

Securities and Exchange Commission
Washington, D.C. 20549

FORM 8-K

Current Report
Pursuant To Section 13 or 15(d) Of
The Securities Exchange Act of 1934

Date of Report: August 3, 2016

RCI HOSPITALITY HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Texas
(State or Other Jurisdiction of Incorporation)

001-13992
(Commission File Number)

76-0458229
(IRS Employer Identification No.)

10959 Cutten Road
Houston, Texas 77066
(Address of Principal Executive Offices, Including Zip Code)

(281) 397-6730
(Issuer's Telephone Number, Including Area Code)

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On August 4, 2016, we issued a press release and held a conference call regarding our financial results for the quarter ended June 30, 2016. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

This information shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

ITEM 5.02 COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS.

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, and provides for an annual base salary of \$262,500 for the first year of the term and \$275, 000 for the second year. The agreement also provides for bonus eligibility, expense reimbursement, participation in all benefit plans maintained by us for salaried employees and two weeks paid vacation. Under the terms of the agreement, Mr. Marshall is bound to a confidentiality provision and cannot compete with us for a period upon termination of the agreement.

A copy of the Employment Agreement is included as Exhibit 10.1 to this Current Report.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

Exhibit Number	Description
10.1	Employment Agreement
99.1	Press release of RCI Hospitality Holdings, Inc. dated August 4, 2016

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 8-K to be signed on its behalf by the undersigned hereunto duly authorized.

RCI HOSPITALITY HOLDINGS, INC .

Date: August 5, 2016

By: /s/ Eric Langan

Eric Langan

President and Chief Executive Officer

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement"), effective as of the 1st day of August 2016, by and between **RICK'S CABARET INTERNATIONAL, INC.**, a Texas corporation (the "Company"), and **PHILLIP K. MARSHALL** ("Executive").

W I T N E S S E T H:

WHEREAS, the Company desires to employ Executive as provided herein; and

WHEREAS, Executive desires to accept such employment.

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Employment.** The Company hereby employs Executive and Executive hereby accepts employment with the Company upon the terms and conditions hereinafter set forth.

2. **Duties.** Subject to the power of the Board of Directors of the Company to elect and remove officers, Executive will serve the Company as its Chief Financial Officer and will faithfully and diligently perform the services and functions relating to such office or otherwise reasonably incident to such office, provided that all such services and functions will be reasonable and within Executive's area of expertise. Executive will, during the term of this Agreement (or any extension thereof), devote his full business time, attention and skills and best efforts to the promotion of the business of the Company. The foregoing will not be construed as preventing Executive from making investments in other businesses or enterprises provided that (a) Executive agrees not to become engaged in any other business activity that interferes with his ability to discharge his duties and responsibilities to the Company and (b) Executive does not violate any other provision of this Agreement.

3. **Term.** Subject to the terms and conditions hereof, the term of employment of Executive will commence August 1, 2016 (the "Commencement Date") and will end on July 31, 2018, unless earlier terminated by either party pursuant to the terms hereof. The term of this Agreement is referred to herein as the "Term."

4. Compensation and Benefits During the Employment Term.

(a) *Salary* . Commencing upon the date of this Agreement, Executive will be paid an annual base salary of (i) \$262,500 for the first year of the Term and (ii) \$275,000 for the second year of the Term, payable bi-weekly (the "Salary"). At any time and from time to time the Salary may be increased for the remaining portion of the Term if so determined by the Board of Directors of the Company after a review of Executive's performance of his duties hereunder.

(b) *Bonus* . As further compensation, Executive will be eligible for bonuses as determined from time to time by the Board of Directors.

(c) *Expenses.* Upon submission of a detailed statement and reasonable documentation, the Company will reimburse Executive in the same manner as other executive officers for all reasonable and necessary or appropriate out-of-pocket travel and other expenses incurred by Executive in rendering services required under this Agreement.

(d) *Benefits; Insurance.*

- (i) Medical, Dental and Vision Benefits. During this Agreement, Executive and his dependents will be entitled to receive such group medical, dental and vision benefits as the Company may provide to its other executives, provided such coverage is reasonably available, or be reimbursed if Executive is carrying his own similar insurance.
- (ii) Benefit Plans. The Executive will be entitled to participate in any benefit plan or program of the Company which may currently be in place or implemented in the future.
- (iii) Other Benefits. During the Term, Executive will be entitled to receive, in addition to and not in lieu of base salary, bonus or other compensation, such other benefits and normal perquisites as the Company currently provides or such additional benefits as the Company may provide for its executive officers in the future.

(e) *Vacation.* Executive will be entitled to two weeks paid vacation each year of this Agreement.

5. Confidentiality and Non-Competition.

(a) *Confidentiality.* In the course of the performance of Executive's duties hereunder, Executive recognizes and acknowledges that Executive may have access to certain confidential and proprietary information of the Company or any of its affiliates. Without the prior written consent of the Company, Executive shall not disclose any such confidential or proprietary information to any person or firm, corporation, association, or other entity for any reason or purpose whatsoever, and shall not use such information, directly or indirectly, for Executive's own behalf or on behalf of any other party. Executive agrees and affirms that all such information is the sole property of the Company and that at the termination and/or expiration of this Agreement, at the Company's written request, Executive shall promptly return to the Company any and all such information so requested by the Company.

The provisions of this Section 5 shall not, however, prohibit Executive from disclosing to others or using in any manner information that:

- (i) has been published or has become part of the public domain other than by acts, omissions or fault of Executive;
 - (ii) has been furnished or made known to Executive by third parties (other than those acting directly or indirectly for or on behalf of Executive) as a matter of legal right without restriction on its use or disclosure;
 - (iii) was in the possession of Executive prior to obtaining such information from Company in connection with the performance of this Agreement; or
 - (iv) is required to be disclosed by law.
- (b) *Non-Competition.* Executive agrees that he will not, for himself, on behalf of, or in conjunction with any person, firm, corporation or entity, either as principal, employee, shareholder, member, director, partner, consultant, owner or part-owner of any corporation, partnership or any other type of business entity, directly or indirectly, own, manage, operate, control, be employed by, participate in, or be connected in any manner with the ownership, management, operation, or control of any establishment which has live female nude or semi-nude entertainment or is in any business similar to or competitive with the female entertainment business presently conducted by the Company anywhere in the United States within 50 miles of any female entertainment business of the Company or any female entertainment business of the Company under construction, under contract, in development or leased by or to the Company, for a period of two years (the "Non-Compete Period") from the termination of this Agreement. However, in the event of the termination of Executive's employment pursuant to Section 7(d) or 7(f), the Non-Compete Period shall be six months.

Executive agrees not to hire, solicit or attempt to solicit for employment by Executive or any company to which he may be involved, either directly or indirectly, any party who is an employee or independent contractor of the Company or any entity which is affiliated with the Company, or any person who was an employee or independent contractor of the Company or any entity which is affiliated with the Company within the two year period immediately following the termination of this Agreement.

Executive acknowledges that he has carefully read and considered all provisions of this Agreement and agrees that:

- (i) Due to the nature of the Company's business, the foregoing covenants place no greater restraint upon Executive than is reasonably necessary to protect the business and goodwill of the Company;
- (ii) These covenants protect the legitimate interests of the Company and do not serve solely to limit the Company's future competition;
- (iii) This Agreement is not an invalid or unreasonable restraint of trade;

- (iv) A breach of these covenants by Executive would cause irreparable damage to the Company;
- (v) These covenants are reasonable in scope and are reasonably necessary to protect the Company's business and goodwill which the Company has established through its own expense and effort; and
- (vi) The signing of this Agreement is necessary as part of the consummation of the transactions described in the preamble.

6. **Indemnification.** The Corporation shall to the full extent permitted by law or as set forth in the Articles of Incorporation and the Bylaws of the Company, indemnify, defend and hold harmless Executive from and against any and all claims, demands, liabilities, damages, losses and expenses (including reasonable attorney's fees, court costs and disbursements) arising out of the performance by him of his duties hereunder except in the case of his willful misconduct.

7. **Termination.** This Agreement and the employment relationship created hereby will terminate (i) upon the death or disability of Executive under section 7(a) or 7(b); (ii) with cause under Section 7(c); (iii) for good reason under Section 7(d); (iv) upon the voluntary termination of employment by Executive under Section 7(e); or without cause under Section 7(f).

- (a) *Disability.* The Company shall have the right to terminate the employment of the Executive under this Agreement for disability in the event Executive suffers an injury, illness, or incapacity of such character as to substantially disable him from performing his duties without reasonable accommodation by the Company hereunder for a period of more than one hundred eighty (180) consecutive days upon the Company giving at least thirty (30) days written notice of termination.
- (b) *Death.* This Agreement will terminate on the Death of the Executive.
- (c) *With Cause.* The Company may terminate this Agreement at any time because of (i) Executive's material breach of any term of the Agreement, (ii) the determination by the Board of Directors in the exercise of its reasonable judgment that Executive has committed an act or acts constituting a felony or other crime involving moral turpitude, dishonesty or theft or fraud; or (iii) Executive's gross negligence in the performance of his duties hereunder, provided, in each case, however, that the Company shall not terminate this Agreement pursuant to this Section 7(c)(iii) unless the Company shall first have delivered to the Executive, a notice which specifically identifies such breach or misconduct and the executive shall not have cured the same within fifteen (15) days after receipt of such notice.
- (d) *Good Reason.* The Executive may terminate his employment for "Good Reason" if:

- (i) he is assigned, without his express written consent, any duties materially inconsistent with his positions, duties, responsibilities, or status with the Company as of the date hereof, or a change in his reporting responsibilities or titles as in effect as of the date hereof; provided, however, that Executive must provide the Company with written notice of his dispute of such re-assignment of duties or change in his reporting responsibilities under this Section 7(d)(i) and give the Company opportunity to cure such inconsistency. If such dispute is not resolved within thirty (30) days, the Company shall submit such dispute to arbitration under Section 14.
- (ii) his compensation is reduced;
- (iii) the Company does not pay any material amount of compensation due hereunder and then fails either to pay such amount within the ten (10) day notice period required for termination hereunder or to contest in good faith such notice. Further, if such contest is not resolved within thirty (30) days, the Company shall submit such dispute to arbitration under Section 14.

(e) *Voluntary Termination* . The Executive may terminate his employment voluntarily.

(f) *Without Cause* . The Company may terminate this Agreement without cause.

8. Obligations of Company Upon Termination.

- (a) In the event of the termination of Executive's employment pursuant to Section 7 (a), (b), (c) or (e), Executive will be entitled only to the compensation earned by him hereunder as of the date of such termination (plus life insurance or disability benefits if applicable and provided for pursuant to Section 4(c)).
- (b) In the event of the termination of Executive's employment pursuant to Section 7 (d), Executive will be entitled to receive, if successful in arbitration under Section 14, in one lump sum payment the full remaining amount under the Term of this Agreement to which he would have been entitled had this Agreement not been terminated.
- (c) In the event of the termination of Executive's employment pursuant to Section 7 (f), Executive will be entitled to receive in one lump sum payment the full remaining amount under the Term of this Agreement to which he would have been entitled had this Agreement not been terminated.

9. Waiver of Breach. The waiver by any party hereto of a breach of any provision of this Agreement will not operate or be construed as a waiver of any subsequent breach by any party.

10. **Costs** . If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party will be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which he or it may be entitled.

11. **Notices** . Any notices, consents, demands, requests, approvals and other communications to be given under this Agreement by either party to the other will be deemed to have been duly given if given in writing and personally delivered or within two days if sent by mail, registered or certified, postage prepaid with return receipt requested, as follows:

If to Company:	Rick's Cabaret International, Inc. Attn: President 10959 Cutten Road Houston, Texas 77066
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If to Executive:	Phil Marshall 10959 Cutten Road Houston, Texas 77066
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Notices delivered personally will be deemed communicated as of actual receipt.

12. **Entire Agreement** . This Agreement and the agreements contemplated hereby constitute the entire agreement of the parties regarding the subject matter hereof, and supersede all prior agreements and understanding, both written and oral, among the parties, or any of them, with respect to the subject matter hereof.

13. **Severability**. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during this Agreement, such provision will be fully severable and this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision never comprised a part hereof; and the remaining provisions hereof will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom. Furthermore, in lieu of such illegal, invalid or unenforceable provision there will be added automatically as part of this Agreement a provision as similar in its terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

14. **Arbitration**. If a dispute should arise regarding this Agreement the parties agree that all claims, disputes, controversies, differences or other matters in question arising out of this relationship shall be settled finally, completely and conclusively by arbitration in Houston, Texas in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "Rules"). The governing law of this Agreement shall be the substantive law of the State of Texas, without giving effect to conflict of laws. A decision of the arbitrator shall be final, conclusive and binding on the Company and Executive. Any arbitration held in accordance with this paragraph shall be private and confidential and no person shall be entitled to attend the hearings except the arbitrator, Executive, Executive's attorneys, a representative of the Company, the Company's attorneys, and advisors to or witnesses for any party. The matters submitted to arbitration, the hearings and proceedings and the arbitration award shall be kept and maintained in the strictest confidence by Executive and the Company and shall not be discussed, disclosed or communicated to any persons except as may be required for the preparation of expert testimony. On request of any party, the record of the proceeding shall be sealed and may not be disclosed except insofar, and only insofar, as may be necessary to enforce the award of the arbitrator and any judgement enforcing an award. The prevailing party shall be entitled to recover reasonable and necessary attorneys' fees and costs from the non-prevailing party and the determination of such fees and costs and the award thereof shall be included in the claims to be resolved by the arbitrator hereunder.

15. **Captions.** The captions in this Agreement are for convenience of reference only and will not limit or otherwise affect any of the terms or provisions hereof.

16. **Gender and Number.** When the context requires, the gender of all words used herein will include the masculine, feminine and neuter and the number of all words will include the singular and plural.

17. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which will be deemed an original and all of which will constitute one and the same instrument, but only one of which need be produced.

18. **Company Authorization.** The Company represents that the Board of Directors has approved this Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement on August 3, 2016, to become effective as of the day and year first above written.

COMPANY:

RICK'S CABARET INTERNATIONAL, INC.

By: /s/Eric Langan
Eric Langan, President/CEO

EXECUTIVE:

By: /s/ Phillip K. Marshall
Phillip K. Marshall



RCI Results Continued to Improve with 3Q16 EPS at \$0.27 GAAP & \$0.34 Non-GAAP

HOUSTON – August 4, 2016 – RCI Hospitality Holdings, Inc. (Nasdaq: RICK) today announced performance continued to improve in the Fiscal 2016 third quarter ended June 30, 2016.

3Q16 Highlights

- GAAP EPS diluted was \$0.27 compared to \$0.78 in the year ago quarter.
- 3Q16 included a \$1.0 million additional tax reserve, while 3Q15 reflected an \$8.2 million pre-tax gain.
- Excluding these and other items, non-GAAP EPS diluted was \$0.34 compared to \$0.31 in 3Q15.
- Free cash flow (FCF) totaled \$6.4 million in 3Q16 and \$16.7 million in the first nine months of FY16.
- As a result, for the second quarter in a row, RCI has upwardly revised its FY16 FCF target, now to the \$19-21 million range, from \$16-\$19 million last quarter and \$15-18 million at the start of FY16.

Cash Dividend & Share Buy Backs

- RCI accelerated its share buyback program in FY16, taking advantage of its strong FCF to return capital to shareholders.
- During 3Q16, RCI used \$1.1 million to buy back 106,093 shares as part of its ongoing program. During the first nine months of FY16, the company used approximately \$5.8 million to buy back 606,995 shares.
- RCI also announced yesterday the company's 4Q16 \$0.03 dividend will be paid September 26, 2016 to shareholders of record September 9, 2016.

Conference Call this Afternoon

- A conference call to discuss these results, outlook and related matters will be held today at 4:30 PM ET
- Dial In: 877-407-9210 (toll free) or 201-689-8049 (domestic or international)
- Webcast URL: <http://www.investorcalendar.com/event/175161>

Meet Management Tonight

Eric Langan, President & CEO, invites investors to meet management and tour one of the company's top clubs.

- When: Thursday, August 4, 2016, 6:00 PM to 8:00 PM ET
- Where: Rick's Cabaret New York, at 50 W. 33rd Street, between Fifth Avenue and Broadway
- RSVP: With your contact information to gary.fishman@anreder.com

CEO Comment

“We are pleased 3Q16 revenues, margins, profits, and free cash flow continued to improve,” Mr. Langan said. “Total revenues rose 1.5%, non-GAAP EPS grew 9.7%, and free cash flow increased 47.9% year over year.

“We achieved our 3Q16 results through improvements at existing units and the previously announced elimination of under-performing units. Results could have been even better if not for heavy rains throughout Texas in the month of May.

“Sales continued to move in the right direction in 3Q16. Same store sales of \$31.6 million were up 0.07% year over year, compared to being down in the first half. Although relatively small, the increase represents a steadily improving trend.

“Non-GAAP operating margin has improved three quarters in a row, and for the first time this fiscal year, was ahead of the year ago quarter. Of note, Bombshells operating margin reached a record 18.1%. As a result of our first nine months’ performance, for the second quarter in a row, we have upwardly revised our FY16 FCF target, now to the \$19-21 million range.

“We continue to successfully execute on our FY16 plan, which calls for margin, EPS, and FCF growth, with 4Q16 total sales expected to benefit from a full quarter of the two reopened clubs.

“Fiscal 2017 should continue to benefit from our improved model; the opening of a new sport-themed club in Manhattan, now scheduled for our 1Q17; a new Bombshells in North Houston, now scheduled for our 2Q17; and a strong sports line-up that should enhance activity at our units in Minneapolis, Houston and New York City.

“RCI remains committed to our capital allocation policy, using free cash flow to enhance shareholder value through share repurchases and dividends. As part of this policy, we will continue to evaluate the risk adjusted returns on capital expenditures or acquisitions relative to the after tax yield on FCF we can obtain by repurchasing our own shares.

“While opportunities may arise to acquire or open new units or pay down debt ahead of schedule, we generally believe the best allocation of our capital is the risk-adjusted, after-tax, FCF yield of buying our own shares as long as our stock stays at this low valuation relative to RCI’s cash flow generation.”

3Q16 Analysis

Total Revenues

- Total revenues of \$34.0 million increased \$0.5 million or 1.5% from \$33.5 million in 3Q15.
- Total sales by month were up year over year in April, down in May primarily due to heavy rains in Texas, and then a rebound in June.
- There were two fewer units compared to 3Q15 and two clubs undergoing re-concepting did not reopen until mid-3Q16.
- Beverage sales and other revenues continued to exceed last year’s levels. While off slightly from 3Q15, food and service revenues continued to show sequential quarterly improvement in FY16.

Operating Income & Margin

- Income from operations was \$6.7 million, or 19.6% of revenues, compared to \$14.2 million, or 42.3%, in 3Q15, which included the above mentioned \$8.2 million gain from the Texas Patron Tax settlement.
- On a non-GAAP basis, which excludes this gain and other items from both periods, operating income was \$7.1 million, or 20.9% of sales, up from \$6.4 million, or 19.2% in 3Q15.
- The increase reflects improved operating margins in both the nightclubs (on a non-GAAP basis) and Bombshells segments.

3Q16 Segment Analysis

Nightclubs

- Sales of \$28.3 million compared to \$28.7 in the year ago quarter, with 38 units in operation versus 40.
- Operating income was \$9.2 million, or 32.4% of sales, compared to \$17.3 million, or 60.2%, in 3Q15, which included the \$8.2 million gain.
- On a non-GAAP basis, excluding the gain and other items, operating income was \$9.3 million, or 32.9% of sales, compared to \$9.1 million, or 31.8%, in 3Q15.

Bombshells

- Record sales of \$5.0 million were up 13.1% compared to \$4.4 million in the year ago quarter, with five units in operation in both periods.
- Operating income was a record \$0.905 million, or 18.1% of revenue, compared to \$0.369 million, or 8.3%, in 3Q15.
- The restaurants benefitted in part from a redesigned menu and new menu items.

3Q16 Other Metrics

- **Occupancy Costs** : Occupancy costs, which the company measures as a combination of rent plus interest expense, declined to 8.1% of revenues compared to 8.4% in 3Q15. The decline reflects significantly lower rent due to the acquisitions of club real estate in New York City in early 2Q16 and of Miami Gardens in 4Q15.
- **Effective Tax Rate**: ETR was 43.0% compared to 35.5% in 3Q15. 3Q16 included a \$1.0 million reserve established to pay for additional New York City and state income taxes and the benefit of \$0.25 million in FICA credits not previously claimed.
- **Adjusted EBITDA & Free Cash Flow (FCF)**: RCI's cash generating power, as reflected by adjusted EBITDA, increased 6.6%, to \$8.6 million from \$8.1 million in 3Q15. FCF of \$6.4 million increased 47.9% from \$4.3 million in 3Q15. The new FCF \$19-21 million target is based on cash provided by operating activities of \$21.5-23.5 million less maintenance capital expenditures of \$2.5 million.
- **Balance Sheet (June 30, 2016 compared to March 31, 2016)**: Total stockholders' equity increased to \$133.5 million from \$131.9 million due to net income partially offset by share buy backs and dividends.

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, including adjustments that enhance comparability, that are included in 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 and losses from asset sales, gain on settlement of patron tax issue, impairment of assets, stock-based compensation charges, litigation and other one-time legal settlements. 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. While we were in litigation in the patron tax case, we also included patron taxes as an exclusion, but after settlement of the case, we no longer exclude patron taxes from operating income.
- *Non-GAAP Net Income and Non-GAAP Net Income per Basic Share and per Diluted Share .* We exclude from non-GAAP net income and non-GAAP net income per diluted share and per basic share amortization of intangibles, gain on settlement of patron tax case, income tax expense, impairment charges, gains and losses from asset sales, stock-based compensation, litigation and other one-time legal settlements, gain on contractual debt reduction, and include the Non-GAAP provision for income taxes, calculated as the tax-effect at 35% effective tax rate of the pre-tax non-GAAP income before taxes less stock-based compensation, because we believe that excluding such measures helps management and investors better understand our operating activities. While we were in litigation in the patron tax case, we also included patron taxes as an exclusion, but after settlement of the case, we no longer exclude patron taxes from net income.
- *Adjusted EBITDA .* We exclude from Adjusted EBITDA depreciation expense, amortization of intangibles, income tax, interest expense, interest income, gains and losses from asset sales, litigation and other one-time legal settlements, gain on settlement of patron tax case, gain on contractual debt reduction and impairment charges because we believe that adjusting for such items helps management and investors better understand 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. Also, we exclude interest cost in our calculation of Adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use Adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our acquisitions of nightclubs.
- *Free Cash Flow.* We define Free Cash Flow as cash flows from operating activities less maintenance capex. Free Cash Flow provides a core operational performance measurement of the cash the company generates after expenses required to maintain its asset base. It also enables the company to calculate the Free Cash Flow return related to its market capitalization. Free Cash Flow allows the company to pursue opportunities to enhance shareholder value. This could include, but is not limited to, buying back shares, paying dividends, making acquisitions, opening new units, or reducing debt.

Note

- Starting with 1Q16, revenues (including prior comparable periods) are being reported net of sales taxes and other revenue related taxes, RCI having chosen to early adopt new revenue accounting standards.
- Unit counts are at period end.
- All references to, the “company,” “we,” “our,” and similar terms include RCI Hospitality Holdings, Inc. and its subsidiaries, unless the context indicates otherwise.

About RCI Hospitality Holdings, Inc. (Nasdaq: RICK)

With 43 units, RCI Hospitality Holdings, Inc., through its subsidiaries, is the country’s leading company in gentlemen clubs and sports bars/restaurants. Clubs in New York City, Miami, Philadelphia, Charlotte, Dallas/Ft. Worth, Houston, Minneapolis, Indianapolis and other cities operate under brand names, such as “Rick’s Cabaret,” “XTC,” “Club Onyx,” “Vivid Cabaret,” “Jaguars” and “Tootsie’s Cabaret.” Sports bars/restaurants operate under the brand name “Bombshells.” Please visit <http://www.rcihospitality.com/>

Forward-Looking Statements

This press release may contain forward-looking statements that involve a number of risks and uncertainties that could cause the company's actual results to differ materially from those indicated in this press release, including 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 cybersecurity, 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. The company has no obligation to update or revise the forward-looking statements to reflect the occurrence of future events or circumstances.

Media & Investor Contacts

Gary Fishman and Steven Anreder at 212-532-3232 or gary.fishman@anreder.com and steven.anreder@anreder.com

RCI HOSPITALITY HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE NINE MONTHS ENDED JUNE 30,	
	2016	2015	2016	2015
	(UNAUDITED)		(UNAUDITED)	
Revenues:				
Sales of alcoholic beverages	\$ 14,333	\$ 13,909	\$ 43,511	\$ 42,225
Sales of food and merchandise	4,614	4,671	13,557	14,341
Service revenues	12,780	13,163	38,626	40,538
Other	2,225	1,723	6,129	5,556
Total revenues	33,952	33,466	101,823	102,660
Operating expenses:				
Cost of goods sold	5,281	5,033	15,692	15,525
Salaries and wages	8,256	8,176	24,308	24,323
Stock compensation	120	120	360	360
Other general and administrative:				
Taxes and permits	3,066	3,149	9,567	9,548
Charge card fees	618	562	1,788	1,653
Rent	725	1,189	2,532	3,514
Legal and professional	1,012	939	3,099	2,962
Advertising and marketing	1,407	1,506	3,937	4,185
Insurance	895	866	2,676	2,487
Utilities	692	727	2,096	2,169
Depreciation and amortization	1,825	1,923	5,468	5,454
Loss (gain) on sale of property	(38)	178	(165)	160
Impairment of assets	-	-	-	1,358
Settlement of lawsuits and other one-time costs	139	10	741	10,560
Gain on settlement of Texas Patron Tax	-	(8,167)	-	(8,167)
Other	3,297	3,103	9,800	8,893
Total operating expenses	27,295	19,314	81,899	84,984
Operating income	6,657	14,152	19,924	17,676
Other income (expense):				
Interest income	1	-	4	39
Interest expense	(2,040)	(1,630)	(5,918)	(5,032)
Gain from acquisition of controlling interest in subsidiary	-	-	-	577
Income before income taxes	4,618	12,522	14,010	13,260
Income taxes	1,986	4,442	3,646	5,023
Net income	2,632	8,080	10,364	8,237
Less: net loss attributable to noncontrolling interests	21	187	346	549
Net income attributable to RCI Hospitality Holdings, Inc.	\$ 2,653	\$ 8,267	\$ 10,710	\$ 8,786
Basic earnings per share attributable to RCIHH shareholders:				
Net income	\$ 0.27	\$ 0.81	\$ 1.06	\$ 0.86
Diluted earnings per share attributable to RCIHH shareholders:				
Net income	\$ 0.27	\$ 0.78	\$ 1.06	\$ 0.85
Weighted average number of common shares outstanding:				
Basic	9,906	10,245	10,071	10,262
Diluted	10,047	10,707	10,211	10,724
Dividends per share				
	\$ 0.03	\$ -	\$ 0.06	\$ -

RCI HOSPITALITY HOLDINGS, INC.
SEGMENT INFORMATION

(in thousands)	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE NINE MONTHS ENDED JUNE 30,	
	2016	2015	2016	2015
Business segment sales:				
Nightclubs	\$ 28,336	\$ 28,687	\$ 86,272	\$ 87,807
Bombshells	5,005	4,425	14,013	13,407
Other	611	354	1,538	1,446
	<u>\$ 33,952</u>	<u>\$ 33,466</u>	<u>\$ 101,823</u>	<u>\$ 102,660</u>
Business segment operating income (loss):				
Nightclubs	\$ 9,172	\$ 17,271	\$ 27,844	\$ 26,000
Bombshells	905	369	2,150	1,480
Other	(650)	(682)	(2,154)	(1,995)
General corporate	(2,770)	(2,806)	(7,916)	(7,809)
	<u>\$ 6,657</u>	<u>\$ 14,152</u>	<u>\$ 19,924</u>	<u>\$ 17,676</u>
Business segment operating margin:				
Nightclubs	32.4%	60.2%	32.3%	29.6%
Bombshells	18.1%	8.3%	15.3%	11.0%
Other	-106.4%	-192.7%	-140.0%	#####
Reconciliation of Nightclubs GAAP operating income to non-GAAP operating income				
Nightclubs operating income	\$ 9,172	\$ 17,271	\$ 27,844	\$ 26,000
Impairment of assets	-	-	-	1,358
Litigation and other one-time settlements	139	10	741	10,560
Gain on settlement of Patron tax case	-	(8,167)	-	(8,167)
Nightclubs non-GAAP operating income	<u>\$ 9,311</u>	<u>\$ 9,114</u>	<u>\$ 28,585</u>	<u>\$ 29,751</u>
Nightclubs non-GAAP operating margin	32.9%	31.8%	33.1%	33.9%

RCI HOSPITALITY HOLDINGS, INC.
NON-GAAP FINANCIAL MEASURES*

(\$ in thousands, except per share data)	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE NINE MONTHS ENDED JUNE 30,	
	2016	2015	2016	2015
Reconciliation of GAAP net income to Adjusted EBITDA				
GAAP net income	\$ 2,653	\$ 8,267	\$ 10,710	\$ 8,786
Income tax expense	1,986	4,442	3,646	5,023
Interest expense and income and gain from acquisition of controlling interest in subsidiary	2,039	1,630	5,914	4,416
Litigation and other one-time legal settlements	139	10	741	10,560
Gain on settlement of Patron tax case	-	(8,167)	-	(8,167)
Impairment of assets	-	-	-	1,358
Depreciation and amortization	1,825	1,923	5,468	5,464
Adjusted EBITDA	<u>\$ 8,642</u>	<u>\$ 8,105</u>	<u>\$ 26,479</u>	<u>\$ 27,440</u>
Reconciliation of GAAP net income to non-GAAP net income				
GAAP net income	\$ 2,653	\$ 8,267	\$ 10,710	\$ 8,786
Amortization of intangibles	184	312	583	892
Gain from acquisition of controlling interest in subsidiary	-	-	-	(577)
Stock-based compensation	120	120	360	360
Litigation and other one-time settlements	139	10	741	10,560
Gain on settlement of Patron tax case	-	(8,167)	-	(8,167)
Income tax expense	1,986	4,442	3,646	5,023
Impairment of assets	-	-	-	1,358
Non-GAAP provision for income taxes	(1,737)	(1,702)	(5,488)	(6,256)
Non-GAAP net income	<u>\$ 3,345</u>	<u>\$ 3,282</u>	<u>\$ 10,552</u>	<u>\$ 11,979</u>
Reconciliation of GAAP diluted net income per share to non-GAAP diluted net income per share				
Fully diluted shares	<u>10,047</u>	<u>10,707</u>	<u>10,211</u>	<u>10,724</u>
GAAP net income	\$ 0.27	\$ 0.78	\$ 1.06	\$ 0.85
Amortization of intangibles	0.02	0.03	0.06	0.08
Gain from acquisition of controlling interest in subsidiary	-	-	-	(0.05)
Stock-based compensation	0.01	0.01	0.04	0.03
Litigation and other one-time settlements	0.01	0.00	0.07	0.98
Gain on settlement of Patron tax case	-	(0.76)	-	(0.76)
Income tax expense	0.20	0.41	0.36	0.47
Impairment of assets	-	-	-	0.13
Non-GAAP provision for income taxes	(0.17)	(0.16)	(0.54)	(0.58)
Non-GAAP diluted net income per share	<u>\$ 0.34</u>	<u>\$ 0.31</u>	<u>\$ 1.04</u>	<u>\$ 1.15</u>
Reconciliation of GAAP operating income to non-GAAP operating income				
GAAP operating income	\$ 6,657	\$ 14,152	\$ 19,924	\$ 17,676
Amortization of intangibles	184	312	583	892
Gain from acquisition of controlling interest in subsidiary	-	-	-	(577)
Stock-based compensation	120	120	360	360
Impairment of assets	-	-	-	1,358
Gain on settlement of Patron tax case	-	(8,167)	-	(8,167)
Litigation and other one-time settlements	139	10	741	10,560
Non-GAAP operating income	<u>\$ 7,100</u>	<u>\$ 6,427</u>	<u>\$ 21,608</u>	<u>\$ 22,102</u>
Reconciliation of GAAP operating margin to non-GAAP operating margin				
GAAP operating income	19.6%	42.3%	19.6%	17.2%
Amortization of intangibles	0.5%	0.9%	0.6%	0.9%
Gain from acquisition of controlling interest in subsidiary	0.0%	0.0%	0.0%	-0.6%
Stock-based compensation	0.4%	0.4%	0.4%	0.4%
Impairment of assets	0.0%	0.0%	0.0%	1.3%
Gain on settlement of Patron tax case	0.0%	-24.4%	0.0%	-8.0%

Litigation and other one-time settlements	0.4%	0.0%	0.7%	10.3%
Non-GAAP operating margin	<u>20.9%</u>	<u>19.2%</u>	<u>21.2%</u>	<u>21.5%</u>

Reconciliation of GAAP cash provided by operating activities to non-GAAP free cash flow

Cash provided by operating activities	\$ 7,386	\$ 5,161	\$ 18,498	\$ 18,280
Less: Maintenance capital expenditures	<u>952</u>	<u>812</u>	<u>1,788</u>	<u>1,291</u>
Free cash flow	<u>\$ 6,434</u>	<u>\$ 4,349</u>	<u>\$ 16,710</u>	<u>\$ 16,989</u>

* Non-GAAP financial measures have been revised to no longer take into account acquisition costs and pre-opening costs currently and retroactively as of 3Q16