

We opened the first Bombshells in March 2013 in Dallas, quickly becoming one of the most popular restaurant destinations in the area. Within a year, four more opened in the Austin and Houston, Texas areas. Of the five, three are freestanding pad sites and two are inline locations. In September 2016, we closed one Bombshells location in Webster, Texas. In July 2017, we opened another Bombshells location in Houston.

During fiscal 2017, sales mix was 63% alcoholic beverages and 37% food, merchandise and other, which had a combined segment gross margin (revenues less cost of goods sold) of 75%.

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

Media Group

The Media Group, made up of wholly-owned subsidiaries, 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 tradeshow; 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; produces the Annual Gentlemen's Club Owners EXPO, a national convention and tradeshow; and offers the exclusive ED VIP Club Card, honored at more than 850 adult nightclubs. 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.

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 and dining experience; 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 the circumstances warrant. 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, or other strategic rationale in management's opinion, as baseline, we believe we are able to make better investment decisions.

Based on our current capital allocation strategy:

- 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 buying back our own stock if the after-tax yield on free cash flow climbs over 10%;
- We consider paying down our most expensive debt if it makes sense on a tax adjusted basis, or there is an otherwise strategic rationale.

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," and "Foxy's Cabaret" 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. Minnesota, North Carolina, Indiana, Louisiana, Arizona, Pennsylvania, Florida, and New York 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,” and “Vee Lounge” 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.,” “RICKS,” “RICK’S CABARET,” “CLUB ONYX,” “XTC CABARET,” “SCARLETT’S CABARET,” “SILVER CITY CABARET,” “BOMBSHELLS RESTAURANT AND BAR,” “THE SEVILLE CLUB,” “DOWN IN TEXAS SALOON,” “CLUB DULCE,” “THE BLACK ORCHID,” “HOOPS CABARET,” “STUDIO 80,” “FOXY’S CABARET” and “EXOTIC DANCER” 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 name “TOOTSIES CABARET” 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

As of September 30, 2017, we had approximately 2,130 employees, of which approximately 180 are in management positions, including corporate and administrative operations, and approximately 1,950 are engaged in entertainment, food and beverage service, including bartenders, waitresses, and certain entertainers. None of our employees are represented by a union. We consider our employee relations to be good. Additionally, as of September 30, 2017, 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 act as commissioned employees. All employees and independent contractors sign arbitration non-class action participation agreements.

We believe that the adult entertainment industry standard of treating entertainers as independent contractors provides us with safe harbor protection to preclude payroll tax assessment for prior years. We have prepared plans that we believe will protect our profitability in the event that 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.”

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.

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.

Our business has been, and may continue to be, adversely affected by conditions in the U.S. financial markets and economic conditions generally.

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 value, mostly allocated to licenses and goodwill. Generally accepted accounting principles require an annual impairment review of these indefinite-lived intangible assets. As a result of our annual impairment review, we recorded impairment charges of \$7.6 million in 2017 (including \$4.7 million of goodwill impairment on three operating clubs and one property held for sale, \$385,000 of property and equipment impairment on one operating club, \$1.4 million of license impairment on two clubs, and \$1.2 million of other-than-temporary impairment recognized on our cost method investment in Robust), \$3.5 million in 2016 (including \$1.4 million in one of our properties held for sale and \$2.1 million of license impairment on one club), and \$1.7 million in 2015 (for license impairment of two clubs). If difficult market and economic conditions materialize over the next year and/or we experience a decrease in revenue at one or more nightclubs, we could incur a decline in fair value of one or more of our nightclubs. This could result in future impairment charges of up to the total value of the indefinite-lived intangible assets.

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 different 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 reduced. We cannot assure you 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 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.

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, 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 cabarets. 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 cabarets. 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 and 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.

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 the 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.

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.

Security breaches of confidential customer information or personal employee information may adversely affect our business.

A significant portion of our revenues are paid through debit and credit cards. Other restaurants and retailers have experienced significant security breaches in which debit and credit card information or other personal information of their customers have been stolen. We also maintain certain personal information regarding our employees. Although we aim to safeguard our technology systems, they could potentially be vulnerable to damage, disability or failures due to physical theft, fire, power outage, telecommunication failure or other catastrophic events, as well as from internal and external security breaches, employee error or malfeasance, denial of service attacks, viruses, worms and other disruptive problems caused by hackers and cyber criminals. A breach in our systems that compromises the information of our customers or employees could result in widespread negative publicity, damage to our reputation, a loss of customers, and legal liabilities. We may in the future become subject to lawsuits or other proceedings for purportedly fraudulent transactions arising from the actual or alleged theft of our customers' debit and credit card information or if customer or employee information is obtained by unauthorized persons or used inappropriately. Any such claim or proceeding, or any adverse publicity resulting from such an event, may have a material adverse effect on our business.

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.

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 reconcepted 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.

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. There is no assurance that we will be able to maintain compliance with the NASDAQ continued listing requirements.

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

We will 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, 2017 because of certain material weaknesses. We are, however, addressing these issues and updating our policies and procedures. Upon finalizing these policies and procedures and ensuring they are effectively applied, we believe our internal control will be deemed effective. Correcting this issue, and thereafter our continued compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. Moreover, if we are not able to correct our internal control issues 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, 2017 and concluded that we did not maintain effective internal control over financial reporting. Specifically, management identified material weaknesses over (1) certain information technology application and general computer controls, (2) complex accounting matters related to assets held for sale, business combinations, cost method investments, income taxes, and the impairment analyses for indefinite-lived intangible assets, goodwill, and property and equipment, and (3) financial reporting and disclosures—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 determined to have not been 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.

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 during 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.

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 Texas Alcoholic Beverage Code. 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.

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. Currently, there are several civil lawsuits pending against the Company and its subsidiaries. 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. We have 8 unresolved cases left out of the original 71 cases.

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,” and “Vee Lounge” 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. “RICK’S AND STARS DESIGN” logo, “RCI HOSPITALITY HOLDINGS, INC.,” “RICKS,” “RICK’S CABARET,” “CLUB ONYX,” “XTC CABARET,” “SCARLETT’S CABARET,” “SILVER CITY CABARET,” “BOMBHELLS RESTAURANT AND BAR,” “THE SEVILLE CLUB,” “DOWN IN TEXAS SALOON,” “THE BLACK ORCHID,” “HOOPS CABARET,” “STUDIO 80,” “FOXY’S CABARET,” “CLUB DULCE” and “EXOTIC DANCER” are registered through service mark registrations issued by the United States Patent and Trademark Office. As of this date, we have pending registration application for the name “TOOTSIE’S CABARET.” 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.

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;
- sales by selling shareholders of shares issued or issuable in connection with certain convertible notes;
- 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.

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. 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. We maintain key-man life insurance with respect to Mr. Langan. Although Mr. Langan is under an employment agreement (as described herein), there can be no assurance that Mr. Langan will continue to be employed by us.

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.

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.

Recently enacted legislation may significantly affect our results of operations, cash flows and financial condition.

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was signed into law. The Tax Act contains significant changes to corporate taxation, including reduction of the corporate tax rate from 35% to 21%, additional limitations on the tax deductibility of interest, immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modification or repeal of many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the Tax Act is uncertain, and our results of operations, cash flows and financial condition, as well as the trading price of our common stock, could be adversely affected.

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), 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.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties .

We currently own 46 real estate properties. On 32 of these properties, we operate clubs or restaurants. We lease multiple other properties to third-party tenants. Four of our owned properties are locations where we previously operated clubs but now lease the buildings to third parties. Four are non-income producing properties for corporate use, including our corporate office. Three other properties are currently offered for sale. The remaining three properties are for two under construction future Bombshells sites and one adjacent property that may be offered for sale in the future. Thirteen 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 operate:

Name of Establishment	Year Acquired/Opened
Club Onyx, Houston, TX	1995
Rick's Cabaret, Minneapolis, MN	1998
XTC Cabaret, Austin, TX	1998
XTC Cabaret, San Antonio, TX	1998
XTC Cabaret, Houston, TX	2004(2)
Rick's Cabaret, New York City, NY	2005
Club Onyx, Charlotte, NC	2005(2)
Rick's Cabaret, San Antonio, TX	2006
XTC Cabaret, South Houston, TX	2006(2)
Rick's Cabaret, Fort Worth, TX	2007
Tootsie's Cabaret, Miami Gardens, FL	2008
XTC Cabaret, Dallas, TX	2008
Club Onyx, Dallas, TX	2008
Club Onyx, Philadelphia, PA	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
Temptations, Aledo, TX	2011(2)
Silver City Cabaret, Dallas, TX	2012
Jaguars Club, Odessa, TX	2012
Jaguars Club, Phoenix, AZ	2012
Jaguars Club, Lubbock, TX	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(2)
Bombshells, Dallas, TX	2013
Temptations, Sulphur, LA	2013
Temptations, Beaumont, TX	2013
Vivid Cabaret, New York, NY	2014(2)
Bombshells, Austin, TX	2014(2)
Rick's Cabaret, Odessa, TX	2014
Bombshells, Spring TX	2014(2)
Bombshells, Houston, TX	2014(2)
Foxy's Cabaret, Austin TX	2015
The Seville, Minneapolis, MN	2015
Hoops Cabaret and Sports Bar, New York, NY	2016(2)
Studio 80, Webster, TX	2017(1)(2)
Bombshells, Highway 290 Houston, TX	2017(2)
Scarlett's Cabaret, Washington Park, IL	2017
Scarlett's Cabaret, Miami, FL	2017(2)
Hollywood Hunt Club, Centerville, IL	2017

(1) Reconcepted in 2017.

(2) Leased location.

Our property leases are typically for a fixed rental rate without revenue percentage rentals. The lease terms generally have initial terms of 10 to 20 years with renewal terms of 5 to 20 years. At September 30, 2017, certain of our owned properties were collateral for mortgage debt amounting to approximately \$74.8 million. Also, see more information in Notes 5, 8 and 11 to our consolidated financial statements.

Item 3. Legal Proceedings.

See the “Legal Matters” section within Note 11 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." The following table sets forth the quarterly high and low of sales prices per share for the common stock for the last two fiscal years.

COMMON STOCK PRICE RANGE	High	Low
<u>Fiscal Year Ended September 30, 2017</u>		
First Quarter	\$ 17.99	\$ 10.92
Second Quarter	\$ 18.00	\$ 16.02
Third Quarter	\$ 25.47	\$ 16.32
Fourth Quarter	\$ 26.85	\$ 21.91
<u>Fiscal Year Ended September 30, 2016</u>		
First Quarter	\$ 10.75	\$ 9.38
Second Quarter	\$ 9.94	\$ 7.50
Third Quarter	\$ 11.10	\$ 8.77
Fourth Quarter	\$ 11.60	\$ 9.90

On January 31, 2018, the closing stock price for our common stock as reported by NASDAQ was \$29.38. On January 31, 2018, there were approximately 164 stockholders of record of our common stock (excluding broker held shares in "street name"). We estimate that there are approximately 6,500 stockholders having beneficial ownership in street name.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219.

DIVIDEND POLICY

Prior to 2016, we have 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 has declared quarterly cash dividends of \$0.03 per share (\$0.12 per share on an annual basis). During fiscal 2017 and 2016, we paid an aggregate amount of \$1.2 million and \$862,000, respectively, for cash dividends.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER

During the fiscal year ended September 30, 2017, we purchased a total of 89,685 shares of common stock in the open market at prices ranging from \$11.24 to \$13.87. As of September 30, 2017, we have \$3.1 million remaining to purchase additional shares.

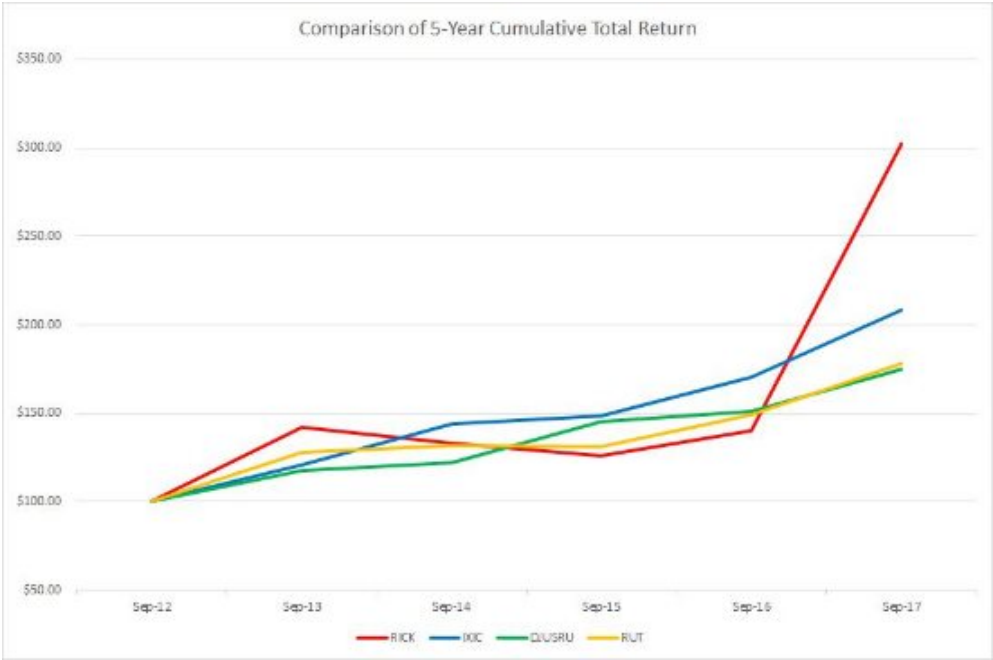
We did not repurchase shares of the Company's common stock during the three months ended September 30, 2017.

EQUITY COMPENSATION PLAN INFORMATION

We have no stock options nor any other equity award outstanding under equity compensation plans as of September 30, 2017.

STOCK PERFORMANCE GRAPH

The following chart compares the 5-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, 2012 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 both 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.



Item 6. Selected Financial Data.

The following tables set forth certain of the Company's historical financial data. The selected historical consolidated financial position data as of September 30, 2017 and 2016 and results of operations data for the years ended September 30, 2017, 2016 and 2015 have been derived from the Company's audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated financial data as of September 30, 2015, 2014 and 2013 and for the years ended September 30, 2014 and 2013 have been derived from the Company's audited financial statements for such years, as revised (see footnote 3 below), which are not included in this Annual Report on Form 10-K. The selected historical consolidated financial data set forth are not necessarily indicative of the results of future operations and should be read in conjunction with the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the historical consolidated financial statements and accompanying notes included herein. The historical results are not necessarily indicative of the results to be expected in any future period.

Please read the following selected consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K for a discussion of information that will enhance understanding of these data (in thousands, except per share data and percentages).

Financial Statement Data:

	Years Ended September 30,				
	2017	2016	2015	2014	2013
Revenue(1)	\$ 144,896	\$ 134,860	\$ 135,449	\$ 121,432	\$ 105,921
Income from operations(3)	\$ 23,139	\$ 20,693	\$ 20,727	\$ 18,875	\$ 21,883
Net income attributable to RCIHH(3)	\$ 8,259	\$ 11,218	\$ 9,214	\$ 11,161	\$ 9,191
Diluted earnings per share	\$ 0.85	\$ 1.11	\$ 0.89	\$ 1.13	\$ 0.96
Capital expenditures	\$ 11,249	\$ 28,148	\$ 19,259	\$ 16,034	\$ 9,675
Dividends declared per share	\$ 0.12	\$ 0.09	\$ -	\$ -	\$ -

	September 30,				
	2017	2016	2015	2014	2013
Cash and cash equivalents	\$ 9,922	\$ 11,327	\$ 8,020	\$ 9,964	\$ 10,638
Total current assets(3)	\$ 26,242	\$ 29,387	\$ 16,935	\$ 17,973	\$ 16,042
Total assets(3)	\$ 299,884	\$ 276,061	\$ 266,527	\$ 233,383	\$ 218,242
Total current liabilities (excluding current portion of long-term debt)(3)	\$ 13,671	\$ 17,087	\$ 15,580	\$ 28,527	\$ 20,083
Long-term debt (including current portion)	\$ 124,352	\$ 105,886	\$ 94,349	\$ 70,092	\$ 78,352
Total liabilities(3)	\$ 164,659	\$ 146,722	\$ 138,973	\$ 120,918	\$ 121,127
Total RCIHH stockholders' equity(3)	\$ 132,745	\$ 126,755	\$ 121,691	\$ 109,455	\$ 93,781
Common shares outstanding	9,719	9,808	10,285	10,067	9,504

Non-GAAP Measures and Other Data:

	Years Ended September 30,				
	2017	2016	2015	2014	2013
Adjusted EBITDA(2)	\$ 37,348	\$ 34,531	\$ 34,125	\$ 31,703	\$ 27,733
Non-GAAP operating income(2)(3)	\$ 30,668	\$ 27,566	\$ 27,974	\$ 25,762	\$ 23,864
Non-GAAP operating margin(2)(3)	21.2%	20.4%	20.7%	21.2%	22.5%
Non-GAAP net income(2)(3)	\$ 13,953	\$ 13,302	\$ 13,873	\$ 11,882	\$ 10,780
Non-GAAP diluted net income per share(2)(3)	\$ 1.43	\$ 1.32	\$ 1.34	\$ 1.19	\$ 1.13
Free cash flow(2)	\$ 19,281	\$ 20,513	\$ 14,889	\$ 18,734	\$ 17,153
Same-store sales	4.9%	-1.3%	-1.5%	2.8%	-1.2%

- (1) Due to a change in accounting policy, we have reported revenues net of sales taxes and other revenue related taxes since the beginning of fiscal 2016. Prior year revenues and expenses have been revised to reflect this change. Refer to Note 2 to the consolidated financial statements for further discussion.
- (2) Reconciliation and discussion of non-GAAP financial measures are included under the “Non-GAAP Financial Measures” section of Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations” that follows. See also notes on comparability of adjustment items at the end of this section. These measures should be considered in addition to, rather than as a substitute for, U.S. GAAP measures.
- (3) We revised the financial statements for the years ended September 30, 2016, 2015 and 2014 due to misstatements that could have been material if corrected cumulatively in the current year. See Note 3 to the consolidated financial statements for details.

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, El Paso and Odessa, Texas; Charlotte, North Carolina; Minneapolis, Minnesota; New York, New York; Miami Gardens and Pembroke Park, Florida; Philadelphia, Pennsylvania; Phoenix, Arizona; and Washington Park, Illinois. No sexual contact is permitted at any of our locations. We also own and operate Studio 80 dance clubs in Fort Worth and Webster, Texas.
Bombshells	Our wholly-owned subsidiaries own and operate non-adult nightclubs, restaurants, and sports bars in Houston, Dallas, Austin and Spring, Texas under the brand name Bombshells Restaurant & Bar.
Media Group	Our wholly-owned subsidiaries own a media division, 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.

Our revenues are derived from the sale of liquor, beer, wine, food, merchandise, cover charges, membership fees, facility use fees, commissions from vending and ATM machines, valet parking and other products and services for both nightclub and restaurant/sports bar operations. Media Group revenues include the sale of advertising content and revenues from our annual Expo convention. Our fiscal year-end is September 30.

We calculate same-store sales by comparing year-over-year revenues from nightclubs and restaurants/sports bars operating at least 12 full months. 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 month of operations. We also exclude from the same-store sales base units that are being reconcepted 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 definition stated above. Revenues outside of our Nightclubs and Bombshells reportable segments 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 associates—to become more competitive and to accelerate growth in a manner that creates value for our shareholders.

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 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.

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 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. During the fourth quarter of fiscal 2017, we impaired one club by \$385,000, and during the fourth quarter of fiscal 2016, we impaired one property held for sale by \$1.4 million.

Investment

During the fourth quarter of fiscal 2017, we also fully impaired our remaining investment in Drink Robust amounting to \$1.2 million.

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 material change in the estimates or assumptions we used to calculate impairment charges.

For our goodwill impairment review, we 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, we perform a Step 1 analysis to determine the fair value of the reporting unit. The fair value is determined using market-related valuation models, including earnings multiples, discounted cash flows, and comparable asset market values. As detailed within Note 2 of our consolidated financial statements, we adopted ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, during Q4 of 2017, and accordingly, 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, 2017, we identified four reporting units that were impaired and recognized a goodwill impairment loss totaling \$4.7 million.

For indefinite-lived intangibles, specifically 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 \$1.4 million for 2017, \$2.1 million for 2016 and \$1.7 million for 2015, related to two clubs in 2017, one club in 2016 and two clubs in 2015.

Income Taxes

We estimate certain components of our provision for income taxes. 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.

On December 22, 2017, the Tax Act was signed into law. The Tax Act contains significant changes to corporate taxation, including reduction of the corporate tax rate from 35% to 21%, additional limitations on the tax deductibility of interest, immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modification or repeal of many business deductions and credits. Our annual effective tax rate will be adjusted in our first quarter ended December 31, 2017, the period when the Tax Act has been enacted.

Legal and Other Contingencies

As mentioned in Item 3 – “Legal Proceedings” and in a more detailed discussion in Note 11 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.

OPERATIONS REVIEW

The following tables present a comparison of our results of operations as a percentage of total revenues for the past three fiscal years:

	2017	2016	2015
Sales of alcoholic beverages	41.7%	42.4%	41.2%
Sales of food and merchandise	12.6%	13.3%	13.8%
Service revenues	40.1%	38.0%	39.1%
Other	5.6%	6.3%	5.8%
Total revenues	100.0%	100.0%	100.0%
Cost of goods sold			
Alcoholic beverages	21.7%	22.1%	21.6%
Food and merchandise	40.5%	38.0%	39.9%
Service and other	0.3%	1.9%	1.3%
Total cost of goods sold (exclusive of items shown separately below)	14.3%	15.2%	15.0%
Salaries and wages	27.6%	27.8%	27.9%
Selling, general and administrative	32.3%	31.9%	32.2%
Depreciation and amortization	4.8%	5.4%	5.2%
Other charges	5.0%	4.3%	4.5%
Total operating expenses	84.0%	84.7%	84.7%
Income from operations	16.0%	15.3%	15.3%
Interest expense	-6.0%	-5.9%	-5.1%
Interest income	0.2%	0.1%	0.0%
Non-operating gains	0.0%	0.0%	0.2%
Income before income taxes	10.1%	9.5%	10.3%
Income taxes	4.4%	1.8%	3.8%
Net income	5.7%	7.8%	6.6%

Percentages may not foot due to rounding. Percentage of revenue for individual cost of goods sold items pertains to their respective revenue line.

We have revised prior year financial statements to correct certain misstatements that could have a material impact if corrected cumulatively in the current year. See Note 3 to the consolidated financial statements for details.

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)

	Increase (Decrease)			
	2017 vs. 2016		2016 vs. 2015	
	Amount	%	Amount	%
Sales of alcoholic beverages	\$ 3,223	5.6%	\$ 1,387	2.5%
Sales of food and merchandise	356	2.0%	(813)	-4.3%
Service revenues	6,856	13.4%	(1,738)	-3.3%
Other	(399)	-4.7%	575	7.3%
Total revenues	10,036	7.4%	(589)	-0.4%
Cost of goods sold				
Alcoholic beverages	490	3.9%	588	4.9%
Food and merchandise	588	8.6%	(657)	-8.8%
Service and other	(903)	-81.2%	298	36.6%
Total cost of goods sold (exclusive of items shown separately below)	175	0.9%	229	1.1%
Salaries and wages	2,572	6.9%	(275)	-0.7%
Selling, general and administrative	3,700	8.6%	(523)	-1.2%
Depreciation and amortization	(408)	-5.6%	283	4.0%
Other charges, net	1,551	26.9%	(269)	-4.5%
Total operating expenses	7,590	6.6%	(555)	-0.5%
Income from operations	2,446	11.8%	(34)	-0.2%
Interest expense	(782)	9.8%	(1,013)	14.5%
Interest income	135	103.1%	116	773.3%
Non-operating gains	-	0.0%	(229)	-100.0%
Income before income taxes	1,799	14.0%	(1,160)	-8.3%
Income taxes	3,986	168.0%	(2,738)	-53.6%
Net income	\$ (2,187)	-20.9%	\$ 1,578	17.7%

Revenues

Our total consolidated revenues for fiscal 2017 amounted to \$144.9 million compared to \$134.9 million for fiscal 2016 and \$135.4 million for fiscal 2015. The increase of \$10.0 million, or 7.4%, from 2016 to 2017 was primarily due to 7.4% increase in new or reconcepted locations and the impact of the 4.9% full year increase in same-store sales, partially offset by a 3.8% decrease from closed locations and a minimal decrease from other revenue items. The \$589,000, or 0.4%, decrease from 2015 to 2016 was primarily due to the impact of the 1.3% decrease in same-store sales partially offset by an increase in rental income and sale of energy drinks.

By reportable segment, revenues were as follows (in thousands):

	2017	2016	2015
Business segment revenues:			
Nightclubs	\$ 124,687	\$ 113,941	\$ 115,493
Bombshells	18,830	18,690	17,639
Other	1,379	2,229	2,317
	<u>\$ 144,896</u>	<u>\$ 134,860</u>	<u>\$ 135,449</u>

Nightclubs revenues increased by 9.4% from 2016 to 2017, while decreasing by 1.3% from 2015 to 2016. A breakdown of the changes is as follows:

	2017 vs. 2016	2016 vs. 2015
Impact of 5.1% increase and 2.3% decrease in same-store sales, respectively	4.8%	(2.2%)
New and reconcepted units	7.7%	1.4%
Closed units	(3.2%)	(1.1%)
Other	0.1%	0.5%
	<u>9.4%</u>	<u>(1.3%)</u>

Included in 2017 new units are clubs acquired in the third quarter of 2017, Scarlett's Cabaret Miami and Hollywood Showclub (the latter now relaunched and rebranded as Scarlett's Cabaret St. Louis), which contributed a combined \$5.6 million in revenues since the acquisition dates.

Bombshells revenues increased by 0.7% from 2016 to 2017, and increased by 6.0% from 2015 to 2016. A breakdown of the changes is as follows:

	2017 vs. 2016	2016 vs. 2015
Impact of 3.5% and 5.1% increase in same-store sales, respectively	3.2%	4.8%
New units	5.8%	1.2%
Closed units	(8.3%)	0.0%
	<u>0.7%</u>	<u>6.0%</u>

Bombshells Webster was closed toward the end of the fourth quarter of 2016, while Bombshells 290 was opened early in the fourth quarter of 2017.

Other revenues included revenues from Drink Robust, which was sold during the fourth quarter of 2016.

Operating Expenses

Total operating expenses, as a percent of revenues, were 84.0%, 84.7% and 84.7% for the fiscal year 2017, 2016 and 2015, respectively. Significant contributors to the change in operating expenses as a percent of revenues are explained below.

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding and media. As a percentage of revenues, total cost of goods sold was 14.3%, 15.2% and 15.0%, respectively, mainly due to the increase in service revenue in the mix, which contributes a higher gross margin. See above for breakdown of percentages for each line item of cost of goods sold as it relates to the respective revenue line.

Salaries and wages increased by \$2.6 million, or 6.9%, from 2016 to 2017, and decreased by \$275,000, or 0.7%, from 2015 to 2016. The increase from 2016 to 2017 was mainly due to additional corporate headcount to support the commencement of our franchising effort, our return to a growth model (see discussion in our Growth Strategy section below), and a shift to employee status of certain entertainers in Minneapolis and Phoenix (as discussed in the Business section above). As a percentage of revenues, salaries and wages remained relatively flat at 27.6%, 27.8% and 27.9% for fiscal year 2017, 2016 and 2015, respectively.

The components of selling, general and administrative expenses are in the tables below (dollars in thousands):

	Years Ended September 30,			Percentage of Revenues		
	2017	2016	2015	2017	2016	2015
Taxes and permits	\$ 8,026	\$ 8,089	\$ 8,031	5.5%	6.0%	5.9%
Advertising and marketing	6,704	5,374	5,610	4.6%	4.0%	4.1%
Supplies and services	4,873	4,815	4,726	3.4%	3.6%	3.5%
Insurance	4,006	3,575	3,364	2.8%	2.7%	2.5%
Rent	3,258	3,278	4,526	2.2%	2.4%	3.3%
Legal	3,074	3,130	3,556	2.1%	2.3%	2.6%
Utilities	2,824	2,871	2,999	1.9%	2.1%	2.2%
Charge card fees	2,783	2,252	2,176	1.9%	1.7%	1.6%
Security	2,251	2,042	1,905	1.6%	1.5%	1.4%
Accounting and professional fees	2,159	1,353	1,025	1.5%	1.0%	0.8%
Repairs and maintenance	2,091	2,088	1,916	1.4%	1.5%	1.4%
Other	4,726	4,208	3,764	3.3%	3.1%	2.8%
	<u>\$ 46,775</u>	<u>\$ 43,075</u>	<u>\$ 43,598</u>	<u>32.3%</u>	<u>31.9%</u>	<u>32.2%</u>

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

Advertising and marketing increased by \$1.3 million, or 24.7%, from 2016 to 2017 mainly due to the acquisition of Scarlett's Miami in the third quarter of 2017 and the additional spending in relation to increase in revenues, and decreased by \$236,000, or 4.2%, from 2015 to 2016 primarily due to reduced spending on live entertainment in Bombshells and marketing support reimbursement in our Media Group. As a percentage of revenues, advertising and marketing was 4.6%, 4.0 and 4.1% for 2017, 2016 and 2015, respectively.

Insurance increased by \$431,000, or 12.1%, from 2016 to 2017, and \$211,000, or 6.3%, from 2015 to 2016 primarily due to an increase in general liability insurance premiums.

Rent expense decreased by \$1.2 million, or 27.6% from 2015 to 2016 principally due to the acquisition of the New York property in 2015 through 2016. Prior to the New York property acquisition, the location's annual average rent expense was \$1.1 million for the last three years. As a percentage of revenues, rent expense has gone down to 2.2% in 2017 from 2.4% in 2016 and 3.3% in 2015.

Legal expenses decreased by \$426,000, or 12.0%, from 2015 to 2016 primarily due to decreased legal activity and settlement after the New York labor lawsuit.

Charge card fees increased by \$531,000, or 23.6%, from 2016 to 2017, and had an immaterial change from 2015 to 2016. The increase from 2016 to 2017 was mainly from additional revenues caused by higher same-store sales and the acquisition of two new clubs in 2017. As a percentage of revenues, charge card fees have remained flat at 1.9%, 1.7% and 1.6% in 2017, 2016 and 2015, respectively.

Accounting and professional fees increased by \$806,000, or 59.6%, from 2016 to 2017, and \$328,000, or 32.0%, from 2015 to 2016 primarily due to our hiring of tax consultants to evaluate certain tax positions and our change of auditors.

We consider rent plus interest expense as our occupancy costs since most of our debts are for real property where our clubs and restaurants are located. As a percentage of revenues, rent has consistently dropped as we bought properties and interest expense has increased, but in total, occupancy costs have decreased.

	2017	2016	2015
Rent	2.2%	2.4%	3.3%
Interest	6.0%	5.9%	5.1%
Total occupancy cost	8.3%	8.3%	8.5%

Depreciation and amortization decreased by \$408,000, or 5.6%, from 2016 to 2017 mainly due to the cessation of depreciation on properties held for sale; and increased by \$283,000, or 4.0%, from 2015 to 2016 mainly due to an increase in the number of clubs we own. Refer to Note 3 to our consolidated financial statements for the impact of the revision of prior year financial statements.

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

	Years Ended September 30,			Percentage of Revenues		
	2017	2016	2015	2017	2016	2015
Impairment of assets	\$ 7,639	\$ 3,492	\$ 1,705	5.3%	2.6%	1.3%
Settlement of lawsuits	317	1,881	11,684	0.2%	1.4%	8.6%
Loss (gain) on sale of assets	(542)	388	808	-0.4%	0.3%	0.6%
Gain on settlement of patron tax	(102)	-	(8,167)	-0.1%	0.0%	-6.0%
Total other charges, net	\$ 7,312	\$ 5,761	\$ 6,030	5.0%	4.3%	4.5%

The significant variances in other charges, net are as follows:

During the year ended September 30, 2015, we recorded an impairment of \$1.7 million (\$1.4 million in the first quarter and \$347,000 in the fourth quarter) for the indefinite-lived intangible assets at two clubs that were closed. During the fourth quarter of 2016, we recorded an impairment of \$3.5 million, of which \$2.1 million was for indefinite-lived intangible assets of one club and \$1.4 million was for one property held for sale. During the year ended September 30, 2017, we recorded aggregate impairment charges of \$7.6 million (\$1.4 million in the third quarter and \$6.2 million in the fourth quarter) for the goodwill of four club locations (\$4.7 million), including one that we have put up for sale during the fiscal year; for property and equipment of one club (\$385,000); for SOB license of two club locations (\$1.4 million), and for our remaining investment in Drink Robust (\$1.2 million). See Note 16 to our consolidated financial statements for further discussion.

Settlement of lawsuits in 2015 consists principally of settlement of suits relating to the New York based federal wage and hour class and collective action, as explained in Note 11 to our consolidated financial statements.

In 2015, the Company reached a settlement with the State of Texas over the payment of the state's Patron Tax on adult club customers. We recorded the difference between the present value of the \$10.0 million settlement amount and the previously accrued tax amount as a gain in the amount of \$8.2 million. See Note 11 to our consolidated financial statements for details of the gain on settlement of patron tax in 2015.

Income from Operations

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

	2017	2016	2015
Nightclubs	\$ 35,138	\$ 33,211	\$ 30,428
Bombshells	3,084	1,152	1,638
Other	(522)	(2,650)	(1,921)
General corporate	(14,561)	(11,020)	(9,418)
	<u>\$ 23,139</u>	<u>\$ 20,693</u>	<u>\$ 20,727</u>

Our operating margin (total income from operations divided by total revenues) was 16.0% in 2017, 15.3% in 2016 and 15.3% in 2015. Nightclubs operating margin was 28.2%, 29.1% and 26.3% in 2017, 2016 and 2015, respectively, primarily due to the closure of underperforming units, the leverage on increasing same-store sales of fixed expenses, and impairment of assets of \$6.5 million, \$2.1 million and \$1.7 million for 2017, 2016 and 2015, respectively. Bombshells operating margin was 16.4%, 6.2% and 9.3% in 2017, 2016 and 2015, respectively, mainly due to increasing sales partially offset by increasing depreciation expense from higher unit count and the loss on sale of assets in 2016 caused by the closure of one underperforming unit.

Excluding the impact of settlement of lawsuits, impairment of assets, gain on patron tax settlement and gain on sale of assets, operating margin for the Nightclub segment would have been 33.1%, 32.3% and 30.9% for 2017, 2016 and 2015, respectively. Excluding the impact of loss on sale of assets, which caused fiscal 2016 and 2015 operating margin to be low, Bombshells segment operating margin would have been 16.4%, 13.5% and 13.9% for 2017, 2016 and 2015, respectively.

Non-Operating Items

Interest expense decreased in 2015 due to the significant paydown and refinance of high-interest debt during the last two years. We are now able to finance property acquisition with bank debt which is at significantly lower rates than the debt we previously had. We added more debt in 2017 and 2016 to acquire certain properties, which in turn increased our interest expense and also decreased rent expense.

Income Taxes

Income tax expense increased by \$4.0 million from 2016 to 2017, and decreased by \$2.8 million from 2015 to 2016. Our effective income tax rate was 43.4%, 18.5% and 36.5% during fiscal 2017, 2016 and 2015, respectively. The difference in our annual effective income tax rate was primarily due to the following:

	2017	2016	2015
Computed expected income tax expense	34.0%	34.0%	34.0%
State income taxes, net of federal benefit	2.0%	5.7%	1.6%
Transfer of deferred tax liabilities to sold subsidiaries	0.0%	-6.5%	0.0%
Permanent differences	0.7%	-0.8%	0.9%
Change in deferred tax liability rate	9.1%	0.0%	0.0%
Reserve for uncertain tax position	2.8%	1.9%	0.0%
Tax credits	-3.9%	-15.7%	0.0%
Other	-1.3%	0.0%	0.0%
Total income tax expense	<u>43.4%</u>	<u>18.5%</u>	<u>36.5%</u>

During fiscal year 2017, due to higher income before tax, our income tax rate has increased to 37%, of which has impacted the fourth quarter with the change in rate from 35% in the first nine months of the year and in prior years. A full year impact in the change in rate of our deferred tax liability has also been recognized in the fourth quarter. The change in deferred tax liability rate for 2017 is due to the 1% increase in our effective tax rate from the increase in the federal rate and also an increase in the states rate. This amount results from increasing by 2% the rate applied to our entire deferred tax liabilities at the beginning of the year. The reserve for uncertain tax positions results from an audit of the returns of one of the states in which we operate. As a result of the items discussed above which affected the fiscal year, the fourth quarter effective tax rate rose to 99.6% expense on a pre-tax loss.

During fiscal year 2016, we recognized a \$2.0 million tax benefit representing the net amount to be realized from fiscal 2016 and from amending certain prior year federal tax returns to take available FICA tip tax credits, which were not taken in prior years.

Refer to Note 3 to our consolidated financial statements for the impact of the revision of prior year financial statements.

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 exclude from non-GAAP operating income and non-GAAP operating margin amortization of intangibles, gain on settlement of patron tax case, gains or losses on sale of assets, impairment of assets, stock-based compensation, and settlement of lawsuits. 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 exclude from non-GAAP net income and non-GAAP net income per diluted share amortization of intangibles, gain on settlement of patron tax case, income tax expense, impairment charges, gain on acquisition of controlling interest in subsidiary, gains or losses on sale of assets, stock-based compensation, and settlement of lawsuits, and include the non-GAAP provision for current and deferred income taxes, calculated as the tax effect at 37%, 35% and 35% in 2017, 2016 and 2015, respectively, effective tax rate of the pre-tax non-GAAP income before taxes, because we believe that excluding and including such items help management and investors better understand our operating activities.

Adjusted EBITDA . We exclude from adjusted EBITDA depreciation expense, amortization of intangibles, impairment of assets, income taxes, interest expense, interest income, gains or losses on sale of assets, settlement of lawsuits, gain on settlement of patron tax case, and gain on acquisition of controlling interest in subsidiary because 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 is also the target benchmark for our acquisitions of nightclubs.

We also use certain non-GAAP cash flow measures such as free cash. 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):

	For the Year Ended September 30,		
	2017	2016	2015
Reconciliation of GAAP net income to Adjusted EBITDA			
Net income attributable to RCIHH common shareholders	\$ 8,259	\$ 11,218	\$ 9,214
Income tax expense	6,359	2,373	5,111
Interest expense, net	8,498	7,851	6,954
Settlement of lawsuits	317	1,881	11,684
Gain on settlement of patron tax case	(102)	-	(8,167)
Impairment of assets	7,639	3,492	1,705
Loss (gain) on sale of assets	(542)	388	808
Depreciation and amortization	6,920	7,328	7,045
Gain on acquisition of controlling interest in subsidiary	-	-	(229)
Adjusted EBITDA	<u>\$ 37,348</u>	<u>\$ 34,531</u>	<u>\$ 34,125</u>
Reconciliation of GAAP net income to non-GAAP net income			
Net income attributable to RCIHH common shareholders	\$ 8,259	\$ 11,218	\$ 9,214
Amortization of intangibles	217	752	737
Stock-based compensation	-	360	480
Settlement of lawsuits	317	1,881	11,684
Gain on settlement of patron tax case	(102)	-	(8,167)
Impairment of assets	7,639	3,492	1,705
Income tax expense	6,359	2,373	5,111
Loss (gain) on sale of assets	(542)	388	808
Gain on acquisition of controlling interest in subsidiary	-	-	(229)
Non-GAAP provision for income taxes			
Current	(6,218)	(4,482)	(6,094)
Deferred	(1,976)	(2,680)	(1,376)
Non-GAAP net income	<u>\$ 13,953</u>	<u>\$ 13,302</u>	<u>\$ 13,873</u>

**For the Year Ended
September 30,**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Reconciliation of GAAP diluted net income per share to non-GAAP diluted net income per share			
Fully diluted shares	9,743	10,229	10,406
GAAP diluted net income per share	\$ 0.85	\$ 1.11	\$ 0.89
Amortization of intangibles	0.02	0.07	0.07
Stock-based compensation	-	0.04	0.05
Settlement of lawsuits	0.03	0.18	1.12
Gain on settlement of patron tax case	(0.01)	-	(0.78)
Impairment of assets	0.78	0.34	0.16
Income tax expense	0.65	0.23	0.49
Loss (gain) on sale of assets	(0.06)	0.04	0.08
Gain on acquisition of controlling interest in subsidiary	-	-	(0.02)
Non-GAAP provision for income taxes			
Current	(0.64)	(0.43)	(0.59)
Deferred	(0.20)	(0.26)	(0.13)
Non-GAAP diluted net income per share	<u>\$ 1.43</u>	<u>\$ 1.32</u>	<u>\$ 1.34</u>

Reconciliation of GAAP operating income to non-GAAP operating income			
Income from operations	\$ 23,169	\$ 20,693	\$ 20,727
Amortization of intangibles	217	752	737
Stock-based compensation	-	360	480
Settlement of lawsuits	317	1,881	11,684
Gain on settlement of patron tax case	(102)	-	(8,167)
Impairment of assets	7,639	3,492	1,705
Loss (gain) on sale of assets	(542)	388	808
Non-GAAP operating income	<u>\$ 30,668</u>	<u>\$ 27,566</u>	<u>\$ 27,974</u>

Reconciliation of GAAP operating margin to non-GAAP operating margin			
GAAP operating margin	16.0%	15.3%	15.3%
Amortization of intangibles	0.1%	0.6%	0.5%
Stock-based compensation	0.0%	0.3%	0.4%
Settlement of lawsuits	0.2%	1.4%	8.6%
Gain on settlement of patron tax case	-0.1%	0.0%	-6.0%
Impairment of assets	5.3%	2.6%	1.3%
Loss (gain) on sale of assets	-0.4%	0.3%	0.6%
Non-GAAP operating margin	<u>21.2%</u>	<u>20.4%</u>	<u>20.7%</u>

* Per share amounts and percentages may not foot due to rounding.

The adjustments to reconcile net income attributable to RCIHH common shareholders to non-GAAP net income exclude the impact of adjustments related to noncontrolling interests, which is immaterial. In the calculation of non-GAAP diluted net income per share, we take into consideration the adjustment to net income from assumed conversion of debentures (see Note 2 to the consolidated financial statements).

LIQUIDITY AND CAPITAL RESOURCES

We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. The near-term outlook for our business remains strong, and we expect to generate substantial cash flows from operations in fiscal 2018. As a result of our expected cash flows from operations, we have significant flexibility to meet our financial commitments. The Company has not recently raised capital through the issuance of equity securities. 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 continue to have the ability to borrow funds at reasonable interest rates in that manner. We also have historically utilized these cash flows to invest in property and equipment, adult nightclubs and restaurants/sports bars.

As of September 30, 2017, we had negative working capital of \$10.6 million (excluding the impact of assets held for sale amounting to \$5.8 million) compared to negative working capital of \$5.3 million as of September 30, 2016 (excluding the impact of assets held for sale amounting to \$7.7 million). The decrease in working capital is principally due to the following items:

- Operating cash flow for the year;
- Increase in current portion of long-term debt; and
- Partially offset by a net increase in current assets, excluding cash, mainly from prepaid income taxes and insurance.

We believe that our current sources of liquidity and capital will be sufficient to finance our continued operations and growth plans not only within the next 12 months, but for the next 18 to 24 months. Refer to sections on Debt Financing and Contractual Obligations and Commitments below for a discussion of long-term liquidity and capital resources.

Cash Flows from Operating Activities

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

	Year Ended September 30,		
	2017	2016	2015
Net income	\$ 8,282	\$ 10,469	\$ 8,891
Depreciation and amortization	6,920	7,328	7,045
Deferred tax expense	2,273	1,143	3,882
Stock-based compensation expense	-	360	480
Gain on settlement of patron tax	(102)	-	(8,167)
Impairment of assets	7,639	3,492	1,705
Net change in operating assets and liabilities	(3,645)	(503)	1,951
Other	(273)	742	577
	<u>\$ 21,094</u>	<u>\$ 23,031</u>	<u>\$ 16,364</u>

Net cash flows from operating activities decreased from 2016 to 2017 due to a decrease in working capital caused by year-end vendor payments, higher income taxes and higher interest expense paid in 2017; while net cash flows from operating activities increased from 2015 to 2016 due to lower income taxes paid and higher pre-tax income partially offset by higher interest expense paid in 2016.

Cash Flows from Investing Activities

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

	Year Ended September 30,		
	2017	2016	2015
Proceeds from sale of property	\$ 2,145	\$ 3,427	\$ -
Proceeds from notes receivable and sale of marketable securities	107	621	-
Additions to property and equipment	(11,249)	(28,148)	(19,259)
Additions of businesses, net of cash acquired	(9,527)	-	(2,328)
	<u>\$ (18,524)</u>	<u>\$ (24,100)</u>	<u>\$ (21,587)</u>

We opened five new units in 2017 (including two acquired and one reconcepted from a Bombshells to a club); reconcepted one club and acquired one club in 2016; and opened two clubs (including one acquired) in 2015. We also constructed and moved to a new corporate office in 2016.

Following is a reconciliation of our additions to property and equipment for the years ended September 30, 2017, 2016 and 2015 (in thousands):

	Year Ended September 30,		
	2017	2016	2015
Acquisition of real estate	\$ -	\$ 22,174	\$ 23,843
Capital expenditures funded by debt	-	-	(7,978)
New capital expenditures in new clubs and corporate building	9,436	3,456	1,919
Maintenance capital expenditures	1,813	2,518	1,475
Total capital expenditures in consolidated statements of cash flows	<u>\$ 11,249</u>	<u>\$ 28,148</u>	<u>\$ 19,259</u>

Cash Flows from Financing Activities

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

	Year Ended September 30,		
	2017	2016	2015
Proceeds from long-term debt	\$ 12,399	\$ 32,049	\$ 18,283
Payments on long-term debt	(13,080)	(19,159)	(12,579)
Payment of dividends	(1,170)	(862)	-
Purchase of treasury stock	(1,099)	(7,311)	(2,296)
Exercise of stock options and warrants	-	500	87
Payment of loan origination costs	(735)	(624)	-
Debt prepayment penalty	(75)	-	-
Distribution of noncontrolling interests	(215)	(217)	(216)
	<u>\$ (3,975)</u>	<u>\$ 4,376</u>	<u>\$ 3,279</u>

We purchased treasury stock representing 89,685 shares, 747,081 shares and 225,280 shares in 2017, 2016 and 2015, respectively. During the second quarter of 2016, we started paying quarterly dividends in the amount of \$0.03 per share. See Note 8 to our consolidated financial statements for a detailed discussion of our debt obligations and Note 20 related to the refinancing of several of our real estate notes payable. We expect freed up liquidity from lower interest payments and the elimination of near-term balloon payments.

In summary, the following table presents our cash flows from operating, investing, and financing activities (in thousands):

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

	Year Ended September 30,		
	2017	2016	2015
Operating activities	\$ 21,094	\$ 23,031	\$ 16,364
Investing activities	(18,524)	(24,100)	(21,587)
Financing activities	(3,975)	4,376	3,279
Net increase (decrease) in cash	<u>\$ (1,405)</u>	<u>\$ 3,307</u>	<u>\$ (1,944)</u>

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

Non-GAAP Cash Flow Measure

Management also uses certain non-GAAP cash flow measures such as free cash flows. Free cash flow is derived from net cash provided by operating activities less maintenance capital expenditures.

	2017	2016	2015
Net cash provided by operating activities	\$ 21,094	\$ 23,031	\$ 16,364
Less: Maintenance capital expenditures	1,813	2,518	1,475
Free cash flow	<u>\$ 19,281</u>	<u>\$ 20,513</u>	<u>\$ 14,889</u>

Debt Financing

See Note 8 to our consolidated financial statements for detail regarding our long-term debt activity and Note 20 discussing the refinancing of our long-term debt.

Contractual Obligations and Commitments

We have long-term contractual obligations primarily in the form of debt obligations and operating leases. The following table (in thousands) summarizes our contractual obligations and their aggregate maturities as well as future minimum rent payments. Future interest payments related to variable interest rate debt were estimated using the interest rate in effect at September 30, 2017.

	Payments Due by Period						
	Total	2018	2019	2020	2021	2022	Thereafter
Long-term debt – regular	\$ 61,788	\$ 9,512	\$ 9,653	\$ 8,270	\$ 6,116	\$ 4,923	\$ 23,314
Long-term debt – balloon	63,161	7,928	2,370	24,816	5,285	8,317	14,445
Interest payments	39,099	8,626	7,509	6,075	4,297	2,652	9,940
Operating leases	38,696	2,967	2,797	2,841	2,830	2,784	24,477
Uncertain tax positions(a)(b)	-	-	-	-	-	-	-

- (a) We have \$865,000 of uncertain tax positions recorded in accrued liabilities. It is expected that these assessments will be settled within the next twelve months. See Note 9 to our consolidated financial statements.
- (b) On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law (the “Act”). The Act provides, among others, the reduction of the statutory corporate income tax rate from 35% to 21% effective January 1, 2018.

On December 14, 2017, the Company entered into a loan agreement (“New Loan”) with a bank for \$81.2 million. The New Loan fully refinances 20 of the Company’s notes payable and partially pays down 1 note payable (collectively, “Repaid Notes”) with interest rates ranging from 5% to 12% covering 43 parcels of real properties the Company previously acquired (“Properties”). The New Loan consists of three promissory notes:

- The first note amounts to \$62.5 million with a term of 10 years at a 5.75% fixed interest rate for the first five years, then repriced one time at the then current U.S. Treasury rate plus 3.5%, with a floor rate of 5.75%, and payable in monthly installments of \$442,058, based upon a 20-year amortization period, with the balance payable at maturity;
- The second note amounts to \$10.6 million with a term of 10 years at a 5.45% fixed interest rate until July 2020, after which to be repriced at a fixed interest rate of 5.75% until the fifth anniversary of this note, and then to be repriced again at the then interest rate of the first note. This note is payable \$78,098 monthly for principal and interest until July 2020, based upon a 20-year amortization period, after which the monthly payment for principal and interest is adjusted accordingly based on the repricing, with the balance payable at maturity; and
- The third note amounts to \$8.1 million with a term of 10 years at a 5.95% fixed interest rate until August 2021, after which to be repriced at 5.75% until the fifth anniversary of this note, and then to be repriced again at the then interest of the first note. This note is payable \$100,062 monthly for principal and interest until August 2021, based upon a 20-year amortization period, after which the monthly payment for principal and interest is adjusted accordingly based on the repricing, with the balance payable at maturity.

In addition to the monthly principal and interest payments as provided above, the Company will pay monthly installments of principal of \$250,000, applied to the first note, until such time as the loan-to-value ratio of the Properties, based upon reduced principal balance of the New Loan and the then current value of the Properties, is not greater than 65%. The New Loan has eliminated balloon payments of the Repaid Notes worth \$2.9 million originally scheduled in fiscal 2018, \$19.4 million originally scheduled in fiscal 2020 and \$5.3 million originally scheduled in fiscal 2021.

In connection with the Repaid Notes, we wrote off \$279,000 of unamortized debt issuance costs to interest expense. Prior to September 30, 2017, the Company paid a portion of debt issuance costs amounting to \$612,500, which was included in other assets until the closing of the transaction. At closing, the Company paid an additional \$764,000 in debt issuance costs, which together with the \$612,500 prepayment will be amortized for the term of the loan using the effective interest rate method.

Other than the debt refinancing described above, we are not aware of any event or trend that would potentially significantly affect liquidity. In the event such a trend develops, we believe our working capital and capital expenditure requirements will be adequately met by cash flows from operations. 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.

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

	<u>2017</u>	<u>Increase (Decrease)</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>2015</u>
Sales of alcoholic beverages	\$ 60,439	5.6%	\$ 57,216	2.5%	\$ 55,829
Sales of food and merchandise	18,256	2.0%	17,900	-4.3%	18,713
Service revenues	58,132	13.4%	51,276	-3.3%	53,014
Other	8,069	-4.7%	8,468	7.3%	7,893
Total revenues	<u>\$ 144,896</u>	<u>7.4%</u>	<u>\$ 134,860</u>	<u>-0.4%</u>	<u>\$ 135,449</u>
Net cash provided by operating activities	\$ 21,094	-8.4%	\$ 23,031	40.7%	\$ 16,364
Adjusted EBITDA*	\$ 37,348	8.2%	\$ 34,531	1.2%	\$ 34,125
Long-term debt	\$ 124,352	17.4%	\$ 105,886	12.2%	\$ 94,349

* See definition and calculation of Adjusted EBITDA under the Non-GAAP Financial Measures subsection of Results of Operations above.

We have not established financing other than the notes payable, including the New Loan in Note 20, and our existing line of credit facility 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 2017, 2016 and 2015, we paid for treasury stock amounting to \$1.1 million, \$7.3 million and \$2.3 million representing 89,685 shares, 747,081 shares and 225,280 shares, respectively. We have \$3.1 million remaining to purchase additional shares as of September 30, 2017.

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

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

SEASONALITY

Our nightclub operations are affected by seasonal factors. Historically, we have experienced reduced revenues from April through September (our fiscal third and fourth quarters) with the strongest operating results occurring during October through March (our fiscal first and second quarters).

GROWTH STRATEGY

We believe that our nightclub operations can continue to grow organically and through careful entry into markets and demographic segments with high growth potential. Our growth strategy involves the following: (i) to acquire existing units in locations that are consistent with our growth and income targets and which appear receptive to the upscale club formula we have developed; (ii) to open new units after market analysis; (iii) to franchise our Bombshells brand; (iv) to form joint ventures or partnerships to reduce start-up and operating costs, with us contributing equity in the form of our brand name and management expertise; (v) to develop new club concepts that are consistent with our management and marketing skills; (vi) to develop and open our restaurant concepts as our capital and manpower allow; and (vii) to control the real estate in connection with club operations, although some units may be in leased premises.

We believe that Bombshells can grow organically and through careful entry into markets and demographic segments with high growth potential. All five of the currently existing Bombshells are located in Texas. 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.

During fiscal 2015, we acquired 51% of Drink Robust for \$3.6 million. Prior to fiscal 2015, we owned 15% of Drink Robust for a \$750,000 investment. In fiscal 2016, we sold 31% of our 51% interest in Robust, and in fiscal 2017, we fully impaired the remaining 20%. We also acquired an adult nightclub in Austin, Texas for \$6.8 million, including the building in which it operates. We also acquired another adult nightclub in Minneapolis, Minnesota for \$8.5 million, including the building in which it operates.

During fiscal 2016, we did not acquire any new club, restaurant or investment, in adherence to our capital allocation strategy. We acquired land for \$5.9 million for future Bombshells sites. In September 2016, we opened Hoops Cabaret and Sports Bar in New York City.

During fiscal 2017, we acquired two clubs, one in Florida (Scarlett's Miami) and another in Illinois (Hollywood Showclub) and certain adjacent real estate for an aggregate purchase price of \$30.2 million. See Note 14 to the consolidated financial statements for details of the transactions. We subsequently relaunched Hollywood Showclub as Scarlett's St. Louis, and opened a club (Hollywood Hunt Club) on the real estate acquired in Illinois.

We plan to open at least two Bombshells in fiscal 2018.

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 debt instruments with variable interest rates, aggregating \$4.3 million at September 30, 2017. The note bears interest at 2% above prime with a floor of 5%. If the prime rate were to rise, the effect on our annual statement of income would be \$43,000, before taxes, for each 1% rise above a prime rate of 3.5%.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item begins on page 43.

RCI HOSPITALITY HOLDINGS, INC.
CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
RCI Hospitality Holdings, Inc.
Houston, Texas

We have audited the accompanying consolidated balance sheet of RCI Hospitality Holdings, Inc. as of September 30, 2017 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RCI Hospitality Holdings, Inc. at September 30, 2017, and the results of its operations and its cash flows the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for testing goodwill for impairment for its fiscal 2017 annual impairment test as of September 30, 2017 due to the adoption of Accounting Standards Update No. 2017-04, "*Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), RCI Hospitality Holdings, Inc.'s internal control over financial reporting as of September 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 14, 2018 expressed an adverse opinion thereon.

/s/ BDO USA, LLP

Cleveland, Ohio

February 14, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of RCI Hospitality Holdings, Inc. and subsidiaries (the “Company”), as of September 30, 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for each of the years in the two-year period ended September 30, 2016. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RCI Hospitality Holdings, Inc. and subsidiaries, as of September 30, 2016, and the results of their operations and their cash flows for each of the years in the two-year period ended September 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Whitley Penn LLP

Dallas, Texas

December 13, 2016

RCI HOSPITALITY HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	September 30,	
	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,922	\$ 11,327
Accounts receivable, net	3,187	4,365
Inventories	2,149	2,019
Prepaid insurance	3,826	2,897
Other current assets	1,399	1,108
Assets held for sale	5,759	7,671
Total current assets	26,242	29,387
Property and equipment, net	148,410	141,073
Notes receivable	4,993	4,800
Goodwill	43,866	45,847
Intangibles, net	74,424	52,766
Other assets	1,949	2,188
Total assets	\$ 299,884	\$ 276,061
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,147	\$ 1,701
Accrued liabilities	11,524	15,386
Current portion of long-term debt	17,440	9,950
Total current liabilities	31,111	27,037
Deferred tax liability, net	25,541	23,266
Long-term debt	106,912	95,936
Other long-term liabilities	1,095	483
Total liabilities	164,659	146,722
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock, \$0.10 par value per share; 1,000 shares authorized; none issued and outstanding	-	-
Common stock, \$0.01 par value per share; 20,000 shares authorized; 9,719 and 9,808 shares issued and outstanding as of September 30, 2017 and 2016, respectively	97	97
Additional paid-in capital	63,453	64,552
Retained earnings	69,195	62,106
Total RCIHH stockholders' equity	132,745	126,755
Noncontrolling interests	2,480	2,584
Total stockholders' equity	135,225	129,339
Total liabilities and stockholders' equity	\$ 299,884	\$ 276,061

See accompanying notes to consolidated financial statements.

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

	Years Ended September 30,		
	2017	2016	2015
Revenues			
Sales of alcoholic beverages	\$ 60,439	\$ 57,216	\$ 55,829
Sales of food and merchandise	18,256	17,900	18,713
Service revenues	58,132	51,276	53,014
Other	8,069	8,468	7,893
Total revenues	<u>144,896</u>	<u>134,860</u>	<u>135,449</u>
Operating expenses			
Cost of goods sold			
Alcoholic beverages sold	13,114	12,624	12,036
Food and merchandise sold	7,398	6,810	7,467
Service and other	209	1,112	814
Cost of goods sold (exclusive of items shown separately below)	<u>20,721</u>	<u>20,546</u>	<u>20,317</u>
Salaries and wages	40,029	37,457	37,732
Selling, general and administrative	46,775	43,075	43,598
Depreciation and amortization	6,920	7,328	7,045
Other charges, net	7,312	5,761	6,030
Total operating expenses	<u>121,757</u>	<u>114,167</u>	<u>114,722</u>
Income from operations	<u>23,139</u>	<u>20,693</u>	<u>20,727</u>
Other income (expenses)			
Interest expense	(8,764)	(7,982)	(6,969)
Interest income	266	131	15
Non-operating gains	-	-	229
Income before income taxes	<u>14,641</u>	<u>12,842</u>	<u>14,002</u>
Income taxes	<u>6,359</u>	<u>2,373</u>	<u>5,111</u>
Net income	<u>8,282</u>	<u>10,469</u>	<u>8,891</u>
Net loss (income) attributable to noncontrolling interests	<u>(23)</u>	<u>749</u>	<u>323</u>
Net income attributable to RCIHH common shareholders	<u>\$ 8,259</u>	<u>\$ 11,218</u>	<u>\$ 9,214</u>
Earnings per share attributable to RCIHH common shareholders			
Basic	\$ 0.85	\$ 1.13	\$ 0.89
Diluted	\$ 0.85	\$ 1.11	\$ 0.89
Weighted average number of common shares outstanding			
Basic	9,731	9,941	10,359
Diluted	9,743	10,229	10,406

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended September 30,		
	2017	2016	2015
Net income	\$ 8,282	\$ 10,469	\$ 8,891
Amount reclassified from accumulated other comprehensive income	-	(109)	-
Other comprehensive income:			
Unrealized holding gain on securities available for sale	-	-	18
Comprehensive income	8,282	10,360	8,909
Comprehensive loss (income) attributable to noncontrolling interests	(23)	749	323
Comprehensive income attributable to RCI Hospitality Holdings, Inc.	\$ 8,259	\$ 11,109	\$ 9,232

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended September 30, 2017, 2016 and 2015
(in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Noncontrolling Interests	Total Stockholders' Equity
	Number of Shares	Amount				Number of Shares	Amount		
Balance at September 30, 2014	10,067	\$ 101	\$ 66,727	\$ 42,536	\$ 91	-	\$ -	\$ 3,010	\$ 112,465
Purchase of treasury shares	-	-	-	-	-	(225)	(2,296)	-	(2,296)
Canceled treasury shares	(225)	(2)	(2,294)	-	-	225	2,296	-	-
Stock options exercised	10	-	87	-	-	-	-	-	87
Common stock issued for acquisition	200	2	2,373	-	-	-	-	-	2,375
Common stock issued for debt and interest	233	2	2,356	-	-	-	-	-	2,358
Stock-based compensation	-	-	480	-	-	-	-	-	480
Payments to noncontrolling interests	-	-	-	-	-	-	-	(216)	(216)
Noncontrolling interests at acquisition of business	-	-	-	-	-	-	-	3,392	3,392
Change in marketable securities	-	-	-	-	18	-	-	-	18
Net income (loss)	-	-	-	9,214	-	-	-	(323)	8,891
Balance at September 30, 2015	10,285	\$ 103	\$ 69,729	\$ 51,750	\$ 109	-	\$ -	\$ 5,863	\$ 127,554
Purchase of treasury shares	-	-	-	-	-	(747)	(7,311)	-	(7,311)
Canceled treasury shares	(747)	(8)	(7,303)	-	-	747	7,311	-	-
Vesting of restricted stock	96	1	(1)	-	-	-	-	-	-
Common stock issued for debt and interest	125	1	1,267	-	-	-	-	-	1,268
Warrants exercised	49	-	500	-	-	-	-	-	500
Stock-based compensation	-	-	360	-	-	-	-	-	360
Payment of dividends	-	-	-	(862)	-	-	-	-	(862)
Payments to noncontrolling interests	-	-	-	-	-	-	-	(217)	(217)
Divestiture in Drink Robust	-	-	-	-	-	-	-	(2,313)	(2,313)
Change in marketable securities	-	-	-	-	(109)	-	-	-	(109)
Net income (loss)	-	-	-	11,218	-	-	-	(749)	10,469
Balance at September 30, 2016	9,808	\$ 97	\$ 64,552	\$ 62,106	\$ -	-	\$ -	\$ 2,584	\$ 129,339
Purchase of treasury shares	-	-	-	-	-	(89)	(1,099)	-	(1,099)
Canceled treasury shares	(89)	-	(1,099)	-	-	89	1,099	-	-
Payment of dividends	-	-	-	(1,170)	-	-	-	-	(1,170)
Payments to noncontrolling interests	-	-	-	-	-	-	-	(215)	(215)
Divestiture in Drink Robust	-	-	-	-	-	-	-	88	88
Net income	-	-	-	8,259	-	-	-	23	8,282
Balance at September 30, 2017	9,719	\$ 97	\$ 63,453	\$ 69,195	\$ -	-	\$ -	\$ 2,480	\$ 135,225

See accompanying notes to consolidated financial statements.

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

	Years Ended September 30,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 8,282	\$ 10,469	\$ 8,891
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,920	7,328	7,045
Deferred tax expense	2,273	1,143	3,882
Loss (gain) on sale of assets	(838)	388	808
Impairment of assets	7,639	3,492	1,705
Amortization of debt issuance costs, note discount and beneficial conversion	218	455	36
Gain on acquisition of controlling interest in subsidiary	-	-	(229)
Gain on settlement of patron tax	(102)	-	(8,167)
Gain on sale of marketable securities	-	(116)	-
Deferred rent expense (credit)	272	15	(38)
Stock-based compensation expense	-	360	480
Debt prepayment penalty	75	-	-
Changes in operating assets and liabilities:			
Accounts receivable	878	(3,986)	(339)
Inventories	(19)	(124)	54
Prepaid expenses and other assets	(1,526)	(18)	852
Accounts payable and accrued liabilities	(2,978)	3,625	1,384
Net cash provided by operating activities	<u>21,094</u>	<u>23,031</u>	<u>16,364</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of assets	2,145	3,427	-
Proceeds from sale of marketable securities	-	621	-
Proceeds from notes receivable	107	-	-
Additions to property and equipment	(11,249)	(28,148)	(19,259)
Acquisition of businesses, net of cash acquired	(9,527)	-	(2,328)
Net cash used in investing activities	<u>(18,524)</u>	<u>(24,100)</u>	<u>(21,587)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	12,399	32,049	18,283
Payments on long-term debt	(13,080)	(19,159)	(12,579)
Exercise of stock options and warrants	-	500	87
Purchase of treasury stock	(1,099)	(7,311)	(2,296)
Payment of dividends	(1,170)	(862)	-
Payment of loan origination costs	(735)	(624)	-
Debt prepayment penalty	(75)	-	-
Distribution to noncontrolling interests	(215)	(217)	(216)
Net cash provided by (used in) financing activities	<u>(3,975)</u>	<u>4,376</u>	<u>3,279</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,405)	3,307	(1,944)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,327	8,020	9,964
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 9,922</u>	<u>\$ 11,327</u>	<u>\$ 8,020</u>
CASH PAID DURING PERIOD FOR:			
Interest paid, net of amounts capitalized	\$ 8,081	\$ 7,719	\$ 6,540
Income taxes	<u>\$ 4,185</u>	<u>\$ 1,914</u>	<u>\$ 3,776</u>

Non-cash transactions:

	Years Ended September 30,		
	2017	2016	2015
Issue of shares of common stock for debt and interest			
Number of shares	-	125	233
Value of shares	\$ -	\$ 1,268	\$ 2,358
Debt incurred in connection with seller in connection with acquisition of businesses and property and equipment	\$ 20,552	\$ -	\$ 3,379
Notes receivable received as proceeds from sale of assets	\$ -	\$ 4,800	\$ -
Accrued liabilities due settled with debt	\$ -	\$ -	\$ 7,234
Unrealized gain on marketable securities	\$ -	\$ -	\$ 18
Issue of shares of common stock for acquiring a business			
Number of shares	-	-	200
Value of shares	\$ -	\$ -	\$ 2,375
Note payable reduction from sale proceeds of property	\$ 1,500	\$ -	\$ -
Refinanced long-term debt	\$ 8,000	\$ -	\$ -

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”) 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, Odessa, Lubbock, Longview, Tye, Edinburg, El Paso, Harlingen, Lubbock and Beaumont, Texas, as well as Minneapolis, Minnesota; Philadelphia, Pennsylvania; Charlotte, North Carolina; New York, New York; Pembroke Park and Miami Gardens, Florida; Phoenix, Arizona; Sulphur, Louisiana; and Washington Park, Illinois. The Company also owns and operates media businesses for adults. 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”).

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 2017, 2016 and 2015 are for fiscal years ended September 30, 2017, 2016 and 2015, 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. We believe the accounting policies below are critical in the portrayal of our financial condition and results of operations.

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 and other miscellaneous receivables. Long-term notes receivable 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.

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 market.

Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation and amortization are made using straight-line rates over the estimated useful lives of the related assets, and the shorter of useful lives or terms of the applicable leases for leasehold improvements. Buildings have estimated useful lives ranging from 29 to 40 years. Furniture 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 during site construction from related debt is capitalized, amounting to \$43,000 in fiscal 2017 and \$59,000 in fiscal 2016.

See Note 3 in relation to revision of prior year financial statements.

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 purchasing transferable licenses 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 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, we perform a Step 1 analysis to determine the fair value of the reporting unit. The fair value is determined using market-related valuation models, including earnings multiples, discounted cash flows, and comparable asset market values. As detailed in the “Impact of Recently Issued Accounting Standards” section of this Note, we adopted ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, during Q4 of 2017, and accordingly, 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, 2017, we identified four reporting units that were impaired and recognized a goodwill impairment loss totaling \$4.7 million. See Note 16.

For indefinite-lived intangibles, specifically 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 \$1.4 million for 2017, \$2.1 million for 2016 and \$1.7 million for 2015, related to two clubs in 2017, one club in 2016 and two clubs in 2015. See Note 16

See related discussion of the early adoption of ASU 2017-04 at the end of Note 2.

Impairment of Long-Lived Assets

The Company reviews long-lived assets, such as property, plant, 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 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 the fourth quarter of fiscal 2017, the Company impaired one club for \$385,000, and during the fourth quarter of fiscal 2016, the Company recognized a loss on disposal on one property held for sale in Fort Worth, Texas for \$1.4 million. See Note 16.

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.

Comprehensive Income

Comprehensive income is the total of net income or loss and all other changes in net assets arising from non-owner sources, which are referred to as items of other comprehensive income. An analysis of changes in components of accumulated other comprehensive income is presented in the consolidated statements of comprehensive income.

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. 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.

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. Other rental revenues are recognized when earned.

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.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

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.

See Note 3 in relation to revision of prior year financial statements.

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. During the year ended September 30, 2013, the Company acquired approximately 12% of Drink Robust, Inc. ("Robust") for \$600,000. This investment was increased to 15% during the year ended September 30, 2014, and to 51% in October 2014, at which time the subsidiary became part of the consolidated group. The Company sold 31% of this company on September 29, 2016, retaining 20% (see additional discussion in Note 14). Because the Company has no ability to direct the management of the investee company or exert significant influence, the investment is being accounted for at cost beginning on the date of sale. The carrying value of the cost-method investment in Robust was \$1.2 million as of September 30, 2016. During the fourth quarter of fiscal 2017, we determined our investment in Drink Robust was impaired and recognized an other-than temporary impairment totaling \$1.2 million which brought our carrying value of this investment to zero.

Earnings Per Common Share

Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of the Company. Potential common stock shares consist of shares that may arise from outstanding dilutive common 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 ("EPS") 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 occur if the debentures were converted).

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

Net earnings applicable to common stock and the weighted average number of shares used for basic and diluted earnings (loss) per share computations are summarized in the table that follows (in thousands, except per share data):

	For the Year Ended September 30,		
	2017	2016	2015
Basic earnings per share:			
Net income attributable to RCIHH shareholders	\$ 8,259	\$ 11,218	\$ 9,214
Weighted average number of common shares outstanding - basic	9,731	9,941	10,359
Basic earnings per share	\$ 0.85	\$ 1.13	\$ 0.89
Diluted earnings per share:			
Net income attributable to RCIHH shareholders	\$ 8,259	\$ 11,218	\$ 9,214
Adjustment to net earnings from assumed conversion of debentures (1)	5	153	29
Adjusted net income attributable to RCIHH shareholders	8,264	11,371	9,243
Weighted average number of common shares outstanding - diluted:			
Weighted average number of common shares outstanding - basic	9,731	9,941	10,359
Effect of potentially dilutive restricted stock, warrants and options (2)	-	60	-
Effect of potentially dilutive convertible debentures (1)	12	228	47
Weighted average number of common shares outstanding - diluted	9,743	10,229	10,406
Diluted earnings per share	\$ 0.85	\$ 1.11	\$ 0.89

*EPS may not foot due to rounding.

(1) Represents interest expense on dilutive convertible securities that would not occur if they were assumed converted.

(2) All outstanding warrants and options were considered for the EPS computation.

Additional shares for options, warrants and debentures amounting to zero, 72,400 and 353,400 for the year ended September 30, 2017, 2016 and 2015 were not considered since they would be antidilutive.

Convertible debentures (principal and accrued interest) outstanding at September 30, 2017, 2016 and 2015 totaling \$0, \$0.5 million and \$4.6 million, respectively, were convertible into common stock at prices ranging from \$10.00 to \$12.50 in each of fiscal year 2016 and 2015. Convertible debentures amounting to \$0.9 million, \$0.5 million and \$0.5 million were dilutive in 2017, 2016 and 2015, respectively.

See Note 3 in relation to revision of prior year financial statements.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

Stock Options

At September 30, 2017 and 2016, the Company has no stock options outstanding. The Company recognizes all employee stock-based compensation as a cost in the consolidated financial statements. 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 using the Black-Scholes option-pricing model. The critical estimates are volatility, expected life and risk-free rate.

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.

Fair Value Accounting

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. Unrealized holding gains and losses, net of the related income tax effect, if any, on available-for-sale securities are excluded from income and are reported as accumulated other comprehensive income in stockholders' equity. Realized 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. Available-for-sale securities had zero balance as of September 30, 2017 and 2016.

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 for other than temporary impairments in our marketable securities portfolio were recognized during the years ended September 30, 2017, 2016 and 2015.

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 income.

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

Description	September 30, 2017	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)
Goodwill	\$ 4,572	\$ -	\$ -	\$ 4,572
Property and equipment, net	4,678	-	4,678	-
Indefinite-lived intangibles	25,740	-	-	25,740
Definite-lived intangibles, net	600	-	-	600

Description	September 30, 2016	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)
Assets held for sale	\$ 2,199	\$ -	\$ -	\$ 2,199
Other assets	1,156	-	-	1,156

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

Description	Impairments Recognized Years Ended September 30,		
	2017	2016	2015
Goodwill	\$ (4,697)	\$ -	\$ -
Property and equipment, net	(385)	-	-
Indefinite-lived intangibles	(1,401)	(2,092)	(1,705)
Assets held for sale	-	(1,400)	-
Other assets	(1,156)	-	-

Impact of Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The standard’s effective date has been deferred by the issuance of ASU No. 2015-14, and is effective for annual periods beginning after December 15, 2017, and interim periods therein. The guidance permits using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Early application is permitted but not before December 15, 2016, the ASU’s original effective date. The Company is still evaluating the impact of the standard and which transition method it is going to use upon adoption.

In February 2015, the FASB issued ASU No. 2015-02, which amends FASB ASU Topic 810, *Consolidations*. This ASU amends the current consolidation guidance, including introducing a separate consolidation analysis specific to limited partnerships and other similar entities. This ASU requires that limited partnerships and similar legal entities provide partners with either substantive kick-out rights or substantive participating rights over the general partner in order to be considered a voting interest entity. The specialized consolidation model and guidance for limited partnerships and similar legal entities have been eliminated. There is no longer a presumption that a general partner should consolidate a limited partnership. For limited partnerships and similar legal entities that qualify as voting interest entities, a limited partner with a controlling financial interest should consolidate a limited partnership. A controlling financial interest may be achieved through holding a limited partner interest that provides substantive kick-out rights. The standard is effective for annual periods beginning after December 15, 2015. The Company has adopted this guidance as of October 1, 2016, and its adoption had no impact on the Company’s consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This ASU does not apply to inventory that is measured using last-in, first-out (“LIFO”) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using FIFO or average cost. This ASU eliminates from U.S. GAAP the requirement to measure inventory at the lower of cost or market. Market under the previous requirement could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Entities within scope of this update will now be required to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory using LIFO or the retail inventory method. The amendments in this update are effective for fiscal years beginning after December 15, 2016, with early adoption permitted, and should be applied prospectively. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. The ASU requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Acquirers must recognize, in the same reporting period, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This ASU is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company has adopted this guidance as of October 1, 2016, and its adoption did not have an impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, on accounting for leases which requires lessees to recognize most leases on their balance sheets for the rights and obligations created by those leases. The guidance requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases, and will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The guidance requires the use of a modified retrospective approach. We expect our consolidated balance sheets to be materially impacted upon adoption due to the recognition of right-of-use assets and lease liabilities related to currently classified operating leases. We do not expect ASU 2016-02 to have a material impact on our consolidated statements of income though we expect a shift in the classification of expenses, the materiality of which we are currently evaluating.

In March 2016, the FASB issued amended guidance ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvement to Employee Share-Based Payment Accounting*. The guidance requires all income tax effects of awards to be recognized in the income statement on a prospective basis. The guidance also requires presentation of excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity, and can be applied retrospectively or prospectively. The guidance increases the amount companies can withhold to pay income taxes on awards without triggering liability classification for shares used to satisfy statutory income tax withholding obligations, and requires application of a modified retrospective transition method. The amended guidance will be effective for interim and annual periods beginning after December 15, 2016; early adoption is permitted if all provisions are adopted in the same period. The Company has early adopted ASU 2016-09 as of October 1, 2016. As of September 30, 2017 and 2016, we do not have any stock-based compensation awards outstanding.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*. The ASU intends to reduce diversity in practice on how the following cash activities are presented in the statement of cash flows: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments; (3) contingent considerations payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate and bank-owned life insurance policies; (6) distributions received from equity method investments; and (7) beneficial interests in securitization transactions. The guidance also describes a predominance principle in which cash flows with aspects of more than one class that cannot be separated should be classified based on the activity that is likely to be the predominant source or use of cash flow. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period, and must be applied using a retrospective transition method. We early adopted this guidance as of October 1, 2016. There were no prior period transactions that need to be adjusted.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combination (Topic 805): Clarifying the Definition of a Business*. According to the guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. If met, this initial screen eliminates the need for further assessment. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. ASU 2017-01 provides a framework to evaluate when an input and a substantive process are present. To be a business without outputs, there will now need to be an organized workforce. The FASB noted that outputs are a key element of a business and included more stringent criteria for aggregated sets of assets and activities without outputs. Finally, the guidance narrows the definition of the term “outputs” to be consistent with how it is described in Topic 606, *Revenue from Contracts with Customers*. Under the final definition, an output is the result of inputs and substantive processes that provide goods and services to customers, other revenue, or investment income, such as dividends and interest. The standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The amendments can be applied to transactions occurring before the guidance was issued as long as the applicable financial statements have not been issued.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. The amount of goodwill impairment will now be the excess of a reporting unit’s carrying value over its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment (Step 0) to determine if a quantitative impairment test is necessary. The same one-step test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. The revised guidance will be applied prospectively, and is effective for calendar year-end SEC filers in 2020; other public business entities will have an additional year. Early adoption is permitted for any impairment tests performed after January 1, 2017. The Company early adopted this ASU in the fourth quarter of fiscal 2017 and recognized goodwill impairments of \$3.3 million as a result of the excess of the fair value calculated in Step 1 as compared to the carrying value of goodwill.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies - continued

In May 2017, the FASB issued ASU No. 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*. The amendments of this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all of the following are met: (1) the fair value of the modified award is the same as the fair value of the original award immediately before the modification; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification; and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification. The current disclosure requirements in Topic 718 are not changed. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. As of June 30, 2017, we do not have any stock-based compensation awards outstanding. We will adopt ASU 2017-09 when the Company modifies any stock-based compensation awards in the future.

3. Revision of Prior Year Immaterial Misstatements and Reclassifications

During the Company's preparation of its fiscal year 2017 financial statements, the Company assessed the materiality of certain prior year depreciation expense and income tax misstatements that could have a material impact if corrected in the current year. The misstatement in depreciation expense relates to certain leasehold improvements to which incorrect depreciable lives were assigned. The misstatement in income taxes relates to certain differences in deferred taxes in prior years, partially offset by income taxes payable. The Company has revised its consolidated financial statements as of and for the years ended September 30, 2016 and 2015, and the opening balance of retained earnings as of September 30, 2014.

The table below presents the impact of the revision in the Company's consolidated financial statements:

	Fiscal Year Ended September 30, 2016			Fiscal Year Ended September 30, 2015		
	As Previously Reported	Adjustments	As Revised	As Previously Reported	Adjustments	As Revised
<i>Statements of Income/ Comprehensive Income:</i>						
Depreciation and amortization	\$ 7,173	\$ 155	\$ 7,328	\$ 6,894	\$ 151	\$ 7,045
Total operating expenses	114,012	155	114,167	114,571	151	114,722
Income from operations	20,848	(155)	20,693	20,878	(151)	20,727
Income before income taxes	12,997	(155)	12,842	14,153	(151)	14,002
Income taxes	2,657	(284)	2,373	5,164	(53)	5,111
Net income	10,340	129	10,469	8,989	(98)	8,891
Net income attributable to RCIHH common shareholders	11,089	129	11,218	9,312	(98)	9,214
Earnings per share - basic	\$ 1.12	\$ 0.01	\$ 1.13	\$ 0.90	\$ (0.01)	\$ 0.89
Earnings per share - diluted	\$ 1.10	\$ 0.01	\$ 1.11	\$ 0.90	\$ (0.01)	\$ 0.89
Comprehensive income	\$ 10,231	\$ 129	\$ 10,360	\$ 9,007	\$ (98)	\$ 8,909
Comprehensive income attributable to RCI Hospitality Holdings, Inc.	10,980	129	11,109	9,330	(98)	9,232

	September 30, 2016			
	As Previously Reported	Reclassifications	Adjustments	As Revised
<i>Balance Sheets/Statements of Changes in Stockholders' Equity</i>				
Property and equipment, net	\$ 142,003	\$ (503)	\$ (427)	\$ 141,073
Goodwill	45,921	(74)	-	45,847
Intangibles, net	52,189	577	-	52,766
Total assets	276,488	-	(427)	276,061
Accrued liabilities	12,806	-	2,580	15,386
Total current liabilities	24,457	-	2,580	27,037
Deferred tax liability	25,470	-	(2,204)	23,266
Total liabilities	146,346	-	376	146,722
Retained earnings	62,909	-	(803)	62,106
Total RCIHH stockholders' equity	127,558	-	(803)	126,755
Total stockholders' equity	130,142	-	(803)	129,339
Total liabilities and stockholders' equity	276,488	-	(427)	276,061

The net cash provided by or used in operating, investing and financing activities did not change as a result of the revision. Certain components of net cash provided by operating activities, as presented above, changed but net change amounted to zero for each prior year statement of cash flows presented.

During the quarter ended September 30, 2017, the Company revised its presentation of cost of goods sold in its consolidated statements of income. The Company determined that this revision is not material to any prior period and has reflected this revision in the results of operations for the fiscal years ended September 30, 2016 and 2015. This presentation did not affect total cost of goods sold, total operating expenses, income from operations, net income, or net income attributable to

RCIHH common shareholders.

During the quarter ended September 30, 2017, we revised the classification of certain goodwill assets to indefinite-lived intangible assets in our September 30, 2016 consolidated balance sheet amounting to \$74,000 to conform to GAAP. In the same period, we revised the classification of computer software from property and equipment, net to intangible assets with a net carrying value of \$503,000 as of September 30, 2016.

During the year ended September 30, 2016 in relation to the sale of the 31% interest in Drink Robust, we previously reported a gain on sale of \$641,000 and an impairment charge of \$825,000 on the remaining 20% interest. We have revised the disclosure in Note 14 to our consolidated financial statements to disclose a loss on sale of \$164,000. There is no impact in the financial statements since both the gain and impairment were included in other charges, net in the consolidated statement of income for the year ended September 30, 2016.

4. Selected Account Information

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

	September 30,	
	2017	2016
Insurance	\$ 3,160	\$ 2,303
Payroll and related costs	1,889	1,506
Property taxes	1,270	1,017
Sales and liquor taxes	990	889
Patron tax	801	1,559
Lawsuit settlement	295	2,704
Unearned revenues	196	256
Income taxes	549	559
Other	2,374	4,593
	<u>\$ 11,524</u>	<u>\$ 15,386</u>

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

4. Selected Account Information - continued

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

	Years Ended September 30,		
	2017	2016	2015
Taxes and permits	\$ 8,026	\$ 8,089	\$ 8,031
Advertising and marketing	6,704	5,374	5,610
Supplies and services	4,873	4,815	4,726
Insurance	4,006	3,575	3,364
Rent	3,258	3,278	4,526
Legal	3,074	3,197	3,318
Utilities	2,824	2,871	2,999
Charge cards fees	2,783	2,252	2,176
Security	2,251	2,042	1,905
Accounting and professional fees	2,159	1,286	1,263
Repairs and maintenance	2,091	2,088	1,916
Other	4,726	4,208	3,764
	<u>\$ 46,775</u>	<u>\$ 43,075</u>	<u>\$ 43,598</u>

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

	Years Ended September 30,		
	2017	2016	2015
Impairment of assets	\$ 7,639	\$ 3,492	\$ 1,705
Settlement of lawsuits	317	1,881	11,684
Loss (gain) on sale of assets	(542)	388	808
Gain on settlement of patron tax	(102)	-	(8,167)
	<u>\$ 7,312</u>	<u>\$ 5,761</u>	<u>\$ 6,030</u>

5. Property and Equipment

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

	September 30,	
	2017	2016
Buildings and land	\$ 122,996	\$ 121,645
Equipment	30,107	26,715
Leasehold improvements	31,969	24,942
Furniture	8,612	8,009
Total property and equipment	<u>193,684</u>	<u>181,311</u>
Less accumulated depreciation	<u>(45,274)</u>	<u>(40,238)</u>
Property and equipment, net	<u>\$ 148,410</u>	<u>\$ 141,073</u>

Included in buildings and leasehold improvements above are construction-in-progress projects amounting to \$1.6 million and \$6.3 million as of September 30, 2017 and 2016, respectively.

Depreciation expense was approximately \$6.7 million, \$6.6 million and \$6.3 million for fiscal years 2017, 2016 and 2015, respectively.

See Note 3 in relation to revision of prior year financial statements.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

6. Assets Held for Sale

During the fourth quarter of fiscal 2016, the Company had decided to offer six real estate properties for sale. The aggregate estimated fair value of the properties less cost to sell as of September 30, 2016 was approximately \$7.7 million, which is primarily comprised of land and buildings, and reclassified to assets held for sale in the Company's consolidated balance sheet.

During the quarter ended March 31, 2017, the Company sold one of the properties held for sale for \$2.2 million, recognizing a \$116,000 loss. During the quarter ended June 30, 2017, the Company sold another property held for sale for \$1.5 million, recognizing a \$0.9 million gain. The gain or loss on the sale of these properties is included in other charges, net in our consolidated statements of income.

At the end of the quarter ended June 30, 2017, Company management decided to close an underperforming club in Dallas. The Company wrote off the balance of goodwill for that location and recorded an impairment charge amounting to \$1.4 million, which is included in other charges, net in our consolidated statements of income for the three months ended June 30, 2017. The Company also recorded in assets held for sale the carrying value of the property for sale consisting principally of land and building amounting to \$5.2 million, which is lower than fair value less cost to sell.

At the end of the quarter ended September 30, 2017, two properties classified as held for sale with a carrying value of \$4.3 million were reclassified to property and equipment, net in the consolidated balance sheet. At September 30, 2017, we determined the assets no longer met the criteria for held for sale as the sale of one property was no longer likely to be completed within one year and that the other property was no longer available for immediate sale in its present condition due to a lease executed during the period. The assets were measured at the carrying value as adjusted for depreciation which was lower than the fair value at the date reclassified.

The Company expects the properties held for sale to be sold within 12 months through property listings by our real estate brokers.

The assets held for sale do not have liabilities associated with them that need to be directly settled from the proceeds in the event of a transaction.

7. Goodwill and Other Intangible Assets

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

		September 30,	
		2017	2016
Indefinite useful lives:			
Goodwill		\$ 43,866	\$ 45,847
Licenses		70,644	51,849
Tradename		2,215	-
		Amortization Period	
Definite useful lives:			
Discounted leases	18 & 6 years	116	123
Non-compete agreements	5 years	681	291
Software	5 years	768	503
		1,565	917
Total goodwill and other intangible assets		\$ 118,290	\$ 98,613

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

7. Goodwill and Other Intangible Assets - continued

	2017			2016		
	Definite- Lived Intangibles	Indefinite- Lived Intangibles	Goodwill	Definite- Lived Intangibles	Indefinite- Lived Intangibles	Goodwill
Beginning balance	\$ 917	\$ 51,849	\$ 45,847	\$ 5,176	\$ 55,902	\$ 52,567
Intangibles acquired	865	22,411	2,716	496	-	-
Impairment	-	(1,401)	(4,697)	-	(2,092)	-
Sale/closure of reporting units	-	-	-	(4,003)	(1,961)	(6,720)
Amortization	(217)	-	-	(752)	-	-
Ending balance	<u>\$ 1,565</u>	<u>\$ 72,859</u>	<u>\$ 43,866</u>	<u>\$ 917</u>	<u>\$ 51,849</u>	<u>\$ 45,847</u>

Future amortization expense related to definite-lived intangible assets that are subject to amortization at September 30, 2017 is: 2018 - \$352,000; 2019 - \$321,000; 2020 - \$305,000; 2021 - \$281,000; 2022 - \$228,000; and thereafter - \$78,000.

Indefinite-lived intangible assets consist of sexually oriented business licenses and tradename, 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. The discounted cash flow method of income approach 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 year ended September 30, 2017, the Company recognized an impairment loss of \$4.7 million related to the goodwill of four reporting units, including one held for sale, as well as an impairment loss of \$1.4 million related to two locations' SOB licenses. The Company impaired one reporting unit during the year ended September 30, 2016 amounting to \$2.1 million for indefinite-lived intangibles. The Company impaired two reporting units during the year ended September 30, 2015 in the aggregate amount of \$1.7 million for indefinite-lived intangible and zero for goodwill. See Note 16.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

8. Long-term Debt

Long-term debt consisted of the following (in thousands):

		September 30,	
		2017	2016
Notes payable at 10-11%, mature August 2022 and December 2024	*	\$ 2,358	\$ 2,662
Note payable at 7%, matures December 2019	*	95	133
Notes payable at 5.5%, matures January 2023	*	1,157	1,238
Notes payable at 5.5%, matures January 2023 and January 2022	*	4,510	4,864
Note payable refinanced at 6.25%, matures July 2018	*	1,120	1,227
Note payable at 6.3%, matures June 2030, collateralized by aircraft		-	422
Note payable at 9.5%, matures August 2024	**	6,941	10,642
Notes payable at 9.5%, mature September 2024	*	6,423	7,040
6% convertible debentures, mature March 2023	**	-	406
Notes payable at 13%, matures October 2016 and 2017	**	-	4,000
Notes payable at 5-7%, mature from 2018 to 2028	*	1,679	1,867
Note payable at 11%, matures June 2018	*	-	1,500
9% convertible debentures mature October 2016		-	452
7.45% note payable collateralized by aircraft, matures January 2019		2,740	3,013
Notes payable at 12%, mature December 2017 and September 2018	**	-	4,000
Non-interest-bearing debt to State of Texas, matures May 2022, interest imputed at 9.6%		5,613	6,201
Note payable at 6.5%, matures January 2020	*	4,484	4,621
Note payable at 6%, matures January 2019	*	504	857
Notes payable at 5.5%, matures May 2020	*	5,320	5,493
Note payable at 6%, matures May 2020	*	1,037	1,386
Note payable at 5.25%, matures December 2024	*	1,777	1,842
Note payable at 5.45%, matures July 2020	*	10,620	10,962
Note payable at the greater of 2% above prime or 5% (6.25% at September 30, 2017), matures October 2025	*	4,303	4,430
Note payable at 5%, matures January 2026	*	9,672	9,882
Note payable at 5.25%, matures March 2037	*	4,651	4,442
Note payable at 5%, matures July 2017	*	-	2,157
Note payable at 6.25%, matures February 2018	*	1,894	1,894
Note payable at 5.95%, matures August 2021	*	8,267	8,945
Note payable at 12%, matures October 2021	**	9,671	-
Note payable at 4.99%, matures April 2037, collateralized by aircraft		941	-
Notes payable at 12%, mature May 2020	**	5,440	-
Note payable at 5%, matures November 2017	**	5,000	-
Note payable at 8%, matures May 2029	**	15,291	-
Note payable at 5%, matures May 2038	*	3,441	-
Total debt		124,949	106,578
Less unamortized debt issuance costs		(597)	(692)
Less current portion		(17,440)	(9,950)
Total long-term debt		\$ 106,912	\$ 95,936

* Collateralized by real estate

** Collateralized by stock in subsidiary

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

8. Long-term Debt - continued

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

	2017	2016
Secured by real estate	\$ 73,312	\$ 76,204
Secured by stock in subsidiary	42,343	19,048
Secured by other assets	3,681	3,435
Unsecured	5,613	7,891
	<u>\$ 124,949</u>	<u>\$ 106,578</u>

In April 2010, the Company acquired the real estate for the club in Austin, Texas formerly known as Rick's Cabaret. In connection with the purchase, the Company executed a note to the seller amounting to \$ 2.2 million. The note was collateralized by the real estate and was payable in monthly installments through April 2025 of \$19,774, including principal and interest at the prime rate plus 4.5% with a minimum rate of 7%. The Company refinanced this debt in 2013 with a note of \$1.5 million, payable in monthly installments of \$15,090 through July 2018, including principal and interest at 6.25%.

In June 2010, the Company borrowed \$518,192 from a lender. The funds were used to purchase an aircraft. The debt bore interest at 6.30% with monthly principal and interest payments of \$3,803 beginning in July 2010, maturing June 2030. This note was refinanced with a bank in April 2017 with the borrowing of \$952,690 at 4.99% for 20 years, together with a purchase of a new aircraft. Monthly payments for the new note is at \$6,286, including interest, beginning in May 2017. This note has been paid off in 2017.

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. The notes are also payable over eleven years at \$53,110 per month including interest and have the same adjustable interest rate of 5.5%.

As consideration for the purchase of nine operating adult cabarets and two other licensed location under development at that time (collectively, the "Foster Clubs"), a subsidiary paid to the sellers at closing \$3.5 million cash and \$22.0 million pursuant to a secured promissory note (the "Club Note"). The Club Note bears interest at the rate of 9.5% per annum, is payable in 144 equal monthly installments of \$ 256,602 per month and is secured by the assets purchased from the Companies.

In connection with the acquisition of the Foster Clubs, as explained above, the Company's wholly owned subsidiary, Jaguars Holdings, Inc. ("JHI"), entered into a Commercial Contract (the "Real Estate Agreement"), which agreement provided for JHI to purchase the real estate where the Foster Clubs are located. The transactions contemplated by the Real Estate Agreement closed on October 16, 2012. The purchase price of the real estate was \$10.1 million (discounted to \$9.6 million as explained below) and was paid with \$350,000 in cash, \$9.1 million in mortgage notes, and an agreement to make a one-time payment of \$650,000 in twelve years that bears no interest. The note bears interest at the rate of 9.5%, is payable in 143 equal monthly installments and is secured by the real estate properties. The Company has recorded a debt discount of \$431,252 related to the one-time payment of \$650,000.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

8. Long-term Debt – continued

The Club Note from the Jaguars acquisition also provides that in the event any regulatory or administrative authority seeks to enforce or attempts to collect any tax or obligation or liability that may be due pursuant to the Texas Patron Tax (sometimes referred to as the “Pole Tax”) or related legislation, then the then outstanding principal amount of the Club Note, as of the date the tax is enforced, will immediately be reduced by an amount calculated by multiplying 1,200,000 by the dollar amount of the per-person tax implemented (the “Reduction Amount”). The Reduction Amount cannot exceed \$6.0 million. By way of example, if exactly two years after closing, a \$2.00 per person tax is implemented and enforced, the Reduction Amount would be \$2.4 million and the then principal amount of the Club Note would be reduced \$2.4 million. The Texas Patron Tax is currently enacted to be \$5 per person which equates to a \$6.0 million Reduction Amount. The State of Texas has demanded payment and this provision was invoked in July 2014 and the Company recorded a gain of \$6 million, less related debt discount.

During the year ended September 30, 2013, the Company acquired four parcels of real estate at a cost aggregating \$3,230,000 and incurred debt aggregating \$2.6 million in connection therewith. The notes bear interest at rates ranging from 5 - 7% and are payable \$25,660 monthly, including principal and interest. The notes mature from 2018 to 2028.

On October 15, 2013, the Company sold to certain investors (i) 9% Convertible Debentures with an aggregate principal amount of \$4,525,000 (the “Debentures”), under the terms and conditions set forth in the Debentures, and (ii) warrants to purchase a total of 72,400 shares of the Company’s common stock (the “Warrants”), under the terms and conditions set forth in the Warrants. Each of the Debentures had a term of three years, was convertible into shares of our common stock at a conversion price of \$12.50 per share (subject to adjustment), and had an annual interest rate of 9%, with one initial payment of interest only due April 15, 2014. Thereafter, the principal amount was payable in 10 equal quarterly principal payments, which amounts to a total of \$452,500, plus accrued and unpaid interest. Six months after the issue date of the Debentures, we had the right to redeem the Debentures if the Company’s common stock has a closing price of \$16.25 (subject to adjustment) for 20 consecutive trading days. The Warrants had an exercise price of \$12.50 per share (subject to adjustment) and expired on October 15, 2016. The Company sold the Debentures and Warrants to the investors in a private transaction and received consideration of \$4,525,000. The notes were paid off in October 2016.

The fair value of the warrants was estimated to be \$105,318 using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	28%
Expected life	1.5 years
Expected dividend yield	-
Risk free rate	0.33%

The cost of the warrants has been recognized as a discount on the related debt and will be amortized to interest expense over the life of the debt. The warrants expired in October 2016.

In December 2013, the Company borrowed \$3.6 million from a lender. The funds were used to purchase an aircraft. The debt bears interest at 7.45% with monthly principal and interest payments of \$40,653 beginning March 2012. The note matures in January 2019.

In December 2014, the Company refinanced certain real estate debt amounting to \$2.1 million with new bank debt of \$2.0 million. The new debt is payable \$13,270 per month, including interest at 5.25% and matures in ten years.

In December 2014, the Company borrowed \$1.0 million from an individual. The note is collateralized by certain real estate, is payable \$13,215 per month, including interest at 10% and matures in ten years.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

8. Long-term Debt – continued

On January 13, 2015 a Company subsidiary purchased Down in Texas Saloon gentlemen's club in an Austin, Texas suburb. As part of the transaction, another subsidiary also purchased the club's real estate. Total consideration of \$6.8 million consisted of \$3.5 million for the club business and \$3.3 million for its 3.5 acres of real estate. Payment was in the form of \$1 million in cash and \$1.4 million in seller financing at 6% annual interest, with the balance provided by commercial bank financing in the form of a note at a variable interest rate equal to the prime rate plus 2%, but in no event less than 6.5%. Payments on these notes aggregate \$68,829 per month. See Note 14.

On May 4, 2015 a Company subsidiary purchased The Seville gentlemen's club in Minneapolis Minnesota. As part of the transaction, another subsidiary also purchased the club's real estate. Total consideration of \$8.5 million consisted of \$4.5 million for the assets of the club business and \$4.0 million for the real estate. Payment was made through bank financing of \$5.7 million at 5.5% interest, seller financing of \$1.8 million at 6% and cash of \$1.1 million. See Note 14. There are certain financial covenants with which the Company must be in compliance related to this financing. The Company is in compliance with such covenants as of September 30, 2017. Payments on these notes aggregate to \$65,355 per month.

On July 30, 2015, a subsidiary of the Company acquired the building in which the Company's Miami Gardens, Florida nightclub operates. The cost was \$15,300,000 and was purchased with an \$11,325,000 note, payable in monthly installments of approximately \$78,000, including interest at 5.45% and matures in five years and the balance with cash. The building has several other third-party tenants in addition to the Company's nightclub. There are certain financial covenants with which the Company must be in compliance related to this financing. The Company is in compliance with such covenants as of September 30, 2017.

In 2015, the Company reached a settlement with the State of Texas over payment of the state's Patron Tax on adult club customers. To resolve the issue of taxes owed, the Company agreed to pay \$10.0 million in equal monthly installments of \$119,000, without interest, over 84 months, beginning in June 2015, for all but two unsettled locations. Going forward, the Company agreed to remit the Patron Tax on a monthly basis, based on the current rate of \$5 per customer. For accounting purposes, the Company has discounted the \$10.0 million at an imputed interest rate of 9.6%, establishing a net present value for the settlement of \$7.2 million. This is included as long-term debt in the consolidated balance sheets.

In October 2015, the Company refinanced certain real estate debt amounting to \$2.3 million with new bank debt of \$4.6 million. After closing costs, the Company received \$2.0 million in cash from the transaction. The new debt is payable \$30,244 per month, including interest at the prime rate plus 2% (5.5% at September 30, 2016) and matures in ten years. There are certain financial covenants with which the Company must be in compliance related to this financing. The Company is in compliance with such covenants as of September 30, 2017.

In October 2015, the Company entered into a \$4.7 million construction loan with a commercial bank for a new corporate headquarters building. The note, which was fully funded upon the finish of construction of the building in October 2016, is payable over 20 years at \$31,988 per month including interest and has an adjustable interest rate of 5.25%. The rate adjusts to prime plus 1% in the 61st month, with a floor of 5.25%.

In January 2016, a subsidiary of the Company acquired the building in which the Company's Rick's Cabaret New York nightclub operates. The cost was \$10.5 million, including closing costs and was purchased with a \$10.0 million note, payable in monthly installments of approximately \$59,000, including interest at 5.0% and matures in ten years. There are certain financial covenants with which the Company must be in compliance related to this financing. The Company is in compliance with such covenants as of September 30, 2017.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

8. Long-term Debt – continued

In July 2016, the Company acquired certain land for future development of a Bombshells in Harris County, Texas for \$3.3 million, financed with a bank note for \$2.2 million, payable interest only at 5.0% monthly until its maturity in 12 months. This note has been paid off in 2017.

In August 2016, the Company acquired certain land for future development of a Bombshells in Harris County, Texas for \$2.5 million, financed with a bank note for \$1.9 million, payable interest only at 5.0% monthly until its maturity in 18 months.

In August 2016, the Company refinanced two notes payable with an aggregate carrying value of \$6.1 million with a \$9.0 million bank note at an interest rate of 5.95%. The note matures in 10 years with monthly installments of \$100,062 and a balloon payment at maturity for the remaining balance. There are certain financial covenants with which the Company must be in compliance related to this financing, which the Company would not have been in compliance with as of September 30, 2017, except for the subsequent effect of the New Loan (see Note 20).

On October 5, 2016, the Company refinanced \$8.0 million of long-term debt by borrowing \$9.9 million. The new unsecured debt is payable \$118,817 per month, including interest at 12%, and matures in five years with a balloon payment for the remaining balance at maturity. The refinanced debt was comprised of interest-only notes that were scheduled to mature with full principal payments in fiscal 2018.

On January 4, 2017, the Company paid off \$392,000 of convertible 6% notes, which would have matured on March 4, 2023.

On March 13, 2017, the Company entered into a promissory note with a bank, which provides for a \$1.0 million revolving line of credit maturing on March 13, 2018. The interest rate under this revolving line of credit is at 6.5% per annum payable every 13th of each month starting April 13, 2017 for all outstanding borrowings. In an event of a default, as defined in the agreement, the interest rate shall be increased to 17% per annum. As of September 30, 2017, the Company had available borrowing capacity of \$1.0 million under the revolving line of credit.

On May 1, 2017, the Company raised \$5.4 million through the issuance of 12% unsecured promissory notes to certain investors, which notes mature on May 1, 2020. The notes pay interest-only in equal monthly installments, with a lump sum principal payment at maturity.

On May 4, 2017, the Company entered into a construction loan agreement with a bank for the construction of the Company's Bombshells Pearland location. The maximum availability of the 5% promissory note is \$4.8 million with advances based on the progress of construction. On June 4, 2017, an initial advance of \$2.2 million was used to pay off a previous interest-only note for the same construction project. The new loan is payable interest-only until after one year from the date of the initial advance when the construction loan, including all advances as its principal, converts to an amortizing 20-year note with scheduled monthly payments to be determined on the date of conversion. The Company paid loan costs amounting to \$24,000, which will be amortized for the term of the note.

On May 8, 2017, in relation to the Scarlett's acquisition (see Note 14), 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.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

8. Long-term Debt – continued

Future maturities of long-term debt consist of the following, net of debt discount (in thousands):

	Regular Amortization	Balloon Payments	Total Payments
2018	\$ 9,512	\$ 7,928	\$ 17,440
2019	9,653	2,370	12,023
2020	8,270	24,816	33,086
2021	6,116	5,285	11,401
2022	4,923	8,317	13,240
Thereafter	23,314	14,445	37,759
	<u>\$ 61,788</u>	<u>\$ 63,161</u>	<u>\$ 124,949</u>

9. Income Taxes

The provision for income taxes consisted of the following (in thousands):

	Years Ended September 30,		
	2017	2016	2015
Current			
Federal	\$ 2,989	\$ 260	\$ 894
State and local	1,097	970	335
Total current income tax expense	<u>4,086</u>	<u>1,230</u>	<u>1,229</u>
Deferred			
Federal	1,545	1,110	3,771
State and local	728	33	111
Total deferred income tax expense	<u>2,273</u>	<u>1,143</u>	<u>3,882</u>
Total income tax expense	<u>\$ 6,359</u>	<u>\$ 2,373</u>	<u>\$ 5,111</u>

See Note 3 in relation to revision of prior year financial statements.

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

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):

	Years Ended September 30,		
	2017	2016	2015
Computed expected income tax expense	\$ 4,979	\$ 4,366	\$ 4,759
State income taxes, net of federal benefit	291	730	221
Transfer of deferred tax liabilities with subsidiaries sold	-	(841)	-
Permanent differences	108	(109)	131
Change in deferred tax liability rate	1,329	-	-
Reserve for uncertain tax position	406	240	-
Tax credits	(564)	(2,013)	-
Other	(190)	-	-
Total income tax expense	<u>\$ 6,359</u>	<u>\$ 2,373</u>	<u>\$ 5,111</u>

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

9. Income Taxes - continued

During the fiscal year ended September 30, 2016 the Company deconsolidated three subsidiaries. Two of these subsidiaries were 100 percent owned subsidiaries, 100 percent of the stock of both of these subsidiaries were sold to third parties. The third subsidiary was a 51 percent owned subsidiary that was accounted for under the consolidated method; 31 percent of the 51 percent ownership of the stock was sold during the year to a third party, and the investment is now accounted for under the cost method. In accordance with U.S. GAAP, the company has elected to account for the deferred taxes on the inside basis differences of all three deconsolidated subsidiaries as a component of the gain or loss on the sale of the shares. All outside basis differences in the investment in subsidiaries stock are accounted for as a component of the tax provision.

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,	
	2017	2016
Deferred tax assets:		
Patron tax	\$ 1,954	\$ 2,074
Other	231	2,172
	<u>2,185</u>	<u>4,246</u>
Deferred tax liabilities:		
Intangibles	(18,549)	(19,034)
Property and equipment	(9,177)	(8,478)
	<u>(27,726)</u>	<u>(27,512)</u>
Net deferred tax liability	<u>\$ (25,541)</u>	<u>\$ (23,266)</u>

For the year ended September 30, 2016, income tax expense includes a tax benefit in the amount of \$2.0 million representing the net amount to be realized from fiscal year 2016 and from amending certain prior year federal tax returns to take the available FICA tip tax credits which were not taken in prior years. The Company will continue to utilize FICA tip credits in future tax filings.

Included in the Company's deferred tax liabilities at September 30, 2017 and 2016 is approximately \$15.9 million and \$16.3 million, respectively, representing the tax effect of indefinite-lived intangible assets from club acquisitions which are not deductible for tax purposes. These deferred tax liabilities will remain in the Company's consolidated balance sheet until the related clubs are sold.

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. During the year ended September 30, 2017, the Company has accrued \$865,000 (all related to previous years' taxes) in uncertain state tax positions. In fiscal 2017, the Company also accrued \$223,000 and \$266,000 in penalties and interest, respectively, related to uncertain tax positions.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

9. Income Taxes - continued

The following table shows the changes in the Company's uncertain tax positions (in thousands):

	Years Ended September 30,		
	2017	2016	2015
Balance at beginning of year	\$ 240	\$ -	\$ -
Additions for tax positions of prior years	625	240	-
Balance at end of year	<u>\$ 865</u>	<u>\$ 240</u>	<u>\$ -</u>

The full balance of \$865,000, if recognized, would affect the Company's annual effective tax rate, net of any federal tax benefits. 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. Fiscal year ended September 30, 2016 remains open to tax examination. The Company's federal income tax returns for the years ended September 30, 2015, 2014 and 2013 are currently being examined by the Internal Revenue Service. The Company is also being examined for state income taxes, the settlement of which may occur within the next twelve months.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

10. Stock-Based Compensation

In 2010, the Company's Board of Directors approved the 2010 Stock Option Plan (the "2010 Plan"). The 2010 Plan was approved by the shareholders of the Company at the 2011 Annual Meeting of Stockholders. At the 2012 Annual Meeting of Stockholders, shareholders approved amending the 2010 Plan to increase the maximum aggregate number of shares of common stock that may be optioned and sold from 500,000 to 800,000. The options granted under the Plans may be either incentive stock options or non-qualified options. The 2010 Plan is administered by the Board of Directors or by a compensation committee of the Board of Directors. The Board of Directors has the exclusive power to select individuals to receive grants, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price 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 2010 Plan. There were no options outstanding as of September 30, 2017 or 2016.

In July 2014, the Company granted to an executive officer and an officer of a subsidiary a total of 96,325 shares of restricted stock. The total grant date fair value of all of these awards was \$963,000, or \$10.00 per share, and vest in two years. Restricted stock awards are awards of common stock that are subject the restrictions on transfer and to a risk of forfeiture if the awardee terminates employment with the Company prior to the lapse of the restrictions. The fair value of such stock was determined using the closing price on the grant date and compensation expense is recorded over the applicable requisite service periods. Forfeitures are recognized as a reversal of expense of any unvested amounts in the period incurred. These restricted stock awards vested in July 2016 at an aggregate intrinsic value of \$969,000. There was no restricted stock outstanding as of September 30, 2017 and 2016.

Stock-based compensation expense recognized during the fiscal years ended September 30, 2017, 2016 and 2015 amounted to \$0, \$360,000 and \$480,000, respectively.

11. Commitments and Contingencies

Leases

The Company leases certain equipment and facilities under operating leases, of which rent expense was approximately \$3.3 million, \$3.3 million and \$4.5 million for the years ended September 30, 2017, 2016 and 2015, respectively. Rent expense for the Company's operating leases, which generally have escalating rentals over the term of the lease, is recorded using the straight-line method over the initial lease term whereby an equal amount of rent expense is attributed to each period during the term of the lease, regardless of when actual payments are made. Generally, this results in rent expense in excess of cash payments during the early years of a lease and rent expense less than cash payments in the later years. The difference between rent expense recognized and actual rental payments is included in other long-term liabilities in the consolidated balance sheets.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

11. Commitments and Contingencies - continued

Future minimum annual lease obligations as of September 30, 2017 are as follows:

2018	\$	2,967
2019		2,797
2020		2,841
2021		2,830
2022		2,784
Thereafter		24,477
Total future minimum lease obligations	\$	<u>38,696</u>

Legal Matters

Texas Patron Tax

In 2015, the Company reached a settlement with the State of Texas over the payment of the state's Patron Tax on adult club customers. To resolve the issue of taxes owed, the Company agreed to pay \$10.0 million in equal monthly installments of \$119,000, without interest, over 84 months, beginning in June 2015, for all but two nonsettled locations. The Company agreed to remit the Patron Tax on a monthly basis, based on the current rate of \$5 per customer. For accounting purposes, the Company has discounted the \$10.0 million at an imputed interest rate of 9.6%, establishing a net present value for the settlement of \$7.2 million. As a consequence, the Company has recorded an \$8.2 million pre-tax gain for the third quarter ending June 30, 2015, representing the difference between the \$7.2 million and the amount previously accrued for the tax.

In March 2017, the Company settled with the State of Texas for one of the two remaining unsettled Patron Tax locations. To resolve the issue of taxes owed, the Company agreed to pay a total of \$687,815 with \$195,815 paid at the time the settlement agreement was executed followed by 60 equal monthly installments of \$8,200 without interest.

The aggregate balance of Patron Tax settlement liability amounted to \$5.6 million and \$6.2 million as of September 30, 2017 and 2016, respectively, and is included in long-term debt in the consolidated balance sheets.

New York Settlement

Filed in 2009, the case claimed Rick's Cabaret New York misclassified entertainers as independent contractors. Plaintiffs sought minimum wage for the hours they danced and return of certain fees. RCI Entertainment (New York), Inc. and Peregrine Enterprises, Inc. maintained the dancers were properly classified, and alternatively, amounts earned were well in excess of the minimum wage and should satisfy any obligations.

On April 1, 2015, we and our subsidiaries, RCI Entertainment (New York), Inc. and Peregrine Enterprises, Inc., entered into an agreement to settle in full a New York based federal wage and hour class and collective action filed in the United States District Court for the Southern District of New York. On September 22, 2015, the Court granted final approval of the settlement. Under the terms of the agreement, Peregrine Enterprises, Inc. was to make up to \$15.0 million available to class members and their attorneys. The actual amount paid was determined based on the number of class members responding by the end of a two-month notice period which ended on December 4, 2015. Unclaimed checks or payments reverted back to Peregrine at that time. Based on the current schedule, an initial payment for attorneys' fees of \$1,833,333 was made in October 2015, with two subsequent payments of \$1,833,333 each being made in equal annual installments. As part of the settlement, RCIHH was required to guarantee the obligations of RCI Entertainment (New York), Inc. and Peregrine Enterprises, Inc. under the settlement.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

Legal Matters – continued

The Company expensed \$11.1 million during the year ended September 30, 2015 as the final liability for its obligations under the settlement, which was included in other charges, net in the consolidated statement of income. Of this amount, \$5.6 million was paid to entertainers and \$5.5 million has been or will be paid to the lawyers. As of September 30, 2017 and 2016, the Company has a remaining balance of \$37,000 and \$2.7 million, respectively, recorded in accrued liabilities on the Company's consolidated balance sheets.

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.

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. Currently, there are several civil lawsuits pending against the Company and its subsidiaries. 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. We have 8 unresolved cases left out of the original 71 cases.

General

The Company has been sued by a landlord in the 33rd Judicial District Court of Harris County, Texas for a Houston Bombshells which was under renovation in 2015. The plaintiff alleges RCI Hospitality Holdings, Inc.'s subsidiary, BMB Dining Services (Willowbrook), Inc., breached a lease agreement by constructing an outdoor patio, which allegedly interfered with the common areas of the shopping center, and by failing to provide Plaintiff with proposed plans before beginning construction. Plaintiff also asserts RCI Hospitality Holdings, Inc. is liable as guarantor of the lease. The lease was for a Bombshells restaurant to be opened in the Willowbrook Shopping Center in Houston, Texas. Both RCI Hospitality Holdings, Inc. and BMB Dining Services (Willowbrook), Inc. have denied liability and assert that Plaintiff has failed to mitigate its claimed damages. Further, BMB Dining Services (Willowbrook), Inc. asserts that Plaintiff affirmatively represented that the patio could be constructed under the lease and has filed counter claims and third-party claims against Plaintiff, Plaintiff's manager, and Plaintiff's broker asserting that they committed fraud and that the landlord breached the applicable agreements. It is unknown at this time whether the resolution of this uncertainty will have a material effect on the Company's financial condition.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

Legal Matters – continued

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 alleges that Mr. Panameno injured Mr. Dupray in a traffic accident after being served alcohol at an establishment operated by JAI Phoenix. The suit alleges JAI Phoenix is 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. A hearing date for the appeal has not yet been scheduled. JAI Phoenix believes the Court’s assessments of liability and damages are unsupported by the facts of the case and the law, and JAI Phoenix will continue to vigorously defend itself. RCI Hospitality Holdings, Inc. is not a party to the lawsuit. The Company estimates a possible loss in the range of \$0 to \$5.0 million in this matter.

Settlements of lawsuits for the years ended September 30, 2017, 2016 and 2015 total \$316,000, \$1.9 million and \$11.7 million, respectively. As of September 30, 2017 and 2016, the Company has accrued \$295,000 and \$2.7 million in accrued liabilities, respectively, related to settlement of lawsuits.

12. Common Stock

During the year ended September 30, 2015, the following common stock transactions occurred:

- The Company acquired 225,280 shares of its own common stock at a cost of \$2.3 million. These shares were subsequently retired.
- The Company issued 232,506 common shares for the conversion of debt and interest in the aggregate amount of \$2.4 million.
- The Company issued 200,000 common shares for a portion of the acquisition cost of an energy drink company. The value of the shares was \$2.4 million.
- Options exercised during the year amounted to 10,000 shares and \$86,900.

During the year ended September 30, 2016, the following common stock transactions occurred:

- The Company acquired 747,081 shares of its own common stock at a cost of \$7.3 million. These shares were subsequently retired.
- The Company issued 125,610 common shares for the conversion of debt and interest in the aggregate amount of \$1.3 million.
- Warrants exercised during the year amounted to 48,780 shares amounting to \$500,000.
- The Company paid quarterly dividends of \$0.03 per share starting the second quarter for an aggregate amount of \$862,000.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

12. Common Stock - continued

During the year ended September 30, 2017, the following common stock transactions occurred:

- The Company acquired 89,685 shares of its own common stock at a cost of \$1.1 million. These shares were subsequently retired.
- The Company paid quarterly dividends of \$0.03 per share for an aggregate amount of \$1.2 million.

13. Employee Retirement Plan

The Company sponsors a Simple IRA plan (the “Plan”), which covers all of the Company’s corporate employees. The Plan allows the 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 \$130,000, \$108,000 and \$94,000 for the years ended September 30, 2017, 2016 and 2015, respectively.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

14. Acquisitions and Dispositions

2015 Acquisitions

On October 30, 2014, a 51% owned subsidiary of the Company acquired certain assets and liabilities of Robust Energy LLC for \$200,000 in cash and 200,000 shares of its restricted common stock for a total purchase price of \$3.6 million. The Company also agreed to issue 50,000 shares of RCIHH common stock each to the two principals of Robust Energy LLC if Robust has net income of at least \$1 million during the 2015 calendar year. The principals entered into a Lock-Up Agreement with the Company in connection with the issuance by the Company of its shares of common stock as explained above, which will provide that none of the shares will be sold for a period of one year after the date of issuance and, thereafter, neither principal will sell more than 1/6th of their respective shares per month that they receive in connection herewith. Robust is an energy drink distributor, targeting the on-premises bar and mixer market.

The following information summarizes the allocation of fair values assigned to the assets and liabilities at the purchase date (in thousands).

Inventory and accounts receivable	\$ 500
Equipment, furniture and fixtures	356
Definite-lived intangibles	4,931
Goodwill	5,326
Accounts payable	(1,482)
Notes payable	(963)
Deferred tax liability	(1,726)
Noncontrolling interest	(3,392)
Net assets	<u>\$ 3,550</u>

In accordance with U.S. GAAP, the Company recorded a gain of approximately \$229,000 on the value of its earlier 15% (\$750,000) investment in this company.

Goodwill from this transaction is deductible for tax purposes.

On January 13, 2015, a Company subsidiary purchased Down in Texas Saloon gentlemen's club in an Austin, Texas suburb. As part of the transaction, another subsidiary also purchased the club's real estate. Total consideration of \$6.8 million consisted of \$3.5 million for the club business and \$3.3 million for its 3.5 acres of real estate. Payment was in the form of \$1 million in cash and \$1.4 million in seller financing at 6% annual interest, with the balance provided by commercial bank financing at a variable interest rate equal to the prime rate plus 2%, but in no event less than 6.5%. See Note 8.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

14. Acquisitions and Dispositions - continued

The following information summarizes the allocation of fair values assigned to the assets at the purchase date (in thousands).

Buildings and land	\$	3,130
Furniture and fixtures		20
Inventory		4
SOB license		3,546
Noncompete		100
Net assets	\$	6,800

On May 4, 2015, a Company subsidiary purchased The Seville gentlemen's club in Minneapolis, Minnesota. As part of the transaction, another subsidiary also purchased the club's real estate. Total consideration of \$8.5 million consisted of \$4.5 million for the assets of the club business and \$4.0 million for the real estate. Payment was made through bank financing of \$5.7 million at 5.5% interest, seller financing of \$1.8 million at 6%, and cash of \$1.1 million. See Note 8.

The following information summarizes the allocation of fair values assigned to the assets at the purchase date (in thousands).

Buildings and land	\$	4,050
Furniture and fixtures		200
Inventory		109
Goodwill		3,941
Noncompete		200
Net assets	\$	8,500

Goodwill from this transaction is deductible for tax purposes.

2016 Dispositions

In September 2016, we sold a 31% interest in Robust for a \$2.0 million note back to its former owner, retaining a 20% interest in the business. The sale of the 31% interest resulted in a loss in control of Robust and we recognized a loss of \$184,000 at the date of deconsolidation. The loss was measured as the excess of the carrying amount of the assets and liabilities over the aggregate of 1) the fair value of the \$2 million note received, 2) the fair value of retained non-controlling interest measured at \$1.2 million, and 3) the carrying amount of the noncontrolling interest. At the date of deconsolidation, we no longer held a significant influence in Robust and have accounted for our 20% remaining interest as a cost method investment. The fair value of the remaining investment was \$0 and \$1.2 million as of September 30, 2017 and 2016. See Note 16 for further discussion of the other-than-temporary impairment recognized in 2017.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

In September 2016, the Company sold two adult clubs and closed a Bombshells location. Following are the aggregate details of the sales:

- Sales price — \$6.3 million
- Cash received — \$3.5 million
- Notes receivable — \$2.8 million
- Gain on sale — \$1.1 million of adult club
- Loss on closure of Bombshells — \$550,000
- Deferred gain on sale of adult club (gain recognized as note collected) — \$399,000

The notes receivable are payable as follows:

- \$1.8 million payable at 6% over 240 months.
- \$1.0 million payable at 9% over 120 months.

The gain/loss on sale transactions above includes a tax benefit of the deferred tax liabilities amounting to \$2.5 million, which were released upon the sale of the entities.

2017 Acquisitions

On April 26, 2017, subsidiaries of the Company acquired the assets of the Hollywood Showclub in the Greater St. Louis area, as well as the club's building and land, adjacent land, and a nearby building and land that can be used for another gentlemen's club. The total purchase price for all the acquired assets and real properties was \$4.2 million, paid in cash at closing.

The following information summarizes the allocation of fair values assigned to the assets at acquisition date (in thousands):

Land and building	\$	2,320
Furniture and equipment		141
Noncompete		200
Other assets		74
Goodwill		1,539
Accrued liability		(75)
Net assets	\$	<u>4,199</u>

Management believes that the recorded goodwill represents the Company's expansion into the Greater St. Louis area. Goodwill will not be amortized, but will be tested at least annually for impairment. The goodwill balance of \$1.5 million, which was recognized in the Nightclubs segment, is deductible for tax purposes.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

On May 8, 2017, a subsidiary of the Company acquired the company that owns Scarlett's Cabaret Miami in Pembroke Park, Florida along with certain related intellectual property for a total consideration of \$26.0 million, payable \$5.4 million at closing, \$5.0 million after six months through a short-term 5% note, and \$15.6 million through a 12-year amortizing 8% note. See Note 8.

The following information summarizes the allocation of fair values assigned to the assets at acquisition date (in thousands):

Inventory	\$	109
Leasehold improvements		1,222
Furniture and equipment		633
Noncompete		400
SOB license		20,196
Tradename		2,215
Goodwill		1,177
Net assets	\$	25,952

Management believes that the recorded goodwill represents the Company's strong market positioning in the South Florida area and with its different clientele from Tootsie's Cabaret, which is five miles away, the two are complementary to each other including management synergies. Goodwill for this acquisition will not be amortized, but will be tested at least annually for impairment. The goodwill amount of \$1.2 million, which was recognized in the Nightclubs segment, is deductible for tax purposes.

In conjunction with the acquisition, the Company made an election under IRS Code 338(h)10 to treat the acquisition as an asset purchase for tax purposes. As a result, no deferred taxes were recorded upon acquisition.

The Company's pro forma results of operations for the acquisitions have not been presented because the effect of the acquisitions was not material to our consolidated financial statements. Since the acquisition dates, the two acquisitions generated combined revenues of \$5.6 million that are included in the Company's consolidated statements of income for the year ended September 30, 2017.

2017 Dispositions

On January 13, 2017, we closed the sale on one of our non-income producing properties, included in assets held for sale on our condensed consolidated balance sheet as of September 30, 2016, for \$2.2 million in cash, recognizing approximately \$116,000 loss on the sale. Proceeds were used to pay off the remaining \$1.5 million of a related 11% balloon note, which was due in 2018. The Company paid a \$75,000 prepayment penalty to pay off the debt.

On June 6, 2017, the Company closed on the sale of another non-income producing property, included in assets held for sale on the Company's condensed consolidated balance sheet as of September 30, 2016, for \$1.5 million, recognizing approximately \$0.9 million gain on the sale. The buyer owned one of the Company's notes payable, hence, the Company exchanged the property for a \$1.5 million reduction in its note payable.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

15. Quarterly Results of Operations (Unaudited)

The following tables summarize unaudited quarterly data for fiscal 2017, 2016 and 2015 (in thousands, except per share data):

	For the Three Months Ended			
	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017(4)
Revenues	\$ 33,739	\$ 34,518	\$ 37,429	\$ 39,210
Income from operations(1)	\$ 6,333	\$ 7,487	\$ 7,883	\$ 1,436
Net income (loss) attributable to RCIHH shareholders(1)	\$ 2,898	\$ 3,759	\$ 3,841	\$ (2,239)
Earnings (loss) per share attributable to RCIHH shareholders				
Basic	\$ 0.30	\$ 0.39	\$ 0.40	\$ (0.23)
Diluted	\$ 0.30	\$ 0.39	\$ 0.40	\$ (0.23)
Weighted average number of common shares outstanding				
Basic	9,768	9,719	9,719	9,719
Diluted	9,814	9,721	9,719	9,719

	For the Three Months Ended			
	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016
Revenues	\$ 33,475	\$ 34,396	\$ 33,952	\$ 33,037
Income from operations(2)	\$ 5,717	\$ 7,550	\$ 6,657	\$ 769
Net income attributable to RCIHH shareholders(2)	\$ 2,552	\$ 5,505	\$ 2,653	\$ 508
Earnings per share attributable to RCIHH shareholders				
Basic	\$ 0.25	\$ 0.55	\$ 0.27	\$ 0.05
Diluted	\$ 0.25	\$ 0.54	\$ 0.27	\$ 0.05
Weighted average number of common shares outstanding				
Basic	10,296	10,013	9,906	9,839
Diluted	10,635	10,215	10,047	9,840

	For the Three Months Ended			
	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015
Revenues	\$ 34,204	\$ 34,989	\$ 33,466	\$ 32,790
Income (loss) from operations(3)	\$ 6,140	\$ (2,616)	\$ 14,152	\$ 3,051
Net income (loss) attributable to RCIHH shareholders(3)	\$ 3,360	\$ (2,841)	\$ 8,267	\$ 428
Earnings (loss) per share attributable to RCIHH shareholders				
Basic	\$ 0.33	\$ (0.28)	\$ 0.81	\$ 0.04
Diluted	\$ 0.32	\$ (0.28)	\$ 0.78	\$ 0.04
Weighted average number of common shares outstanding				
Basic	10,264	10,275	10,245	10,363
Diluted	10,929	10,275	10,707	10,363

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

- (1) Fiscal year 2017 income from operations and net income attributable to RCIHH shareholders included \$7.6 million in asset impairment (\$1.4 million in the third quarter and \$6.2 in the fourth quarter) and \$1.3 million additional income tax expense due to change in deferred tax liability rate in the fourth quarter. Quarterly effective income tax expense rate was 33.3%, 33.7%, 32.9% and 99.6% from first to fourth quarter, respectively.
- (2) Fiscal year 2016 income from operations and net income attributable to RCIHH shareholders included \$3.5 million in asset impairment in the fourth quarter; and \$1.9 million in settlement of lawsuits (significant of which were \$540,000 in the first quarter and \$1.1 million in the fourth quarter). Quarterly effective income tax expense (benefit) rate was 35.9%, 5.2%, 43.0% and (109.0%) from first to fourth quarter, respectively.
- (3) Fiscal year 2015 income (loss) from operations and net income (loss) attributable to RCIHH shareholders included \$1.7 million in asset impairments (\$1.4 million in the first quarter and \$347,000 in the fourth quarter; \$11.7 million in settlement of lawsuits (significant of which were \$10.3 million in the second quarter and \$1.1 million in the fourth quarter; and \$8.2 million in gain on settlement of patron tax in the third quarter. Quarterly effective income tax expense (benefit) rate was 36.1%, (28.9%), 35.5% and 11.9% from first to fourth quarter, respectively.
- (4) The fourth quarter of 2016 and 2015 presented above includes the impact of the revisions discussed in Note 3.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

16. Impairment of Assets

During the year ended September 30, 2015, we recorded an impairment of \$1.7 million for the indefinite-lived intangible assets at two clubs that were closed.

During the year ended September 30, 2016, we recorded an impairment of \$3.5 million, of which \$2.1 million was for indefinite-lived intangible assets of one club, while \$1.4 million was for one property held for sale.

During the year ended September 30, 2017, we recorded aggregate impairment charges of \$7.6 million comprised of \$4.7 million for the goodwill of four club locations, including one that we have put up for sale during the fiscal year, \$385,000 for property and equipment of one club, \$1.4 million for SOB license of two club locations, and \$1.2 million of investment impairment.

17. Segment Information

The Company is engaged in the operations of 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. Total 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.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

17. Segment Information - continued

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Business segment revenues:			
Nightclubs	\$ 124,687	\$ 113,941	\$ 115,493
Bombshells	18,830	18,690	17,639
Other	1,379	2,229	2,317
	<u>\$ 144,896</u>	<u>\$ 134,860</u>	<u>\$ 135,449</u>
Business segment operating income (loss):			
Nightclubs	\$ 35,138	\$ 33,211	\$ 30,428
Bombshells	3,084	1,152	1,638
Other	(522)	(2,650)	(1,921)
General corporate	(14,561)	(11,020)	(9,418)
	<u>\$ 23,139</u>	<u>\$ 20,693</u>	<u>\$ 20,727</u>
Business segment capital expenditures:			
Nightclubs	\$ 5,142	\$ 22,136	\$ 16,578
Bombshells	4,489	609	1,448
Other	14	10	973
General corporate	1,604	5,393	260
	<u>\$ 11,249</u>	<u>\$ 28,148</u>	<u>\$ 19,259</u>
Business segment depreciation and amortization:			
Nightclubs	\$ 5,186	\$ 5,008	\$ 4,646
Bombshells	1,025	1,072	862
Other	50	684	627
General corporate	659	564	910
	<u>\$ 6,920</u>	<u>\$ 7,328</u>	<u>\$ 7,045</u>
	<u>September 30, 2017</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Business segment assets:			
Nightclubs	\$ 254,432	\$ 244,332	\$ 229,935
Bombshells	18,870	8,378	9,719
Other	780	896	9,721
General corporate	25,802	22,455	17,152
	<u>\$ 299,884</u>	<u>\$ 276,061</u>	<u>\$ 266,527</u>

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.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

17. Segment Information - continued

A further disaggregation of segment revenues, as follows:

	Nightclubs	Bombshells	Other
Fiscal 2017:			
Sales of alcoholic beverages	\$ 48,655	\$ 11,784	\$ -
Sales of food and merchandise	11,346	6,910	-
Service revenues	58,013	119	-
Other revenues	6,673	17	1,379
	<u>\$ 124,687</u>	<u>\$ 18,830</u>	<u>\$ 1,379</u>
Fiscal 2016:			
Sales of alcoholic beverages	\$ 45,677	\$ 11,539	\$ -
Sales of food and merchandise	10,767	7,133	-
Service revenues	51,276	-	-
Other revenues	6,221	18	2,229
	<u>\$ 113,941</u>	<u>\$ 18,690</u>	<u>\$ 2,229</u>
Fiscal 2015:			
Sales of alcoholic beverages	\$ 45,859	\$ 9,970	\$ -
Sales of food and merchandise	11,083	7,630	-
Service revenues	52,987	27	-
Other revenues	5,564	12	2,317
	<u>\$ 115,493</u>	<u>\$ 17,639</u>	<u>\$ 2,317</u>

18. Noncontrolling Interests

Noncontrolling interests represent the portion of equity in a consolidated entity held by owners other than the consolidating parent. Noncontrolling interests are reported in the consolidated balance sheets within equity, separately from stockholders' equity. Revenue, expenses and net income attributable to both the Company and the noncontrolling interests are reported in the consolidated statements of income.

Our consolidated financial statements include noncontrolling interests related principally to the Company's ownership of 51% of an entity which owns the real estate for the Company's nightclub in Philadelphia.

19. 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.

In August 2011, the Company borrowed \$750,000 from a related party. The note bore interest at the rate of 10% per annum and matured on August 1, 2014. The note was payable with one initial payment of interest only due January 1, 2012, and, thereafter in ten interest-only quarterly payments. The principal was payable on August 1, 2014. The note was extended in 2014 under the same terms until maturity in October 2017. At the option of the holder, the principal amount of the note and the accrued but unpaid interest thereon could have been converted into shares of the Company's common stock at \$10.00 per share. The note was redeemable by the Company after six months at any time if the closing price of its common stock for 20 consecutive trading days is at least \$13.00 per share. The note was converted into shares during 2016.

RCI HOSPITALITY HOLDINGS, INC.
Notes to Consolidated Financial Statements

20. Subsequent Event

On December 14, 2017, the Company entered into a loan agreement (“New Loan”) with a bank for \$81.2 million. The New Loan fully refinances 20 of the Company’s notes payable and partially pays down 1 note payable (collectively, “Repaid Notes”) with interest rates ranging from 5% to 12% covering 43 parcels of real properties the Company previously acquired (“Properties”). The New Loan consists of three promissory notes:

- i) The first note amounts to \$62.5 million with a term of 10 years at a 5.75% fixed interest rate for the first five years, then repriced one time at the then current U.S. Treasury rate plus 3.5%, with a floor rate of 5.75%, and payable in monthly installments of \$442,058, based upon a 20-year amortization period, with the balance payable at maturity;
- ii) The second note amounts to \$10.6 million with a term of 10 years at a 5.45% fixed interest rate until July 2020, after which to be repriced at a fixed interest rate of 5.75% until the fifth anniversary of this note, and then to be repriced again at the then interest rate of the first note. This note is payable \$78,098 monthly for principal and interest until July 2020, based upon a 20-year amortization period, after which the monthly payment for principal and interest is adjusted accordingly based on the repricing, with the balance payable at maturity; and
- iii) The third note amounts to \$8.1 million with a term of 10 years at a 5.95% fixed interest rate until August 2021, after which to be repriced at 5.75% until the fifth anniversary of this note, and then to be repriced again at the then interest of the first note. This note is payable \$100,062 monthly for principal and interest until August 2021, based upon a 20-year amortization period, after which the monthly payment for principal and interest is adjusted accordingly based on the repricing, with the balance payable at maturity.

In addition to the monthly principal and interest payments as provided above, the Company will pay monthly installments of principal of \$250,000, applied to the first note, until such time as the loan-to-value ratio of the Properties, based upon reduced principal balance of the New Loan and the then current value of the Properties, is not greater than 65%. The New Loan has eliminated balloon payments of the Repaid Notes worth \$2.9 million originally scheduled in fiscal 2018, \$19.4 million originally scheduled in fiscal 2020 and \$5.3 million originally scheduled in fiscal 2021.

In connection with the Repaid Notes, we wrote off \$279,000 of unamortized debt issuance costs to interest expense. Prior to September 30, 2017, the Company paid a portion of debt issuance costs amounting to \$612,500, which was included in other assets until the closing of the transaction. At closing, the Company paid an additional \$764,000 in debt issuance costs, which together with the \$612,500 prepayment will be amortized for the term of the loan using the effective interest rate method.

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.

Effectiveness of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K, management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on their evaluation of these disclosure controls and procedures, they have concluded that our disclosure controls and procedures were not effective as of September 30, 2017. This determination is based on the material weaknesses management identified in our internal control over financial reporting, as described below. We are in the process of remediating the material weaknesses, as described below, which should remedy our disclosure controls and procedures, but we will continue to monitor this issue.

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. The Company's 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 US GAAP.

Internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, is a process designed by, or under the supervision of, the CEO and CFO and is effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with US GAAP. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that the receipts and expenditures of the Company are being made only in accordance with appropriate authorization of management and the Board of Directors; and
- 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 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.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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.

Based on our evaluation under the criteria set forth in *Internal Control — Integrated Framework (2013)*, our management concluded that, as of September 30, 2017, our internal control over financial reporting was not effective because of the identification of material weaknesses as discussed below.

Control Environment

The control environment, which is the responsibility of senior management, helps set the tone of the organization, influences the control consciousness of its officers and employees, and is an important component affecting how the organization performs financial analysis, accounting and financial reporting. A proper organizational tone can be promoted through a variety of means, such as well documented and communicated policies, a commitment to hiring competent employees, the manner and content of oral and written communications, strong internal controls and effective governance.

At September 30, 2017, we did not design or maintain an effective control environment which was primarily attributable to not having a sufficient complement of accounting and financial reporting personnel with an appropriate level of knowledge to address our financial reporting requirements which contributed to the following material weaknesses:

Control Activities

- **Complex Accounting and Management Estimates** – We did not appropriately design or maintain effective controls over complex accounting and management estimates related to assets held for sale, business combinations, cost method investments, income taxes, and the impairment analyses for indefinite lived intangible assets, goodwill, and property and equipment which resulted in certain instances of incorrect accounting and improper valuation decisions.
- **Financial Statement Preparation and Review** – We did not design or maintain effective controls to support accurate accounting, reporting, and disclosures within our Form 10-K.

- Information Technology and Segregation of Duties - We did not design or maintain effective controls to prevent unauthorized access to certain systems, programs and data, and provide for periodic review and monitoring of access including review of security logs and analysis of segregation of duties conflicts. Furthermore, a number of individuals had access to record journal entries but there is no procedure in place to ensure that all journal entries recorded are reviewed.

Despite the existence of the material weaknesses described above, the Company's consolidated financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

The Company's internal controls over financial reporting as of September 30, 2017 were audited by BDO USA, LLP, our independent registered public accounting firm, as stated in its report included in Item 8 of this Form 10-K.

Remediation Plan for Material Weaknesses in Internal Control over Financial Reporting and Status

We have, and continue to, identify and implement actions to improve our internal control over financial reporting and disclosure controls and procedures including actions to enhance our resources and training with respect to financial reporting and disclosure responsibilities, and increase utilization of accounting system functionality, with continued oversight from the Audit Committee.

We have taken, and continue to take, the actions described below to remediate the identified material weaknesses. As we continue to evaluate and work to improve our internal controls over financial reporting, our senior management may determine to take additional measures to address control deficiencies or determine to modify the remediation efforts described in this section. While the Audit Committee and senior management are closely monitoring the implementation, until the remediation efforts discussed in this section, including any additional remediation efforts that our senior management identifies as necessary, are completed, tested and determined effective, the material weaknesses described above will continue to exist.

Control Environment

Our Board of Directors has directed senior management to ensure that a proper, consistent tone is communicated throughout the organization, which emphasizes the expectation that previously existing deficiencies will be rectified through implementation of processes and controls to ensure strict compliance with US GAAP and regulatory requirements. We also have taken steps to effect a proper tone through our policies and personnel.

Control Activities

Strengthening internal controls over complex accounting and management estimates – Subsequent to September 30, 2017, we have committed to resolve the controls over complex accounting and estimates and prevent instances of incorrect accounting and improper valuation decisions, by hiring valuation experts to assist us with our goodwill, indefinite-lived intangible assets, and property and equipment impairment analyses whenever necessary and with the analysis and accounting for business combinations, income taxes, and other complex accounting matters.

Strengthening internal controls over financial reporting and disclosures - We believe the new Enterprise Resource Planning (“ERP”) system described below will assist us in strengthening the controls over financial reporting, and we are committed to also add an overlay of review of our financial statements during our financial reporting process. We have also upgraded our accounting staff with certain newly hired accountants.

We have also committed to hiring an outsourced internal audit group to assist with the controls over these processes and other internal control functions.

With the oversight of our Board of Directors and Audit Committee, the Company has also begun taking steps and plans to take additional measures to remediate the underlying causes of the material weaknesses.

Strengthening the information technology application and related segregation of duties issues – We were previously aware of the limitations of our accounting software and had been in the planning/implementation process of replacing the software for many months prior to September 30, 2017. In October 2017, we completed the conversion to a new ERP system which, along with changes to our manual internal controls, we believe will resolve the issues detailed above relating to the information systems and segregation of duties. The new ERP system has features that prevent unauthorized access to certain programs and data, and provides for periodic review and monitoring of access including review of security logs and analysis of segregation of duties conflicts. These features include proper segregation of duties within our journal entry process. We have also hired a Director of ERP & Business Intelligence.

Changes in Internal Control Over Financial Reporting

Other than as described above in “Management’s Annual Report on Internal Control over Financial Reporting,” there were no changes in our internal control over financial reporting 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

Board of Directors and Stockholders
RCI Hospitality Holdings, Inc.
Houston, Texas

We have audited RCI Hospitality, Inc.'s internal control over financial reporting as of September 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). RCI Hospitality, Inc.'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 "Item 9A, Management's 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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.

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 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.

A material weakness is a deficiency, or a 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 identified in management's assessment.

Control Environment

The Company did not design or maintain an effective control environment which was primarily attributable to not having a sufficient complement of accounting and financial reporting personnel with an appropriate level of knowledge to address the Company's financial reporting requirements which contributed to the following material weaknesses:

Control Activities

- **Complex Accounting and Management Estimates** - The Company did not appropriately design or maintain effective controls over complex accounting and management estimates related to assets held for sale, business combinations, cost method investments, income taxes, and the impairment analyses for indefinite lived intangible assets, goodwill, and property and equipment which resulted in certain instances of incorrect accounting and improper valuation decisions.
- **Financial Statement Preparation and Review** – The Company did not design or maintain effective controls to support accurate accounting, reporting, and disclosures within its Form 10-K.
- **Information Technology and Segregation of Duties** - The Company did not design or maintain effective controls to prevent unauthorized access to certain systems, programs and data, and provide for periodic review and monitoring of access including review of security logs and analysis of segregation of duties conflicts. Furthermore, a number of individuals have access to record journal entries but there is no procedure in place to ensure that all journal entries recorded are reviewed.

These material weakness were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2017 financial statements, and this report does not affect our report dated February 14, 2018 on those financial statements.

In our opinion, RCI Hospitality Holdings, Inc. did not maintain, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of RCI Hospitality Holdings, Inc. as of September 30, 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year ended September 30, 2017 and our report dated February 14, 2018 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
Cleveland, Ohio
February 14, 2018

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:

Name	Age	Position
Eric S. Langan	49	Director, Chairman, Chief Executive Officer, President
Phillip Marshall	68	Chief Financial Officer
Travis Reese	48	Director and Executive Vice President
Steven Jenkins	60	Director
Luke Lirot	61	Director
Nour-Dean Anakar	60	Director
Yura Barabash	43	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.

Phillip Marshall has served as our Chief Financial Officer since May 2007. He was previously controller of Dorado Exploration, Inc., an oil and gas exploration and production company, from February 2007 to May 2007. He previously served as Chief Financial Officer of CDT Systems, Inc., a publicly held water technology company, from July 2003 to September 2006. In 1972, Mr. Marshall began his public accounting career with the international accounting firm, KMG Main Hurdman. After its merger with Peat Marwick, Mr. Marshall served as an audit partner at KPMG for several years. After leaving KPMG, Mr. Marshall was partner in charge of the audit practice at Jackson & Rhodes in Dallas from 1992 to 2003, where he specialized in small publicly held companies. Mr. Marshall is also a trustee of United Mortgage Trust, United Development Funding IV and United Development Funding V, publicly held real estate investment trusts.

Travis Reese became our Director and Executive Vice President in 1999. From 1997 through 1999, Mr. Reese had been a senior network administrator at St. Vincent's Hospital in Santa Fe, New Mexico. During 1997, Mr. Reese was a computer systems engineer with Deloitte & Touche. From 1995 until 1997, Mr. Reese was Vice President with Digital Publishing Resources, Inc., an Internet service provider. From 1994 until 1995, Mr. Reese was a pilot with Continental Airlines. From 1992 until 1994, Mr. Reese was a pilot with Hang On, Inc., an airline company. Mr. Reese has an Associate's Degree in Aeronautical Science from Texas State Technical College. In addition to being involved in the adult entertainment industry since 1992, Mr. Reese's in-depth information technology knowledge is essential to the Board's oversight of our internet businesses.

Steven L. Jenkins has been a Director since June 2001. Since 1988, Mr. Jenkins has been a certified public accountant with Pringle Jenkins & Associates, P.C., located in Houston, Texas. Mr. Jenkins is the President and owner of Pringle Jenkins & Associates, P.C. Mr. Jenkins has a BBA Degree (1979) from Texas A&M University. Mr. Jenkins is a member of the AICPA and the TSCPA. Mr. Jenkins' impressive accounting background makes him a valuable asset to the Board and the Audit Committee.

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 25 years, he is aware of virtually every type of legal issue that can arise, making him an important member of the Board.

Nour-Dean Anakar became a Director on September 14, 2010. Mr. Anakar has over 20 years of experience in senior positions in the development and management of betting and gaming, sports and entertainment, and hospitality and leisure operations in the United States, Europe, and Latin America. From 1988 until 2000 he held executive management and business development positions with Ladbrokes USA and Ladbrokes South America. In 2001, Mr. Anakar became the managing partner of LCIN LLC and LCIN S.A., San Diego and Buenos Aires based gaming companies, which were contracted by GrupoCodere of Spain to oversee the development of all new technology gaming projects and operations in Latin America. He received his BA in Management Science from Duke University and CHA in Hospitality Management from the Conrad Hilton College at the University of Houston. Mr. Anakar's experience managing and developing businesses in industries with similar characteristics to ours make him an excellent fit to the Board.

Yura Barabash became a director on September 19, 2017. Mr. Barabash has been the Senior Vice President of Finance at Motorsport Network LLC (www.motorsportnetwork.com) in Miami, the largest motorsport and auto-related digital media company in the world, a position he has held since 2016. Mr. Barabash has extensive corporate finance experience across multiple industries domestically and internationally, and has been involved in multiple equity and debt financings and M&A transactions for public and private companies in the US, China, Brazil, EU and Russia. Prior to joining Motorsport Network, he was an investment banker at Primary Capital, 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.

Robert L. Watters retired from the Board of Directors effective September 19, 2017.

COMMITTEES OF THE BOARD OF DIRECTORS

AUDIT COMMITTEE

The Company has an Audit Committee whose members are Steven Jenkins, Nour-Dean Anakar and Yura Barabash. All members are independent Directors. The primary purpose of the Audit Committee is to oversee the Company's financial reporting process on behalf of the Board of Directors. 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. Our Audit Committee has reviewed and discussed our audited financial statements for the year ended September 30, 2017 with our management. Steven L. Jenkins serves as the Audit Committee's Financial Expert.

Our Board has adopted a Charter for the Audit Committee. A copy of the Audit Committee Charter can be found on our website at www.rcihospitality.com.com. The Charter establishes the independence of our Audit Committee and sets forth the scope of the Audit Committee's duties. The purpose of the Audit Committee is to conduct continuing oversight of our financial affairs. The Audit Committee conducts an ongoing review of our financial reports and other financial information prior to their being filed with the Securities and Exchange Commission, 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. A majority of the members of the Audit Committee will be independent. The Audit Committee is objective, and reviews and assesses the work of our independent registered public accounting firm and our internal audit department.

The Audit Committee reviewed and discussed the matters required by PCAOB Standard No. 16, Communications with Audit Committees, and our audited financial statements for the fiscal year ended September 30, 2017 with management and our independent registered public accounting firm. The Audit Committee has received the written disclosures and the letter from our independent registered public accounting firm required by PCAOB Rule 3526, Communication with Audit Committees Concerning Independence, and the Audit Committee has discussed with the independent registered public accounting firm the independent registered public accounting firm's independence. The Audit Committee recommended to the Board of Directors that the Company's audited financial statements for the fiscal year September 30, 2017 be included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

NOMINATING COMMITTEE

The Company has a Nominating Committee whose members are Steven Jenkins, Nour-Dean Anakar, Luke Lirot and Yura Barabash. The Board has 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. A majority of the members of the Nominating Committee will be independent. A copy of the Nominating Committee's Charter can be found on the Company's website at www.rcihospitality.com.

COMPENSATION COMMITTEE

The Company has a Compensation Committee whose members are Steven Jenkins, Nour-Dean Anakar, Luke Lirot and Yura Barabash. The Compensation Committee has 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 the Company's website at www.rcihospitality.com. The primary purpose of the Compensation Committee is to evaluate and review the compensation of executive officers.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

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, 2017, 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, 2017.

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 2017, as well as any other individuals included in the Summary Compensation Table, are referred to as "named executive officers."

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 grants 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 September 19, 2017, approximately 96% of the shareholders who voted 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.

Equity-Based Awards—Equity Compensation Plans

The Compensation Committee uses equity awards, usually in the form of stock options, primarily to motivate our named executive officers to realize benefits from longer-term strategies that increase stockholder value, and to promote commitment and retention. Equity awards vest upon the achievement of performance criteria that the Company believes are critical to its long-term success.

The Compensation Committee believes that stock options are an important form of long-term incentive compensation because they align the executive officer's interests with the interests of stockholders, since the options have value only if our stock price increases over time. From time to time, the Compensation Committee may consider circumstances that warrant the grant of full value awards such as restricted stock units. Examples of these circumstances include, among others, attracting a new executive to the team; recognizing a promotion to the executive team; retention; and rewarding outstanding long-term contributions.

Our equity grant practices require that stock options and other equity compensation have prices not less than the fair market value on the date of grant. The fair market value of our stock option awards has historically been the NASDAQ closing price on the date of grant.

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 currently invested, subject to participant-directed elections, in a variety of mutual funds chosen from time to time by the Plan Administrator. Distribution of a participant’s vested interest generally occurs upon termination of employment, including by reason of retirement, death or disability. We make certain matching contributions to the Simple IRA Plan.

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. 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 under their employment agreements. The Company does not provide named executive officers with any significant perquisites or other personal benefits except for an automobile for each executive’s business use.

The following table reflects all forms of compensation for services to us for the fiscal years ended September 30, 2017, 2016 and 2015 of our named executive officers.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Stock Awards ⁽¹⁾ (\$)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Eric S. Langan <i>President and Chief Executive Officer</i>	2017	900,000	-	-	58,450	958,450
	2016	878,434	-	-	67,640	946,074
	2015	832,143	-	-	67,505	899,648
Phillip K. Marshall <i>Chief Financial Officer</i>	2017	263,942	-	-	19,519	283,461
	2016	255,866	-	-	26,038	281,904
	2015	251,442	-	-	25,734	277,176
Travis Reese <i>Executive Vice President</i>	2017	320,000	-	-	38,704	358,704
	2016	299,945	-	-	36,119	336,064
	2015	280,000	-	-	36,562	316,562

(1) Amount represents the aggregate grant date fair value of restricted stock awarded during the fiscal year computed in accordance with FASB ASC Topic 718. Information about the assumptions used to value these awards can be found in Note 10 to the consolidated financial statements included in this Form 10-K.

(2) All Other Compensation for fiscal 2017 consists of:

Name and Principal Position	Automobile Expenses (\$)	Simple IRA Contribution (\$)	Total (\$)
Eric S. Langan	45,950	12,500	58,450
Phillip K. Marshall	11,601	7,918	19,519
Travis Reese	29,104	9,600	38,704

GRANTS OF PLAN-BASED AWARDS

There were no grants of plan-based awards for the year ended September 30, 2017.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

There were no outstanding equity awards as of September 30, 2017.

OPTION EXERCISES AND STOCK VESTED IN FISCAL YEAR 2017

There were no stock options exercised nor stock that vested during the fiscal year ended September 30, 2017.

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, 2017, and we paid our independent directors \$20,000 in cash for the fiscal year. Following is a schedule of all compensation paid to our directors in the year ended September 30, 2017:

Name	Fees earned or paid in cash (\$)
Robert L. Watters(1)	20,000
Nour-Dean Anakar	20,000
Steve L. Jenkins	20,000
Luke C. Lirot	20,000
Yura Barabash(2)	-
Eric S. Langan	-
Travis Reese	-

(1) Mr. Watters retired from the Board of Directors effective September 19, 2017.

(2) Mr. Barabash was elected to the Board of Directors effective September 19, 2017.

EMPLOYMENT AGREEMENTS

On July 24, 2015, we entered into a new Employment Agreement with our Chief Executive Officer and President, Eric Langan. His previous employment agreement expired on July 23, 2015. The new agreement has a term of three years and provides for an annual base salary of \$875,000 for the first year of the term and an annual base salary of \$900,000 for the second and third year of the term.

On September 15, 2014, we entered into a new Employment Agreement with Travis Reese, our Executive Vice President, Director of Technology and Corporate Secretary. His previous employment agreement expired on July 23, 2014. The new agreement had a term of three years and provides for an annual base salary of \$280,000 for the first year, \$300,000 for the second year and \$320,000 for the third year. This employment agreement has since expired.

On August 3, 2016, we entered into a new Employment Agreement with our Chief Financial Officer, Phillip K. Marshall. His previous employment agreement expired in June 2016. The new agreement has a term of two years, commencing on August 1, 2016. The new agreement provides for an annual base salary of \$262,500 for the first year and \$275,000 for the second year.

Each of the employment agreements of Messrs. Langan, Reese and Marshall also provides for bonus eligibility, expense reimbursement, participation in all benefit plans maintained by us for salaried employees, and two weeks paid vacation. Also under the terms of each agreement, the employee is bound to a confidentiality provision and cannot compete with us for a period upon termination of the agreement. Further, in the event we terminate such employee without cause or such employee terminates his employment because we reduce or fail to pay his compensation or materially change his responsibilities, such employee is entitled to receive in one lump sum payment the full remaining amount under the term of his employment agreement to which he would have been entitled had his agreement not been terminated.

We have not established long-term incentive plans or defined benefit or actuarial plans.

EMPLOYEE STOCK OPTION PLANS

As of September 30, 2017, there are no stock options outstanding under our 2010 Stock Option Plan, as amended.

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 its 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.

The foregoing has been furnished by the Compensation Committee.

Steven L. Jenkins
Luke Lirot
Nour-Dean Anakar
Yura Barabash

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is comprised of Messrs. Jenkins, Lirot, Anakar, and Barabash. 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 January 31, 2018, 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 9,718,711 shares of common stock outstanding at January 31, 2018. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed 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 January 31, 2018 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 January 31, 2018. We did 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	Number of shares	Title of class	Percent of Class (1)
Executive Officers and Directors			
Eric S. Langan	711,000	Common stock	7.32%
Phillip K. Marshall	13,810	Common stock	*
Yura Barabash	-0-	Common stock	*
Steven L. Jenkins	-0-	Common stock	*
Travis Reese	11,805	Common stock	*
Nour-Dean Anakar	-0-	Common stock	*
Luke Lirot	518	Common stock	*
All of our Directors and Officers as a Group of seven persons	737,133	Common stock	7.58%
Other > 5% Security Holders			
Dimensional Fund Advisors LP (2)	853,590	Common stock	8.78%
Renaissance Technologies LLC (3)	584,800	Common stock	6.02%

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

(2) Based on the most recently available Schedule 13G/A filed with the SEC on February 9, 2017 by Dimensional Fund Advisors LP. Dimensional Fund Advisors LP, an investment adviser, beneficially owned 853,590 shares of common stock, with sole voting power over 842,068 shares, and sole dispositive power over 853,590 shares. The address for Dimensional Fund Advisors LP is Building One, 6300 Bee Cave Road, Austin, Texas 78746.

(3) Based on the most recently available Schedule 13G filed with the SEC on February 14, 2017 by Renaissance Technologies LLC ("RTC") and Renaissance Technologies Holdings Corporation ("RTHC"). RTHC is the majority owner of RTC. RTC beneficially owned 584,800 shares of common stock, with sole voting power over 396,834 shares, sole dispositive power over 509,362 shares and shared dispositive power over 75,438 shares. The address for both entities is 800 Third Avenue, New York, New York 10022.

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. Except for these guarantees, we know of no related transactions that have occurred since the beginning of the fiscal year ended September 30, 2017 or any currently proposed transactions in which we were or are to be a participant and the amount involved exceeds \$120,000.

Review, Approval, or Ratification of Related Transactions

We have adopted a policy that our business affairs will be conducted in all respects by standards applicable to publicly held corporations and that we will not enter into any future transactions between us and our officers, directors and 5% shareholders unless the terms are no less favorable than could be obtained from independent, third parties. Currently, we rely on our Audit Committee to review related party transactions on an ongoing basis to prevent conflicts of interest. Our Audit Committee reviews a transaction in light of the affiliations of the director, officer, or shareholder and the affiliations of such person's immediate family. Our Audit Committee will approve or ratify a transaction if it determines that the transaction is consistent with our best interests and the best interests of our shareholders.

Our Audit Committee is composed of all independent directors, including Steven Jenkins, Nour-Dean Anakar and Yura Barabash. 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 Whitley Penn LLP for the audit of our annual financial statements for fiscal years 2016 and partial 2017 and by BDO USA, LLP for partial fiscal 2017 (in thousands).

	<u>BDO 2017</u>	<u>WP 2017</u>	<u>WP 2016</u>
Audit fees	\$ 299	\$ 43	\$ 322
Audit-related fees	-	5	11
Tax fees	353	23	43
All other fees	-	-	-
Total	<u>\$ 652</u>	<u>\$ 71</u>	<u>\$ 376</u>

The category of "Audit fees" includes fees for our annual audit, quarterly reviews and services rendered in connection with regulatory filings with the SEC, such as the issuance of comfort letters and consents.

The category of "Audit-related fees" includes acquisition audits, internal control reviews and accounting consultation.

The category of "Tax fees" includes consultation related to corporate development activities.

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 BDO USA, LLP or Whitley Penn LLP was compatible with the maintenance of that firm's independence in the conduct of its 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	<u>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.) *</u>
3.3	<u>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.) *</u>
3.4	<u>Amended and Restated Bylaws (Incorporated by reference from Form 8-K filed with the SEC on March 16, 2016.) *</u>
4.1	<u>Consolidated, Amended and Restated Promissory Note for \$62,539,366.08 with Centennial Bank (Incorporated by reference from Form 8-K filed with the SEC on December 19, 2017) *</u>
4.2	<u>Amended and Restated Promissory Note for \$10,558,311.35 with Centennial Bank (Incorporated by reference from Form 8-K filed with the SEC on December 19, 2017) *</u>
4.3	<u>Amended and Restated Promissory Note for \$8,147,572.57 with Centennial Bank (Incorporated by reference from Form 8-K filed with the SEC on December 19, 2017) *</u>
10.1	<u>Employment Agreement with Eric S. Langan. (Incorporated by reference from Form 8-K filed with the SEC on July 27, 2015.) *</u>
10.2	<u>Employment Agreement with Travis Reese. (Incorporated by reference from Form 8-K filed with the SEC on September 19, 2014.) *</u>
10.3	<u>Employment Agreement with Phillip K. Marshall. (Incorporated by reference from Form 8-K filed with the SEC on August 5, 2016.) *</u>
10.4	<u>Loan Agreement between RCI Holdings, Inc. and Centennial Bank (Incorporated by reference from Form 8-K filed with the SEC on December 19, 2017) *</u>
10.5	<u>Absolute Unconditional and Continuing Guaranty of RCI Hospitality Holdings, Inc. to Centennial Bank (Incorporated by reference from Form 8-K filed with the SEC on December 19, 2017) *</u>
10.6	<u>Absolute Unconditional and Continuing Guaranty of Eric S. Langan to Centennial Bank (Incorporated by reference from Form 8-K filed with the SEC on December 19, 2017) *</u>
16.1	<u>Letter from Whitley Penn to the Securities and Exchange Commission (Incorporated by reference from Form 8-K filed with the SEC on July 14, 2017) *</u>
21.1	<u>Subsidiaries</u>
23.1	<u>Consent of BDO USA, LLP</u>
23.2	<u>Consent of Whitley Penn LLP</u>

- 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.](#)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definitions Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

* 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 February 14, 2018.

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:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Eric S. Langan</u> Eric S. Langan	Director, Chief Executive Officer, and President	February 14, 2018
<u>/s/ Phillip K. Marshall</u> By: Phillip K. Marshall	Chief Financial Officer and Principal Accounting Officer	February 14, 2018
<u>/s/ Travis Reese</u> Travis Reese	Director and Executive Vice President	February 14, 2018
<u>/s/ Nour-Dean Anakar</u> Nour-Dean Anakar	Director	February 14, 2018
<u>/s/ Yura Barabash</u> Yura Barabash	Director	February 14, 2018
<u>/s/ Steven Jenkins</u> Steven Jenkins	Director	February 14, 2018
<u>/s/ Luke Lirot</u> Luke Lirot	Director	February 14, 2018

Exhibit 21
Subsidiaries of the Registrant

Name	State of Organization
12291 CBW LLC	Texas
2151 Manana, Inc.	Texas
BMB Dining Services (290), Inc.	Texas
BMB Dining Services (59), Inc.	Texas
BMB Dining Services (Austin), Inc.	Texas
BMB Dining Services (Beaumont), Inc.	Texas
BMB Dining Services (Frisco), Inc.	Texas
BMB Dining Services (Fuqua), Inc.	Texas
BMB Dining Services (I-10), Inc.	Texas
BMB Dining Services (Pearland), Inc.	Texas
BMB Dining Services (Spring), Inc.	Texas
BMB Dining Services (Stemmons), Inc.	Texas
BMB Dining Services (Webster), Inc.	Texas
BMB Dining Services (Willowbrook), Inc.	Texas
BMB Franchising 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
E. D. Publications, Inc.	Texas
Fantastic Dining, Inc.	Texas
Fine Dining Club Inc.	Texas
Global Marketing Agency, Inc.	Texas
Green Star Inc.	Texas
Hotel Development Texas Ltd.	Texas
Illusions Dallas Private Club LLC	Texas
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
Manana Entertainment, Inc.	Texas
Miami Gardens Square One, Inc.	Florida
New Spiros, LLC	Texas
North IH 35 Investments, Inc.	Texas
Peregrine Enterprises, Inc.	New York
PNC Marketing	Texas
RB Restaurants, Inc.	Texas
RCI 33 rd Street Ventures, Inc.	New York
RCI Dating Services, Inc.	Texas
RCI Debit Services, Inc.	Texas
RCI Dining DFW, LLC	Texas

Name	State of Organization
RCI Dining Services (16328 I-35), Inc.	Texas
RCI Dining Services (37th Street), Inc.	Texas
RCI Dining Services (Airport Freeway), Inc.	Texas
RCI Dining Services (Beaumont), Inc.	Texas
RCI Dining Services (Charlotte), Inc.	North Carolina
RCI Dining Services (Glenwood), Inc.	Minnesota
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.	Texas
RCI Dining Services (Manana), Inc.	Texas
RCI Dining Services (New York), Inc.	New York
RCI Dining Services (Pembroke Park), Inc.	Florida
RCI Dining Services (Round Rock), Inc.	Texas
RCI Dining Services (Stemmons), Inc.	Texas
RCI Dining Services (Stemmons2), Inc.	Texas
RCI Dining Services (Sulphur), Inc.	Louisiana
RCI Dining Services (Tarrant County), Inc.	Texas
RCI Dining Services (Vee), Inc.	Texas
RCI Dining Services (Washington Park), Inc.	Illinois
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 (Delamo), Inc.	California
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.	Texas
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
S Willy's Lubbock LLC	Texas
Sadco, Inc.	Texas
SP Administration, Inc.	Texas
Spiros Partners Ltd.	Texas
Stellar Management, Inc.	Florida
StorErotica Magazine, Inc.	Delaware
Tantra Dance, Inc.	Texas
Tantra Parking, Inc.	Texas
TEZ Management LLC	Pennsylvania
TEZ Real Estate LP	Pennsylvania
The End Zone, Inc.	Pennsylvania
Top Shelf Entertainment LLC	North Carolina
Trumps, Inc.	Texas
TT Leasing Inc.	Texas
WKC, Inc.	Texas
XTC Cabaret (Dallas), Inc.	Texas
XTC Cabaret, Inc.	Texas

Consent of Independent Registered Public Accounting Firm

RCI Hospitality Holdings, Inc.
Houston, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-174207 and No. 333-194343) and Form S-8 (No. 333-193114) of RCI Hospitality Holdings, Inc. of our reports dated February 14, 2018, relating to the consolidated financial statements and the effectiveness of RCI Hospitality Holdings, Inc.'s internal control over financial reporting, which appear in this Form 10-K. Our report on the effectiveness of internal control over financial reporting expresses an adverse opinion on the effectiveness of the Company's internal control over financial reporting as of September 30, 2017.

/s/ BDO USA, LLP
Cleveland, Ohio
February 14, 2018

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement No.333-174207 on Form S-3, No. 333-193114 on Form S-8 and No. 333-194343 on Form S-3 of RCI Hospitality Holdings, Inc., of our report dated December 13, 2016, relating to the consolidated financial statements of RCI Hospitality Holdings, Inc., appearing in this Annual Report on Form 10-K of RCI Hospitality Holdings, Inc. for the year ended September 30, 2017.

/s/ Whitley Penn LLP

Dallas, Texas

February 14, 2018

**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: February 14, 2018

By: /s/ Eric S. Langan

Eric S. Langan
Chief Executive Officer

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

I, Phillip K. Marshall, 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: February 14, 2018

By: /s/ Phillip K. Marshall

Phillip K. Marshall

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, 2017 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
February 14, 2018

/s/ Phillip K. Marshall

Phillip K. Marshall
Chief Financial Officer
February 14, 2018

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.
