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

FORM 10-Q

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

For the quarterly period ended June 30, 2023

☐ **TRANSITION REPORT PURSUANT TO 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	**76-0458229**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10737 Cutten Road
Houston, Texas 77066
(Address of principal executive offices) (Zip Code)

(281) 397-6730
(Registrant's telephone number, including area code)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. 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 ☒

As of August 4, 2023, 9,419,785 shares of the registrant's common stock were outstanding.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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: Part I, Item 2 "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 Quarterly Report on Form 10-Q and those discussed in other documents we file with the Securities and Exchange Commission ("SEC"). Important factors that in our view could cause material adverse effects on our financial condition and results of operations include, but are not limited to, the risks and uncertainties associated with (i) operating and managing an adult business, (ii) the business climates in cities where we operate, (iii) the success or lack thereof in launching and building our businesses, (iv) cyber security, (v) conditions relevant to real estate transactions, (vi) the impact of the COVID-19 pandemic, and (vii) numerous other factors such as laws governing the operation of adult entertainment businesses, competition and dependence on key personnel. We undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

As used herein, the "Company," "we," "our," and similar terms include RCI Hospitality Holdings, Inc. and its subsidiaries, unless the context indicates otherwise.

RCI HOSPITALITY HOLDINGS, INC.
FORM 10-Q
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2023	September 30, 2022
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 23,584	$ 35,980
Accounts receivable, net	7,433	8,510
Current portion of notes receivable	244	230
Inventories	4,571	3,893
Prepaid expenses and other current assets	5,028	1,499
Assets held for sale	—	1,049
Total current assets	40,860	51,161
Property and equipment, net	277,530	224,615
Operating lease right-of-use assets, net	35,683	37,048
Notes receivable, net of current portion	4,507	4,691
Goodwill	78,684	67,767
Intangibles, net	181,262	144,049
Other assets	1,581	1,407
Total assets	$ 620,107	$ 530,738
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 7,762	$ 5,482
Accrued liabilities	17,732	11,328
Current portion of debt obligations, net	23,824	11,896
Current portion of operating lease liabilities	2,923	2,795
Total current liabilities	52,241	31,501
Deferred tax liability, net	30,146	30,562
Debt, net of current portion and debt discount and issuance costs	219,999	190,567
Operating lease liabilities, net of current portion	35,941	36,001
Other long-term liabilities	355	349
Total liabilities	338,682	288,980
Commitments and contingencies (Note 10)		
Equity		
Preferred stock, $0.10 par value per share; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.01 par value per share; 20,000,000 shares authorized; 9,430,225 and 9,231,725 shares issued and outstanding as of June 30, 2023 and September 30, 2022, respectively	94	92
Additional paid-in capital	82,091	67,227
Retained earnings	199,425	173,950
Total RCIHH stockholders' equity	281,610	241,269
Noncontrolling interests	(185)	489
Total equity	281,425	241,758
Total liabilities and equity	$ 620,107	$ 530,738

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2023	2022	2023	2022
Revenues				
Sales of alcoholic beverages	$ 34,151	$ 29,738	$ 93,937	$ 83,504
Sales of food and merchandise	11,405	11,574	32,757	33,628
Service revenues	26,663	25,444	77,916	67,821
Other	4,836	3,958	13,930	11,289
Total revenues	77,055	70,714	218,540	196,242
Operating expenses				
Cost of goods sold				
Alcoholic beverages sold	6,397	5,177	17,136	14,907
Food and merchandise sold	4,106	3,959	11,429	11,756
Service and other	26	46	91	170
Total cost of goods sold (exclusive of items shown separately below)	10,529	9,182	28,656	26,833
Salaries and wages	20,578	17,387	58,682	50,422
Selling, general and administrative	23,803	19,572	68,561	56,495
Depreciation and amortization	4,041	2,565	11,108	7,636
Other charges, net	2,589	1,501	5,693	1,357
Total operating expenses	61,540	50,207	172,700	142,743
Income from operations	15,515	20,507	45,840	53,499
Other income (expenses)				
Interest expense	(4,316)	(3,028)	(11,680)	(8,496)
Interest income	87	103	268	321
Non-operating gains, net	—	127	—	211
Income before income taxes	11,286	17,709	34,428	45,535
Income tax expense	2,269	3,767	7,447	10,056
Net income	9,017	13,942	26,981	35,479
Net loss (income) attributable to noncontrolling interests	68	(40)	74	(50)
Net income attributable to RCIHH common stockholders	$ 9,085	$ 13,902	$ 27,055	$ 35,429
Earnings per share				
Basic and diluted	$ 0.96	$ 1.48	$ 2.91	$ 3.76
Weighted average shares used in computing earnings per share				
Basic and diluted	9,430,225	9,389,675	9,308,624	9,428,461
Dividends per share	$ 0.06	$ 0.05	$ 0.17	$ 0.14

See accompanying notes to unaudited condensed consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands, except number of shares)
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Noncontrolling Interests	Total Equity
	Number of Shares	Amount			Number of Shares	Amount		
Balance at September 30, 2022	9,231,725	$ 92	$ 67,227	$ 173,950	—	$ —	$ 489	$ 241,758
Purchase of treasury shares	—	—	—	—	(1,500)	(98)	—	(98)
Canceled treasury shares	(1,500)	—	(98)	—	1,500	98	—	—
Payment of dividends	—	—	—	(462)	—	—	—	(462)
Stock-based compensation	—	—	941	—	—	—	—	941
Share in return of investment by noncontrolling partner	—	—	—	—	—	—	(600)	(600)
Net income	—	—	—	10,238	—	—	33	10,271
Balance at December 31, 2022	9,230,225	92	68,070	183,726	—	—	(78)	251,810
Issuance of common shares for business combination	200,000	2	16,306	—	—	—	—	16,308
Payment of dividends	—	—	—	(553)	—	—	—	(553)
Stock-based compensation	—	—	706	—	—	—	—	706
Net income (loss)	—	—	—	7,732	—	—	(39)	7,693
Balance at March 31, 2023	9,430,225	94	85,082	190,905	—	—	(117)	275,964
Adjustment in fair value of common shares issued for business combination	—	—	(3,461)	—	—	—	—	(3,461)
Payment of dividends	—	—	—	(565)	—	—	—	(565)
Stock-based compensation	—	—	470	—	—	—	—	470
Net income (loss)	—	—	—	9,085	—	—	(68)	9,017
Balance at June 30, 2023	9,430,225	$ 94	$ 82,091	$ 199,425	—	$ —	$ (185)	$ 281,425
Balance at September 30, 2021	8,999,910	$ 90	$ 50,040	$ 129,693	—	$ —	$ (600)	$ 179,223
Issuance of common shares for business combination	500,000	5	30,357	—	—	—	—	30,362
Payment of dividends	—	—	—	(380)	—	—	—	(380)
Net income (loss)	—	—	—	10,575	—	—	(11)	10,564
Balance at December 31, 2021	9,499,910	95	80,397	139,888	—	—	(611)	219,769
Purchase of treasury shares	—	—	—	—	(45,643)	(2,845)	—	(2,845)
Canceled treasury shares	(45,643)	(1)	(2,844)	—	45,643	2,845	—	—
Payment of dividends	—	—	—	(474)	—	—	—	(474)
Net income	—	—	—	10,952	—	—	21	10,973
Balance at March 31, 2022	9,454,267	94	77,553	150,366	—	—	(590)	227,423
Purchase of treasury shares	—	—	—	—	(168,069)	(9,212)	—	(9,212)
Canceled treasury shares	(168,069)	(1)	(9,211)	—	168,069	9,212	—	—
Payment of dividends	—	—	—	(468)	—	—	—	(468)
Net income	—	—	—	13,902	—	—	40	13,942
Balance at June 30, 2022	9,286,198	$ 93	$ 68,342	$ 163,800	—	$ —	$ (550)	$ 231,685

See accompanying notes to unaudited condensed consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except number of shares)
(unaudited)

	For the Nine Months Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 26,981	$ 35,479
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,108	7,636
Impairment of assets	3,293	1,722
Deferred income tax benefit	(790)	(409)
Stock-based compensation	2,117	—
Gain on sale of businesses and assets	(872)	(1,282)
Unrealized loss on equity securities	—	1
Amortization of debt discount and issuance costs	453	199
Gain on debt extinguishment	—	(83)
Noncash lease expense	2,226	1,725
Gain on insurance	(91)	(408)
Doubtful accounts expense on notes receivable	—	753
Changes in operating assets and liabilities:		
Accounts receivable	1,480	3,411
Inventories	79	(492)
Prepaid expenses, other current and other assets	(3,602)	(3,271)
Accounts payable, accrued and other liabilities	4,622	1,773
Net cash provided by operating activities	47,004	46,754
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of businesses and assets	2,811	4,611
Proceeds from insurance	91	515
Proceeds from notes receivable	170	127
Payments for property and equipment and intangible assets	(29,919)	(17,173)
Acquisition of businesses, net of cash acquired	(30,200)	(44,302)
Net cash used in investing activities	(57,047)	(56,222)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt obligations, including related party proceeds of $0 and $650, respectively	11,595	35,820
Payments on debt obligations	(11,431)	(10,714)
Purchase of treasury stock	(98)	(12,057)
Payment of dividends	(1,580)	(1,322)
Payment of loan origination costs	(239)	(445)
Share in return of investment by noncontrolling partner	(600)	—
Net cash provided by (used in) financing activities	(2,353)	11,282
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,396)	1,814
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	35,980	35,686
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 23,584	$ 37,500
CASH PAID DURING PERIOD FOR:		
Interest	$ 11,070	$ 7,915
Income taxes	$ 8,931	$ 8,990

Noncash investing and financing transactions:		
Debt incurred in connection with acquisition of businesses	$ 32,405	$ 33,200
Debt incurred in connection with purchase of property and equipment	$ 8,476	$ 4,820
Note receivable from sale of property	$ —	$ 2,700
Issuance of shares of common stock for acquisition of businesses:		
Number of shares	200,000	500,000
Fair value	$ 12,847	$ 30,362
Adjustment to operating lease right-of-use assets related to new and renewed leases	$ 1,864	$ 21,247
Adjustment to operating lease liabilities related to new and renewed leases	$ 2,163	$ 21,247
Unpaid liabilities on capital expenditures	$ 2,758	$ 1,325

See accompanying notes to unaudited condensed consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of RCI Hospitality Holdings, Inc. (the "Company," "RCIHH," "we," or "us") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP" or "U.S. GAAP") for interim financial information and with the instructions to Form 10-Q of Regulation S-X. They do not include all information and footnotes required by GAAP for complete financial statements. The September 30, 2022 consolidated balance sheet data were derived from audited financial statements but do not include all disclosures required by GAAP. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements for the year ended September 30, 2022 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on December 14, 2022. The interim unaudited condensed consolidated financial statements should be read in conjunction with those consolidated financial statements included in the Form 10-K. In the opinion of management, all adjustments considered necessary for a fair statement of the financial statements, consisting solely of normal recurring adjustments, have been made. Operating results for the nine months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the year ending September 30, 2023.

We made certain reclassification adjustments to segment disclosures related to prepaid insurance and goodwill. These assets were acquired by the registrant and presented in Corporate segment but mostly benefit subsidiaries belonging to other reportable segments. Prior year disclosures were also made to conform to current year presentation. There is no impact in consolidated total assets, results of operations, and cash flows in all periods presented. See Note 11.

2. Recent Accounting Standards and Pronouncements

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

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

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

3. Current Operating Environment

Our fiscal 2020 was the period hardest hit by the COVID-19 pandemic caused by significant reduction in customer traffic in our clubs and restaurants due to changes in consumer behavior as social distancing practices, dining room closures and other restrictions were mandated or encouraged by federal, state and local governments. In fiscal 2021, our businesses started to recover from the initial effects of the pandemic when government restrictions eased. Stimulus money also flowed to the economy at that time which prompted increased discretionary spending. In fiscal 2022, several coronavirus variants

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threatened to bring back tight restrictions. Along with the pandemic, geopolitical and macroeconomic events started to affect the U.S. economy in general, with global inflation and supply chain disruption impacting our businesses the most.

Toward the end of fiscal 2022 and continuing to the current fiscal year, geopolitical and macroeconomic events have impacted our operating results and cash flows by causing inflation on wages and other operating expenses. In the event global inflation leads to a major economic downturn, our business operations and cash flows could be significantly affected.

4. Acquisitions and Dispositions

Lubbock Property

On October 10, 2022, the Company purchased real estate in Lubbock, Texas amounting to $3.4 million for a future Bombshells location. The Company paid $1.2 million in cash at closing and obtained bank financing for the $2.3 million remainder (see Note 7). The site includes extra land that will be listed for sale once the Bombshells unit is completed.

Heartbreakers Gentlemen's Club

On October 26, 2022, the Company completed the acquisition of a club in Dickinson, Texas for a total agreed acquisition price of $9.0 million (with a total consideration preliminary fair value of $8.9 million based on certain legal contingencies that existed pre-acquisition). The acquisition included (1) $2.5 million for the adult entertainment business covered in a stock purchase agreement paid fully in cash at closing and (2) $6.5 million for the real estate property covered in a real estate purchase agreement paid $1.5 million in cash at closing and $5.0 million under a 6% 15-year promissory note (see Note 7). In the stock purchase agreement, the Company acquired 100% of the capital stock of the company which owned the adult entertainment business. The acquisition gives the Company its first adult club in the Galveston, Texas area market.

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

Current assets	$	64
Property and equipment		4,884
Licenses		1,170
Tradename		340
Accrued liability		(95)
Deferred tax liability		(374)
Total net assets acquired		5,989
Goodwill		2,916
Acquisition price fair value	$	8,905

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

In connection with this acquisition, we incurred approximately $0 and $23,000 in acquisition-related expenses during the three and nine months ended June 30, 2023, respectively, which is included in selling, general and administrative expenses in our unaudited condensed consolidated statements of income. From the date of acquisition until June 30, 2023, the club contributed revenues of $580,000 and $1.5 million and income from operations of $93,000 and $253,000 during the three and nine months ended June 30, 2023, respectively, which are included in our unaudited condensed consolidated statements of income. The seller has not maintained historical U.S. GAAP financial data and it is impracticable to prepare them, therefore, we could not provide supplemental pro forma information of the combined entities.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Aurora CO Property

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

Central City CO Casino Properties

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

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

Mark IV Property

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

Grange Food Hall

On December 20, 2022, the Company purchased a food hall property in Greenwood Village, Colorado for $5.3 million, including direct transaction costs and net of certain accrued taxes amounting to $102,000. The purchase price was paid $1.9 million in cash at closing and $3.3 million under a 6.67% five-year promissory note (see Note 7). The Company allocated $2.1 million to land, $2.6 million to building improvements, $98,000 to furniture, fixtures and equipment, and $565,000 to in-place leases based on their relative fair values.

Tomball Parkway Property Sale

On December 28, 2022, the Company sold a property classified as held-for-sale with a carrying value of $1.0 million for $1.7 million in cash. The Company used $1.2 million of the proceeds to pay off a loan related to the property.

Bombshells San Antonio

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

Baby Dolls-Chicas Locas

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

discounted due to lack of marketability during the lock-up period. The cash consideration at closing was partially funded by the $10.0 million line of credit secured by the Company on March 9, 2023 (see Note 7).

The preliminary fair value of the consideration transferred is as follows:

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

We recognized the assets and liabilities for this acquisition based on our estimates of their acquisition date fair values, all in our Nightclub reportable segment. We have not finalized our valuation of the tangible and identifiable intangible assets acquired in this transaction. As of the release of this report, the fair value of the acquired tangible and identifiable intangible assets are provisional pending completion of the final valuations for those assets. Based on the allocation of the preliminary fair value of the acquisition price, measurement period adjustments, and subject to any working capital adjustments, the amount of goodwill is estimated at $9.9 million. Goodwill represents the excess of the acquisition price fair value over the fair values of the tangible and identifiable intangible assets acquired and liabilities assumed, which is essentially the forward earnings potential of the acquired entities. This acquisition also gives the Company a bigger market share in the Hispanic demographic in the Texas metropolitan areas. Goodwill will not be amortized but will be tested at least annually for impairment. Approximately $9.9 million of the recognized goodwill will be deductible for tax purposes.

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

Current assets	$	632
Property and equipment		16,570
Licenses		27,440
Tradename		9,484
Accounts payable		(632)
Total net assets acquired		53,494
Goodwill		9,853
Acquisition price fair value	$	63,347

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

In connection with this acquisition, we incurred approximately $0 and $292,000 in acquisition-related expenses during the three and nine months ended June 30, 2023, respectively, which is included in selling, general and administrative expenses in our unaudited condensed consolidated statements of income. From the date of acquisition until June 30, 2023, the clubs contributed revenues of $7.0 million and $8.2 million and income from operations of $2.0 million and $2.4 million during the three and nine months ended June 30, 2023, respectively, which are included in our unaudited condensed consolidated statements of income.

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

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	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2023	2022	2023	2022
Pro forma revenues	$ 77,055	$ 76,733	$ 231,479	$ 213,762
Pro forma net income attributable to RCIHH common stockholders	$ 9,085	$ 15,824	$ 26,129	$ 40,503
Pro forma earnings per share - basic and diluted	$ 0.96	$ 1.65	$ 2.77	$ 4.21
Pro forma weighted average shares used in computing earnings per share - basic and diluted	9,430,225	9,589,675	9,430,236	9,628,461

The above unaudited pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2022. The unaudited pro forma financial information reflects material, nonrecurring adjustments directly attributable to the acquisition including acquisition-related expenses, interest expense, and any related tax effects. Since the acquired clubs have been integrated with the Company for the entire three months ended June 30, 2023, the results presented for the said period are historical and not pro forma. Since we do not yet have a final valuation of the assets that we acquired and the liabilities that we assumed, the unaudited pro forma financial information only includes preliminary adjustments related to changes in recognized expenses caused by the fair value of assets acquired, such as depreciation and amortization and related tax effects. Pro forma net income and pro forma earnings per share include the impact of acquisition-related expenses and interest expense related to the $10.0 million line-of-credit facility (see Note 7) and the nine seller-financed notes in the acquisition as if they were incurred as of the first day of fiscal 2022. Pro forma weighted average number of common shares outstanding includes the impact of 200,000 shares of our common stock issued as partial consideration for the acquisition.

Arapahoe Street, Denver CO Property

On June 20, 2023, the Company purchased a restaurant parcel located in a condominium building in Denver, Colorado amounting to $4.6 million for a future Bombshells location. The purchase price was paid $1.7 million in cash and $2.9 million under a 7.12% five-year promissory note (see Note 7).

Pearland Property Sale

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

Non-Income-Producing Properties

- On October 11, 2022, the Company purchased a hangar in Arcola, Texas amounting to $754,000 in cash.
- On February 6, 2023, in view of the increasing business presence of the Company in the Denver, Colorado area, the Company acquired a non-income-producing corporate property for $458,000 in cash, to be used for office space and employee housing.

5. Revenues

Revenues, as disaggregated by revenue type, timing of recognition, and reportable segment (see also Note 11), are shown below (in thousands):

	Three Months Ended June 30, 2023				Three Months Ended June 30, 2022			
	Nightclubs	Bombshells	Other	Total	Nightclubs	Bombshells	Other	Total
Sales of alcoholic beverages	$ 26,144	$ 8,007	$ —	$ 34,151	$ 21,061	$ 8,677	$ —	$ 29,738
Sales of food and merchandise	5,288	6,117	—	11,405	4,639	6,935	—	11,574
Service revenues	26,497	166	—	26,663	25,287	157	—	25,444
Other revenues	4,520	107	209	4,836	3,697	20	241	3,958
	$ 62,449	$ 14,397	$ 209	$ 77,055	$ 54,684	$ 15,789	$ 241	$ 70,714
Recognized at a point in time	$ 61,986	$ 14,396	$ 209	$ 76,591	$ 54,320	$ 15,777	$ 241	$ 70,338
Recognized over time	463 *	1	—	464	364 *	12	—	376
	$ 62,449	$ 14,397	$ 209	$ 77,055	$ 54,684	$ 15,789	$ 241	$ 70,714

	Nine Months Ended June 30, 2023				Nine Months Ended June 30, 2022			
	Nightclubs	Bombshells	Other	Total	Nightclubs	Bombshells	Other	Total
Sales of alcoholic beverages	$ 70,433	$ 23,504	$ —	$ 93,937	$ 57,901	$ 25,603	$ —	$ 83,504
Sales of food and merchandise	14,705	18,052	—	32,757	13,726	19,902	—	33,628
Service revenues	77,716	200	—	77,916	67,472	349	—	67,821
Other revenues	12,951	387	592	13,930	10,540	39	710	11,289
	$175,805	$ 42,143	$ 592	$218,540	$149,639	$ 45,893	$ 710	$196,242
Recognized at a point in time	$174,481	$ 42,098	$ 547	$217,126	$148,386	$ 45,879	$ 709	$194,974
Recognized over time	1,324 *	45	45	1,414	1,253 *	14	1	1,268
	$175,805	$ 42,143	$ 592	$218,540	$149,639	$ 45,893	$ 710	$196,242

* Lease revenue (included in Other Revenues) as covered by ASC 842. All other revenues are covered by ASC 606.

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

	Balance at September 30, 2022	Net Consideration Received (Refunded)	Recognized in Revenue	Balance at June 30, 2023
Ad revenue	$ 82	$ 375	$ (370)	$ 87
Expo revenue	8	456	—	464
Franchise fees and other	144	(25)	(46)	73
	$ 234	$ 806	$ (416)	$ 624

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Contract liabilities with customers are included in accrued liabilities as unearned revenues in our unaudited condensed consolidated balance sheets (see also Note 6), while the revenues associated with these contract liabilities are included in other revenues in our unaudited condensed consolidated statements of income.

6. Selected Account Information

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

	June 30, 2023	September 30, 2022
Credit card receivables	$ 2,342	$ 2,687
Income tax refundable	2,040	2,979
ATM in-transit	891	819
Other (net of allowance for doubtful accounts of $55 and $30, respectively)	2,160	2,025
Total accounts receivable, net	$ 7,433	$ 8,510

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

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

	June 30, 2023	September 30, 2022
Prepaid insurance	$ 2,746	$ 191
Prepaid legal	231	61
Prepaid taxes and licenses	727	391
Prepaid rent	401	296
Other	923	560
Total prepaid expenses and other current assets	$ 5,028	$ 1,499

A reconciliation of goodwill as of June 30, 2023 and September 30, 2022, which is substantially all in Nightclubs segment, is as follows (in thousands):

	Gross	Accumulated Impairment	Net
Balance at September 30, 2022	$ 88,921	$ 21,154	$ 67,767
Acquisitions (see Note 4)	12,769	—	12,769
Impairment	—	1,852	(1,852)
Balance at June 30, 2023	$ 101,690	$ 23,006	$ 78,684

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The components of intangible assets, net are as follows (in thousands):

	June 30, 2023	September 30, 2022
Indefinite-lived:		
Licenses	$ 132,202	$ 103,972
Trademarks	22,943	13,119
Domain names	23	23
Definite-lived:		
Licenses	24,187	25,962
Leases acquired in-place	157	117
Noncompete agreements	13	55
Favorable leases	828	78
Software	909	723
Total intangible assets, net	$ 181,262	$ 144,049

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

	June 30, 2023	September 30, 2022
Insurance	$ 2,394	$ 30
Sales and liquor taxes	2,305	2,227
Payroll and related costs	4,032	3,186
Property taxes	2,081	2,618
Interest	656	499
Patron tax	600	467
Unearned revenues	624	234
Lawsuit settlement	1,903	246
Other	3,137	1,821
Total accrued liabilities	$ 17,732	$ 11,328

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2023	2022	2023	2022
Taxes and permits	$ 2,969	$ 2,418	$ 8,392	$ 7,015
Advertising and marketing	3,284	2,460	8,685	7,091
Supplies and services	2,865	2,068	7,946	6,223
Insurance	2,718	2,481	7,538	7,357
Legal	754	328	3,035	2,286
Lease	1,836	1,736	5,363	4,948
Charge card fees	1,792	1,829	5,372	4,626
Utilities	1,443	1,151	4,067	3,194
Security	1,523	1,081	3,995	3,218
Stock-based compensation	470	—	2,117	—
Accounting and professional fees	1,050	818	3,225	2,786
Repairs and maintenance	1,367	960	3,738	2,588
Other	1,732	2,242	5,088	5,163
Total selling, general and administrative expenses	$ 23,803	$ 19,572	$ 68,561	$ 56,495

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2023	2022	2023	2022
Impairment of assets	$ 2,631	$ 1,722	$ 3,293	$ 1,722
Settlement of lawsuits	63	132	3,183	709
Gain on disposal of businesses and assets	(105)	(266)	(692)	(666)
Gain on insurance	—	(87)	(91)	(408)
Other charges, net	$ 2,589	$ 1,501	$ 5,693	$ 1,357

During the second quarter ended March 31, 2023, the Company recorded $662,000 in goodwill impairment related to one club, and during the third quarter ended June 30, 2023, the Company recorded $1.2 million in goodwill impairment related to one club and $380,000 in SOB license impairment, $58,000 in property and equipment impairment and $1.0 million in operating lease right-of-use asset impairment related to one club that was closed. During the third quarter ended June 2022, the Company recorded $293,000 in SOB license impairment, $400,000 in goodwill impairment, and $1.0 million in property and equipment impairment related to two clubs and one Bombshells unit.

7. Debt

On October 10, 2022, in relation to a real estate purchase (see Note 4), the Company borrowed $2.3 million from a bank lender. The 18-month promissory note bears an initial interest rate of 6% per annum adjusted daily to a rate equal to the Wall Street Journal prime rate plus 0.5% with a floor of 6%. The promissory note is payable in 17 monthly interest-only installments with the full principal and accrued interest payable at maturity. The Company paid approximately $26,000 in debt issuance cost at closing. This promissory note is secured by the purchased real estate property.

On October 26, 2022, in relation to a club acquisition (see Note 4), the Company executed a promissory note for $5.0 million with the seller. The 6% 15-year promissory note is payable in 180 equal monthly payments of $42,193 in principal and interest. This promissory note is secured by the purchased real estate property.

On November 18, 2022, in relation to a real estate purchase on September 12, 2022, the Company borrowed $1.5 million from a bank lender. The 18-month promissory note bears an initial interest rate of 6% per annum to be adjusted daily to a rate equal to the Wall Street Journal prime rate plus 0.5% with a floor of 6%. The promissory note is payable in 17 monthly interest-only installments with the full principal and accrued interest payable at maturity. This promissory note is secured by the purchased real estate property.

On December 20, 2022, the Company executed a promissory note for $3.3 million with a bank lender in relation to a purchase of a food hall property (see Note 4). The 6.67% five-year promissory note is payable in 59 equal monthly installments of $22,805 in principal and interest, with the balance of principal and accrued interest payable at maturity. There are certain financial covenants with which the Company is to be in compliance related to this loan.

On February 7, 2023, in relation to the acquisition of a franchised Bombshells location in San Antonio, Texas (see Note 4), the Company entered into six separate seller-financing promissory notes totaling $2.0 million. Each of the promissory notes has an interest rate of 7% per annum, has a term of 24 months, and is payable in monthly installments totaling $39,602 of principal and interest for the first 23 months based on a 60-month amortization schedule with the remaining unpaid principal and interest paid at maturity.

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

On March 16, 2023, in relation to the acquisition of five clubs with associated real estate, automated teller machines, and intellectual property (see Note 4), the Company executed nine secured promissory notes with a total principal amount of $25.5 million. Each of the nine promissory notes have an interest rate of 7% per annum with a term of 10 years, payable in arrears in 120 equal monthly payments of principal and interest amounting to $296,077 per month in the aggregate. The holder of the $5.0 million promissory note related to the real estate properties may call due from the Company a principal payment of $1.0 million once in every calendar year.

On June 18, 2023, in relation to a purchase of a retail parcel in a condominium property (see Note 4), the Company executed a promissory note for $2.9 million with a bank lender. The 7.12% five-year promissory note is payable in monthly installments of $20,654 in principal and interest, with the balance of principal and accrued interest payable at maturity.

Future maturities of long-term debt as of June 30, 2023 are as follows: $24.4 million, $39.1 million, $12.3 million, $13.1 million, $22.6 million and $135.5 million for the twelve months ending June 30, 2023, 2024, 2025, 2026, 2027, and thereafter, respectively. Of the maturity schedule mentioned above, $7.5 million, $26.8 million, $0.0 million, $0, $8.7 million and $70.6 million, respectively, relate to scheduled balloon payments. Unamortized debt discount and issuance costs amounted to $3.1 million and $3.4 million as of June 30, 2023 and September 30, 2022, respectively.

8. Stock-based Compensation

On February 7, 2022, our board of directors approved the 2022 Stock Option Plan (the "2022 Plan"). The board's adoption of the 2022 Plan was approved by the shareholders during the annual stockholders' meeting on August 23, 2022. The 2022 Plan provides that the maximum aggregate number of shares of common stock underlying options that may be granted under the 2022 Plan is 300,000. The options granted under the 2022 Plan may be either incentive stock options or non-qualified options. The 2022 Plan is administered by the compensation committee of the board of directors. The compensation committee has the exclusive power to select individuals to receive grants, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price not less than the fair market value of the common stock covered by the option on the grant date, and to make all determinations necessary or advisable under the 2022 Plan. On February 9, 2022, the board of directors approved a grant of 50,000 stock options to each of six members of management subject to the approval of the 2022 Plan.

Stock-based compensation for the three and nine months ended June 30, 2023, which is included in corporate segment selling, general and administrative expenses, amounted to $470,000 and $2.1 million, respectively. No stock-based compensation expense was recognized during the three and nine months ended June 30, 2022. As of June 30, 2023, we had unrecognized compensation cost amounting to $4.9 million related to stock-based compensation awards granted, which is expected to be recognized over a weighted average period of 2.6 years.

The February 9, 2022 stock options vest over four years with the first 20% having vested on the approval of the 2022 Plan at the 2022 annual stockholders' meeting on August 23, 2022, and 20% vesting on February 9 of each year thereafter, provided however that the options will be subject to earlier vesting under certain events set forth in the Plan, including without limitation a change in control. All of the options will expire, if not exercised, at the end of five years. The weighted average grant-date fair value of the stock options was $31.37 per share. No stock options were exercised during the three and nine months ended June 30, 2023. As of June 30, 2023, 120,000 stock options were vested and exercisable.

For the three and nine months ended June 30, 2023, we excluded 300,000 stock options from the calculation of diluted earnings per share because their effect was anti-dilutive. There were no stock options outstanding during the three and nine months ended June 30, 2022. Aside from the outstanding stock options, there were no other potentially dilutive securities for inclusion in the calculation of diluted earnings per share.

9. Income Taxes

Income tax expense was $2.3 million and $7.4 million during the three and nine months ended June 30, 2023, respectively, compared to $3.8 million and $10.1 million during the three and nine months ended June 30, 2022, respectively. The effective income tax expense rate was 20.1% and 21.6% for the three and nine months ended June 30, 2023, respectively, compared to 21.3% and 22.1% for the three and nine months ended June 30, 2022, respectively. Our effective income tax rate is affected by state taxes, permanent differences, and tax credits, including the FICA tip credit, for both years, as presented below.

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2023	2022	2023	2022
Federal statutory income tax expense	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit	2.1 %	2.9 %	3.4 %	2.9 %
Permanent differences	0.5 %	0.4 %	0.5 %	0.4 %
Tax credits	(3.7)%	(3.2)%	(3.4)%	(2.8)%
Other	0.1 %	0.1 %	0.1 %	0.5 %
Total income tax expense	20.1 %	21.3 %	21.6 %	22.1 %

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, 2019 and subsequent years remain open to federal tax examination. The Company ordinarily goes through various federal and state reviews and examinations for various tax matters.

10. Commitments and Contingencies

Legal Matters

Texas Patron Tax

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

Indemnity Insurance Corporation

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

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

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

Shareholder Derivative Action

On January 21, 2022, Shiva Stein and Kevin McCarty filed a shareholder derivative action in the Southern District of Texas, Houston Division against former director Nourdean Anakar, Yura Barabash, former director Steven L. Jenkins, Eric Langan, Luke Lirot, former CFO Phillip K. Marshall, Elaine J. Martin, Allan Priaulx, and Travis Reese as defendants, as well as against RCI Hospitality Holdings, Inc. as nominal defendant. The action, styled Stein v. Anakar, et al., No. 4:22-mc-00149 (S.D. Tex.), alleges claims for breach of fiduciary duty based on alleged dissemination of inaccurate information and failure to maintain internal controls. These allegations are substantively similar to claims asserted in a prior securities class action that was settled in August of 2022 and a prior derivative action that was dismissed in June of 2021. On July 24, 2023, the parties reached an agreement in principle to resolve the action. The parties are preparing a settlement agreement and anticipate seeking Court approval of the proposed settlement in the next 30 days. The Company believes that payments under the settlement agreement will be covered by insurance.

Other

On June 23, 2014, Mark H. Dupray and Ashlee Dupray filed a lawsuit against Pedro Antonio Panameno and our subsidiary JAI Dining Services (Phoenix) Inc. ("JAI Phoenix") in the Superior Court of Arizona for Maricopa County. The suit alleged that Mr. Panameno injured Mr. Dupray in a traffic accident after being served alcohol at an establishment operated by JAI Phoenix. The suit alleged that JAI Phoenix was liable under theories of common law dram shop negligence and dram shop negligence per se. After a jury trial proceeded to a verdict in favor of the plaintiffs against both defendants, in April 2017 the Court entered a judgment under which JAI Phoenix's share of compensatory damages is approximately

$1.4 million and its share of punitive damages is $4.0 million. In May 2017, JAI Phoenix filed a motion for judgment as a matter of law or, in the alternative, motion for new trial. The Court denied this motion in August 2017. In September 2017, JAI Phoenix filed a notice of appeal. In June 2018, the matter was heard by the Arizona Court of Appeals. On November 15, 2018 the Court of Appeals vacated the jury's verdict and remanded the case to the trial court. It is anticipated that a new trial will occur at some point in the future. JAI Phoenix will continue to vigorously defend itself.

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

In March 2023, the New York State Department of Labor assessed a final judgment against one of our subsidiaries in a state unemployment tax matter for the years 2009-2022. The assessment of $2.8 million, which was recorded by the Company during the quarter ended March 31, 2023, was issued in final notice by the NY DOL after several appeals were denied by the Supreme Court of the State of New York, Appellate Division, Third Department.

General

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

Settlements of lawsuits for the three and nine months ended June 30, 2023 amount to $0.1 million and $3.2 million, respectively, and for the three and nine months ended June 30, 2022 amount to approximately $132,000 and $709,000, respectively. As of June 30, 2023 and September 30, 2022, the Company has accrued $1.9 million and $246,000 in accrued liabilities, respectively, related to settlement of lawsuits.

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11. Segment Information

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

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2023	2022	2023	2022
Revenues (from external customers)				
Nightclubs	$ 62,449	$ 54,684	$ 175,805	$ 149,639
Bombshells	14,397	15,789	42,143	45,893
Other	209	241	592	710
	$ 77,055	$ 70,714	$ 218,540	$ 196,242
Income (loss) from operations				
Nightclubs	$ 20,392	$ 22,459	$ 61,127	$ 60,321
Bombshells	1,701	3,065	5,323	9,335
Other	(300)	(82)	(653)	(159)
Corporate	(6,278)	(4,935)	(19,957)	(15,998)
	$ 15,515	$ 20,507	$ 45,840	$ 53,499
Depreciation and amortization				
Nightclubs	$ 2,915	$ 1,880	$ 7,864	$ 5,633
Bombshells	611	449	2,000	1,332
Other	212	6	338	19
Corporate	303	230	906	652
	$ 4,041	$ 2,565	$ 11,108	$ 7,636
Capital expenditures				
Nightclubs	$ 5,915	$ 1,678	$ 14,598	$ 12,568
Bombshells	1,438	1,188	11,940	3,393
Other	165	145	243	693
Corporate	1,511	172	3,138	519
	$ 9,029	$ 3,183	$ 29,919	$ 17,173

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	June 30, 2023	September 30, 2022
Total assets		
Nightclubs	$ 495,412	$ 437,096
Bombshells	84,207	62,021
Other	2,635	2,635
Corporate	37,853	28,986
	$ 620,107	$ 530,738

Excluded from revenues in the table above are intercompany rental revenues of the Nightclubs and Corporate segments for the three months ended June 30, 2023 amounting to $4.3 million and $32,000, respectively, and for the nine months ended June 30, 2023 amounting to $11.9 million and $294,000, respectively; and intercompany sales of Robust Energy Drink included in Other segment for the three and nine months ended June 30, 2023 amounting to $73,000 and $188,000, respectively. Excluded from revenues in the table above are intercompany rental revenues of the Nightclubs and Corporate segments for the three months ended June 30, 2022 amounting to $3.4 million and $32,000, and for the nine months ended June 30, 2022 amounting to $9.9 million and $231,000, respectively; and intercompany sales of Robust Energy Drink included in Other segment for the three and nine months ended June 30, 2022 amounting to $42,000 and $164,000, respectively. These intercompany revenue amounts are eliminated upon consolidation.

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

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

As of September 30, 2022, we reclassified $9.0 million of goodwill from Corporate to Nightclubs to conform to current year presentation. See Note 1.

12. Related Party Transactions

Presently, our Chairman and President, Eric Langan, personally guarantees all of the commercial bank indebtedness of the Company. Mr. Langan receives no compensation or other direct financial benefit for any of the guarantees. The balance of our commercial bank indebtedness, net of debt discount and issuance costs, as of June 30, 2023 and September 30, 2022, was $120.2 million and $115.1 million, respectively.

Included in the $17.0 million borrowing on October 12, 2021 are notes borrowed from related parties—one note for $500,000 (Ed Anakar, an employee of the Company and brother of our former director Nourdean Anakar) and another note for $150,000 (from a brother of Company CFO, Bradley Chhay) in which the terms of the notes are the same as the rest of the lender group.

We used the services of Nottingham Creations, and previously Sherwood Forest Creations, LLC, both furniture fabrication companies that manufacture tables, chairs and other furnishings for our Bombshells locations, as well as providing ongoing maintenance. Nottingham Creations is owned by a brother of Eric Langan (as was Sherwood Forest). Amounts billed to us for goods and services provided by Nottingham Creations and Sherwood Forest were $0 and $188,285 during the three and nine months ended June 30, 2023, respectively, and $42,093 and $69,242 during the three and nine months ended June 30, 2022, respectively. As of June 30, 2023 and September 30, 2022, we owed Nottingham Creations and Sherwood Forest $17,386 and $92,808, respectively, in unpaid billings.

TW Mechanical LLC provided plumbing and HVAC services to both a third-party general contractor providing construction services to the Company, as well as directly to the Company during fiscal 2023 and 2022. A son-in-law of Eric Langan owns a 50% interest in TW Mechanical. Amounts billed by TW Mechanical to the third-party general contractor were $171,435 and $235,738 for the three and nine months ended June 30, 2023, respectively, and $0 and

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$3,809 for the three and nine months ended June 30, 2022, respectively. Amounts billed directly to the Company were $8,823 and $9,202 for the three and nine months ended June 30, 2023, respectively, and $16,500 and $101,200 for the three and nine months ended June 30, 2022, respectively. As of June 30, 2023 and September 30, 2022, the Company owed TW Mechanical $0 and $9,338, respectively, in unpaid direct billings.

13. Leases

Total lease expense included in selling, general and administrative expenses in our unaudited condensed consolidated statements of income for the three and nine months ended June 30, 2023 and 2022 is as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Operating lease expense – fixed payments	$ 1,327	$ 1,215	$ 3,874	$ 3,482
Variable lease expense	406	404	1,192	971
Short-term and other lease expense (includes $116 and $53 recorded in advertising and marketing for the three months ended June 30, 2023 and 2022, respectively, and $243 and $183 for the nine months ended June 30, 2023 and 2022, respectively; and $145 and $120 recorded in repairs and maintenance for the three months ended June 30, 2023 and 2022, respectively, and $410 and $310 for the nine months ended June 30, 2023 and 2022, respectively; see Note 6)	364	290	950	988
Sublease income	—	(1)	—	(4)
Total lease expense, net	$ 2,097	$ 1,908	$ 6,016	$ 5,437
Other information:				
Operating cash outflows from operating leases	$ 2,055	$ 1,855	$ 5,885	$ 5,294
Weighted average remaining lease term – operating leases			10.7 years	11.0 years
Weighted average discount rate – operating leases			5.8 %	5.6 %

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

	Principal Payments	Interest Payments	Total Payments
July 2023 - June 2024	$ 2,923	$ 2,098	$ 5,021
July 2024 - June 2025	3,161	1,926	5,087
July 2025 - June 2026	3,445	1,740	5,185
July 2026 - June 2027	3,580	1,538	5,118
July 2027 - June 2028	3,081	1,344	4,425
Thereafter	22,674	4,939	27,613
	$ 38,864	$ 13,585	$ 52,449

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14. Subsequent Events

On August 3, 2023, the Company purchased real estate in Central City, Colorado amounting to $2.9 million in cash for future business development.

Subsequent to the balance sheet date through August 4, 2023, we repurchased 10,440 shares of our common stock at an average price of $69.48.

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes thereto included in this quarterly report, and the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended September 30, 2022.

Overview

RCI Hospitality Holdings, Inc. ("RCIHH") is a holding company. Through our subsidiaries, we engage 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 June 30, 2023, we operated a total of 70 establishments that offer live adult entertainment, including two that are under renovation/remodeling, and/or restaurant and bar operations, including one food hall. We also operated a leading business communications company serving the multi-billion-dollar adult nightclubs industry. We have two principal reportable segments: Nightclubs and Bombshells. We combine operating segments not included in Nightclubs and Bombshells into "Other." In the context of club and restaurant/sports bar operations, the terms the "Company," "we," "our," "us" and similar terms used in this report refer to subsidiaries of RCIHH. RCIHH was incorporated in the State of Texas in 1994. Our corporate offices are located in Houston, Texas.

Current Operating Environment

Our fiscal 2020 was the period hardest hit by the COVID-19 pandemic causing a significant reduction in customer traffic in our clubs and restaurants due to changes in consumer behavior as social distancing practices, dining room closures and other restrictions were mandated or encouraged by federal, state and local governments. In fiscal 2021, our businesses started to recover from the initial effects of the pandemic when government restrictions eased. Stimulus money also flowed to the economy at that time which prompted increased discretionary spending. In fiscal 2022, several coronavirus variants threatened to bring back tight restrictions. Along with the pandemic, geopolitical and macroeconomic events started to affect the U.S. economy in general, with global inflation and supply chain disruptions impacting our businesses.

Toward the end of fiscal 2022 and continuing to the current fiscal year, geopolitical and macroeconomic events have impacted our operating results and cash flows by causing inflation on wages and other operating expenses. In the event global inflation leads to a major economic downturn, our business operations and cash flow could be significantly affected.

Critical Accounting Policies and Estimates

The preparation of the unaudited condensed consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate these estimates. These estimates are based on management's historical industry experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

For a description of the accounting policies that, in management's opinion, involve the most significant application of judgment or involve complex estimation and which could, if different judgment or estimates were made, materially affect our reported financial position, results of operations, or cash flows, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2022 filed with the SEC on December 14, 2022.

During the three and nine months ended June 30, 2023, there were no significant changes in our accounting policies and estimates.

Results of Operations

Highlights of the Company's operating results are as follows:

Third Quarter 2023

- Total revenues were $77.1 million compared to $70.7 million during the comparable prior-year quarter, a 9.0% increase (Nightclubs revenue of $62.4 million compared to $54.7 million, a 14.2% increase; and Bombshells revenue of $14.4 million compared to $15.8 million, an 8.8% decrease)

- Consolidated same-store sales decreased by 9.6% (Nightclubs decreased by 7.3% while Bombshells decreased by 18.2%) (refer to the definition of same-store sales in the discussion of revenues below)

- Basic and diluted earnings per share ("EPS") of $0.96 compared to $1.48 (non-GAAP diluted EPS* of $1.30 compared to $1.60) during the comparable prior-year quarter

- Net cash provided by operating activities of $15.3 million compared to $18.9 million during the comparable prior-year quarter, a 18.9% decrease (free cash flow* of $14.3 million compared to $18.0 million, a 20.9% decrease)

Year-to-Date 2023

- Total revenues were approximately $218.5 million compared to $196.2 million during the comparable prior-year year-to-date period, a 11.4% increase (Nightclubs revenue of $175.8 million compared to $149.6 million, a 17.5% increase; and Bombshells revenue of $42.1 million compared to $45.9 million, an 8.2% decrease)

- Consolidated same-store sales decreased by 4.3% (Nightclubs decreased by 1.1% while Bombshells decreased by 14.8%) (refer to the definition of same-store sales in the discussion of revenues below)

- Basic and diluted EPS of $2.91 compared to $3.76 (non-GAAP diluted EPS of $3.80 compared to $3.89) during the comparable prior-year year-to-date period

- Net cash provided by operating activities of $47.0 million compared to $46.8 million during the comparable prior-year year-to-date period, a 0.5% increase (free cash flow* of $42.1 million compared to $44.4 million, a 5.2% decrease)

* Reconciliation and discussion of non-GAAP financial measures are included in the "Non-GAAP Financial Measures" section below.

The following table summarizes our results of operations as a percentage of revenue:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Revenues				
Sales of alcoholic beverages	44.3 %	42.1 %	43.0 %	42.6 %
Sales of food and merchandise	14.8 %	16.4 %	15.0 %	17.1 %
Service revenues	34.6 %	36.0 %	35.7 %	34.6 %
Other	6.3 %	5.6 %	6.4 %	5.8 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses				
Cost of goods sold				
Alcoholic beverages sold	18.7 %	17.4 %	18.2 %	17.9 %
Food and merchandise sold	36.0 %	34.2 %	34.9 %	35.0 %
Service and other	0.1 %	0.2 %	0.1 %	0.2 %
Total cost of goods sold (exclusive of items shown separately below)	13.7 %	13.0 %	13.1 %	13.7 %
Salaries and wages	26.7 %	24.6 %	26.9 %	25.7 %
Selling, general and administrative	30.9 %	27.7 %	31.4 %	28.8 %
Depreciation and amortization	5.2 %	3.6 %	5.1 %	3.9 %
Other charges, net	3.4 %	2.1 %	2.6 %	0.7 %
Total operating expenses	79.9 %	71.0 %	79.0 %	72.7 %
Income from operations	20.1 %	29.0 %	21.0 %	27.3 %
Other income (expenses)				
Interest expense	(5.6)%	(4.3)%	(5.3)%	(4.3)%
Interest income	0.1 %	0.1 %	0.1 %	0.2 %
Non-operating gains, net	— %	0.2 %	— %	0.1 %
Income before income taxes	14.6 %	25.0 %	15.8 %	23.2 %
Income tax expense	2.9 %	5.3 %	3.4 %	5.1 %
Net income	11.7 %	19.7 %	12.3 %	18.1 %

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

Revenues

Consolidated revenues for the third quarter increased by $6.3 million, or 9.0%, versus the comparable prior-year quarter due primarily to an 18.5% increase in sales from newly acquired clubs and new Bombshells openings. Consolidated revenues for the year-to-date period increased by $22.3 million, or 11.4%, compared to the prior-year year-to-date period mainly due to an increase in sales from newly acquired clubs and new Bombshells openings partially offset by the impact of consolidated same-store sales decline. Consolidated same-store sales decreased by 9.6% for the quarter and decreased by 4.3% for the year-to-date period.

We calculate same-store sales by comparing year-over-year revenues from nightclubs and restaurants/sports bars starting in the first full quarter of operations after at least 12 full months for Nightclubs and at least 18 full months for Bombshells. We consider the first six months of operations of a Bombshells unit to be the "honeymoon period" where sales are significantly higher than normal. We exclude from a particular month's calculation units previously included in the same-store sales base that have closed temporarily until its next full quarter 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.

Segment contribution to total revenues was as follows (in thousands, except percentages):

	Three Months Ended June 30, 2023	Mix	Three Months Ended June 30, 2022	Mix	Inc (Dec) $	Inc (Dec) %
Nightclubs						
Sales of alcoholic beverages	$ 26,144	41.9 %	$ 21,061	38.5 %	$ 5,083	24.1 %
Sales of food and merchandise	5,288	8.5 %	4,639	8.5 %	649	14.0 %
Service revenues	26,497	42.4 %	25,287	46.2 %	1,210	4.8 %
Other revenues	4,520	7.2 %	3,697	6.8 %	823	22.3 %
	62,449	100.0 %	54,684	100.0 %	7,765	14.2 %
Bombshells						
Sales of alcoholic beverages	8,007	55.6 %	8,677	55.0 %	(670)	(7.7)%
Sales of food and merchandise	6,117	42.5 %	6,935	43.9 %	(818)	(11.8)%
Service revenues	166	1.2 %	157	1.0 %	9	5.7 %
Other revenues	107	0.7 %	20	0.1 %	87	435.0 %
	14,397	100.0 %	15,789	100.0 %	(1,392)	(8.8)%
Other						
Other revenues	209	100.0 %	241	100.0 %	(32)	(13.3)%
	$ 77,055		$ 70,714		$ 6,341	9.0 %

	Nine Months Ended June 30, 2023	Mix	Nine Months Ended June 30, 2022	Mix	Inc (Dec) $	Inc (Dec) %
Nightclubs						
Sales of alcoholic beverages	$ 70,433	40.1 %	$ 57,901	38.7 %	$ 12,532	21.6 %
Sales of food and merchandise	14,705	8.4 %	13,726	9.2 %	979	7.1 %
Service revenues	77,716	44.2 %	67,472	45.1 %	10,244	15.2 %
Other revenues	12,951	7.4 %	10,540	7.0 %	2,411	22.9 %
	175,805	100.0 %	149,639	100.0 %	26,166	17.5 %
Bombshells						
Sales of alcoholic beverages	23,504	55.8 %	25,603	55.8 %	(2,099)	(8.2)%
Sales of food and merchandise	18,052	42.8 %	19,902	43.4 %	(1,850)	(9.3)%
Service revenues	200	0.5 %	349	0.8 %	(149)	(42.7)%
Other revenues	387	0.9 %	39	0.1 %	348	892.3 %
	42,143	100.0 %	45,893	100.0 %	(3,750)	(8.2)%
Other						
Other revenues	592	100.0 %	710	100.0 %	(118)	(16.6)%
	$ 218,540		$ 196,242		$ 22,298	11.4 %

Nightclubs revenues increased by 14.2% for the quarter ended June 30, 2023 compared to the prior-year quarter primarily due to the contribution of newly acquired clubs and the impact of the increase in same-store sales. For Nightclubs that were open enough days to qualify for same-store sales (refer to the definition of same-store sales in the preceding paragraph), sales decreased by 7.3%. Newly acquired and remodeled clubs contributed a sales increase of $11.9 million to the total Nightclubs revenue increase of $7.8 million. By type of revenue, service revenue increased by 4.8%, alcoholic beverage sales increased by 24.1%, and food, merchandise and other revenue increased by 17.7%.

Bombshells revenues decreased by 8.8%, of which 18.2% was for same-store sales decrease with the offsetting increase caused by two new locations and a food hall. By type of revenue, food and merchandise sales decreased by 11.8% while alcoholic beverage sales decreased by 7.7%. Management believes that the decrease in total Bombshells revenue was mainly from higher customer spending in the prior year caused by government stimulus money.

Operating Expenses

Total operating expenses, as a percent of revenues, increased to 79.9% from 71.0% from last year's third quarter, with a $11.3 million increase, or 22.6%, which was mainly caused by costs and expenses directly related to higher sales in the current-year quarter, and stock-based compensation, amortization of SOB licenses, settlement of lawsuits and impairment of goodwill in the current quarter. Compared to last year's nine-month period, the current nine-month period total operating expenses as a percent of revenues increased to 79.0% from 72.7%, with a $30.0 million increase, or 21.0%, due to the same reasons cited above. Significant contributors to the changes in operating expenses are explained below.

Cost of goods sold. Cost of goods sold for the third quarter increased by $1.3 million, or 14.7%, mainly due to higher sales. As a percent of total revenues, cost of goods sold increased to 13.7% from 13.0% mainly due to the sales mix increase in service revenue. Service revenue has the highest margin while food and merchandise have the lowest. Nightclubs cost of goods sold increased to 11.7% from 10.0%, while Bombshells cost of goods sold decreased to 22.3% from 23.3%.

Cost of goods sold for the nine months increased by $1.8, or 6.8%, mainly due to higher sales. As a percent of total revenues, cost of goods sold decreased to 13.1% from 13.7% mainly due to the sales mix increase in service revenue. Service revenue has the highest margin while food and merchandise have the lowest. Nightclubs cost of goods sold increased to 10.9% from 10.6%, while Bombshells cost of goods sold decreased to 22.5% from 23.5%.

Salaries and wages. Salaries and wages increased by $3.2 million, or 18.4%, for the third quarter due to increase in personnel from newly acquired clubs and new Bombshells openings, work shifts to accommodate the increase in sales, and the impact of minimum wage increases in certain states and cities. As a percent of total revenues, salaries and wages increased to 26.7% from 24.6% due to wage inflation. Nightclubs increased to 21.4% from 19.0% and Bombshells increased to 27.0% from 23.6%, while corporate was flat at 4.1%.

For the nine-month period, salaries and wages increased by $8.3 million, or 16.4%. As a percent of total revenues, consolidated salaries and wages increased to 26.9% from 25.7%. Nightclubs increased to 21.2% from 19.9%, Bombshells increased to 26.5% from 23.9%, and corporate decreased to 4.5% from 4.7%.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by $4.2 million, or 21.6%, primarily due to increased variable expenses related to higher sales during the current-year quarter and stock-based compensation. On a year-to-date period, selling, general and administrative expenses increased by $12.1 million, or 21.4%, due to the same reasons cited above. Dollar amounts in the tables below are in thousands, except percentages.

	For the Three Months Ended June 30, 2023		For the Three Months Ended June 30, 2022		Better (Worse)	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
Taxes and permits	$ 2,969	3.9 %	$ 2,418	3.4 %	$ (551)	(22.8)%
Advertising and marketing	3,284	4.3 %	2,460	3.5 %	(824)	(33.5)%
Supplies and services	2,865	3.7 %	2,068	2.9 %	(797)	(38.5)%
Insurance	2,718	3.5 %	2,481	3.5 %	(237)	(9.6)%
Legal	754	1.0 %	328	0.5 %	(426)	(129.9)%
Lease	1,836	2.4 %	1,736	2.5 %	(100)	(5.8)%
Charge card fees	1,792	2.3 %	1,829	2.6 %	37	2.0 %
Utilities	1,443	1.9 %	1,151	1.6 %	(292)	(25.4)%
Security	1,523	2.0 %	1,081	1.5 %	(442)	(40.9)%
Stock-based compensation	470	0.6 %	—	— %	(470)	(100.0)%
Accounting and professional fees	1,050	1.4 %	818	1.2 %	(232)	(28.4)%
Repairs and maintenance	1,367	1.8 %	960	1.4 %	(407)	(42.4)%
Other	1,732	2.2 %	2,242	3.2 %	510	22.7 %
Total selling, general and administrative expenses	$ 23,803	30.9 %	$ 19,572	27.7 %	$ (4,231)	(21.6)%

	For the Nine Months Ended June 30, 2023		For the Nine Months Ended June 30, 2022		Better (Worse)	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
Taxes and permits	$ 8,392	3.8 %	$ 7,015	3.6 %	$ (1,377)	(19.6)%
Advertising and marketing	8,685	4.0 %	7,091	3.6 %	(1,594)	(22.5)%
Supplies and services	7,946	3.6 %	6,223	3.2 %	(1,723)	(27.7)%
Insurance	7,538	3.4 %	7,357	3.7 %	(181)	(2.5)%
Legal	3,035	1.4 %	2,286	1.2 %	(749)	(32.8)%
Lease	5,363	2.5 %	4,948	2.5 %	(415)	(8.4)%
Charge card fees	5,372	2.5 %	4,626	2.4 %	(746)	(16.1)%
Utilities	4,067	1.9 %	3,194	1.6 %	(873)	(27.3)%
Security	3,995	1.8 %	3,218	1.6 %	(777)	(24.1)%
Stock-based compensation	2,117	1.0 %	—	— %	(2,117)	(100.0)%
Accounting and professional fees	3,225	1.5 %	2,786	1.4 %	(439)	(15.8)%
Repairs and maintenance	3,738	1.7 %	2,588	1.3 %	(1,150)	(44.4)%
Other	5,088	2.3 %	5,163	2.6 %	75	1.5 %
Total selling, general and administrative expenses	$ 68,561	31.4 %	$ 56,495	28.8 %	$ (12,066)	(21.4)%

Depreciation and amortization. Depreciation and amortization increased by $1.5 million, or 57.5%, during the third quarter and increased by $3.5 million, or 45.5%, during the year-to-date period due to the amortization of SOB licenses from leased clubs.

Other charges, net. Other charges, net for both the third quarter and the year-to-date period increased by $1.1 million and $4.3 million, respectively, due mainly to settlement of lawsuits and impairment charges. We recorded a $2.8 million assessment by the New York State Department of Labor in the second quarter of 2023 and we recorded impairment charges of $662,000 in the second quarter of 2023 and $2.1 million in the third quarter of 2023 versus impairment charges of $1.7 million in the third quarter of 2022. The current year third quarter impairment charge included $2.6 million related to two clubs, one of which has been permanently closed.

Income (Loss) from Operations

For the three months ended June 30, 2023 and 2022, our consolidated operating margin was 20.1% and 29.0%, respectively, while for the nine months ended June 30, 2023 and 2022, our consolidated operating margin was 21.0% and 27.3%, respectively. The main drivers for the decreases in operating margin are stock-based compensation, amortization of SOB licenses, settlement of lawsuits, and impairment of goodwill, which are only present in the current year partially offset by fixed expenses leveraged from higher sales.

Segment contribution to income (loss) from operations is presented in the table below (in thousands):

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2023	2022	2023	2022
Nightclubs	$ 20,392	$ 22,459	$ 61,127	$ 60,321
Bombshells	1,701	3,065	5,323	9,335
Other	(300)	(82)	(653)	(159)
Corporate	(6,278)	(4,935)	(19,957)	(15,998)
	$ 15,515	$ 20,507	$ 45,840	$ 53,499

Nightclubs operating margin was 32.7% and 41.1% for the three months ended June 30, 2023 and 2022, respectively, while operating margin for Bombshells was 11.8% and 19.4%, respectively. Nightclubs operating margin was 34.8% and 40.3% for the nine months ended June 30, 2023 and 2022, respectively, while operating margin for Bombshells was 12.6% and 20.3%, respectively. Nightclubs operating margin decreased due to settlement of lawsuits, amortization of SOB licenses, and impairment of goodwill partially offset by fixed expenses leveraged from higher sales. The decrease in Bombshells operating margin was mainly due to fixed expenses deleveraged from lower sales.

Excluding certain items, third quarter non-GAAP operating income (loss) and non-GAAP operating margin are computed in the tables below (dollars in thousands). Refer to the discussion of Non-GAAP Financial Measures on page 32.

	For the Three Months Ended June 30, 2023				
	Nightclubs	Bombshells	Other	Corporate	Total
Income (loss) from operations	$ 20,392	$ 1,701	$ (300)	$ (6,278)	$ 15,515
Amortization of intangibles	624	81	208	5	918
Settlement of lawsuits	57	6	—	—	63
Impairment of assets	2,631	—	—	—	2,631
Loss (gain) on sale of businesses and assets	(153)	50	—	(2)	(105)
Gain on insurance	—	—	—	—	—
Stock-based compensation	—	—	—	470	470
Non-GAAP operating income (loss)	$ 23,551	$ 1,838	$ (92)	$ (5,805)	$ 19,492
GAAP operating margin	32.7 %	11.8 %	(143.5)%	(8.1)%	20.1 %
Non-GAAP operating margin	37.7 %	12.8 %	(44.0)%	(7.5)%	25.3 %

	For the Three Months Ended June 30, 2022				
	Nightclubs	Bombshells	Other	Corporate	Total
Income (loss) from operations	$ 22,459	$ 3,065	$ (82)	$ (4,935)	$ 20,507
Amortization of intangibles	23	1	—	1	25
Settlement of lawsuits	124	8	—	—	132
Impairment of assets	1,072	650	—	—	1,722
Gain on sale of businesses and assets	(264)	—	—	(2)	(266)
Gain on insurance	(87)	—	—	—	(87)
Non-GAAP operating income (loss)	$ 23,327	$ 3,724	$ (82)	$ (4,936)	$ 22,033
GAAP operating margin	41.1 %	19.4 %	(34.0)%	(7.0)%	29.0 %
Non-GAAP operating margin	42.7 %	23.6 %	(34.0)%	(7.0)%	31.2 %

Excluding certain items, year-to-date period non-GAAP operating income (loss) and non-GAAP operating margin are computed in the tables below (dollars in thousands).

	For the Nine Months Ended June 30, 2023				
	Nightclubs	Bombshells	Other	Corporate	Total
Income (loss) from operations	$ 61,127	$ 5,323	$ (653)	$ (19,957)	$ 45,840
Amortization of intangibles	1,880	500	329	13	2,722
Settlement of lawsuits	3,174	9	—	—	3,183
Impairment of assets	3,293	—	—	—	3,293
Loss (gain) on sale of businesses and assets	(734)	66	—	(24)	(692)
Gain on insurance	(48)	—	—	(43)	(91)
Stock-based compensation	—	—	—	2,117	2,117
Non-GAAP operating income (loss)	$ 68,692	$ 5,898	$ (324)	$ (17,894)	$ 56,372
GAAP operating margin	34.8 %	12.6 %	(110.3)%	(9.1)%	21.0 %
Non-GAAP operating margin	39.1 %	14.0 %	(54.7)%	(8.2)%	25.8 %

	For the Nine Months Ended June 30, 2022				
	Nightclubs	Bombshells	Other	Corporate	Total
Income (loss) from operations	$ 60,321	$ 9,335	$ (159)	$ (15,998)	$ 53,499
Amortization of intangibles	117	5	—	2	124
Settlement of lawsuits	578	18	—	113	709
Impairment of assets	1,072	650	—	—	1,722
Loss (gain) on sale of businesses and assets	(344)	17	—	(339)	(666)
Gain on insurance	(408)	—	—	—	(408)
Non-GAAP operating income (loss)	$ 61,336	$ 10,025	$ (159)	$ (16,222)	$ 54,980
GAAP operating margin	40.3 %	20.3 %	(22.4)%	(8.2)%	27.3 %
Non-GAAP operating margin	41.0 %	21.8 %	(22.4)%	(8.3)%	28.0 %

Other Income/Expenses

Interest expense for the third quarter increased by $1.3 million, or 42.5%, primarily caused by a higher average debt balance mostly from seller-financed promissory notes from this and last years' acquisitions. For the nine-month period, interest expense increased by $3.2 million, or 37.5%.

Our total occupancy costs for the third quarter, defined as the sum of operating lease expense and interest expense, were $6.2 million and $4.8 million for the quarters ended June 30, 2023 and 2022, respectively. As a percentage of revenue, total occupancy costs were 8.0% and 6.7% during the quarters ended June 30, 2023 and 2022, respectively, primarily due to the interest from higher average debt balance. For the year-to-date period, total occupancy costs amounted to $17.0 million and $13.4 million, respectively, with a percent of revenue of 7.8% and 6.9%, respectively, primarily due to interest from higher average debt balance. These additional debt are mainly related to acquisitions.

Income Taxes

Income tax expense was $2.3 million and $3.8 million during the three months ended June 30, 2023 and 2022, respectively, and $7.4 million and $10.1 million during the nine months ended June 30, 2023 and 2022, respectively. The effective income tax expense rate was 20.1% and 21.3% for the three months ended June 30, 2023 and 2022, respectively, while for the nine months ended June 30, 2023 and 2022, 21.6% and 22.1%, respectively. Our effective income tax rate is affected by state taxes, permanent differences, and tax credits, including the FICA tip credit, for both years, as presented below.

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2023	2022	2023	2022
Federal statutory income tax expense	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit	2.1 %	2.9 %	3.4 %	2.9 %
Permanent differences	0.5 %	0.4 %	0.5 %	0.4 %
Tax credit	(3.7)%	(3.2)%	(3.4)%	(2.8)%
Other	0.1 %	0.1 %	0.1 %	0.5 %
Total income tax expense	20.1 %	21.3 %	21.6 %	22.1 %

Non-GAAP Financial Measures

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

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

Non-GAAP Net Income and Non-GAAP Net Income per Diluted Share. We calculate non-GAAP net income and non-GAAP net income per diluted share by excluding or including certain items to net income attributable to RCIHH common stockholders and diluted earnings per share. Adjustment items are: (a) amortization of intangibles, (b) impairment of assets, (c) gains or losses on sale of businesses and assets, (d) gains or losses on insurance, (e) unrealized gains or losses on equity securities, (f) settlement of lawsuits, (g) gain on debt extinguishment, (h) stock-based compensation, and (i) the income tax effect of the above-described adjustments. Included in the income tax effect of the above adjustments is the net effect of the non-GAAP provision for income taxes, calculated at 21.6% and 21.6% effective tax rate of the pre-tax non-GAAP income before taxes for the nine months ended June 30, 2023 and 2022, respectively, and the GAAP income tax expense (benefit). We believe that excluding and including such items help management and investors better understand our operating activities.

Adjusted EBITDA. We calculate adjusted EBITDA by excluding the following items from net income attributable to RCIHH common stockholders: (a) depreciation and amortization, (b) income tax expense (benefit), (c) net interest expense, (d) gains or losses on sale of businesses and assets, (e) gains or losses on insurance, (f) unrealized gains or losses on equity securities, (g) impairment of assets, (h) settlement of lawsuits, (i) gain on debt extinguishment, and (j) stock-based compensation. We believe that adjusting for such items helps management and investors better understand our operating activities. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for federal, state and local taxes which have considerable variation between domestic jurisdictions. The results are, therefore, without consideration of financing alternatives of capital employed. We use adjusted EBITDA as one guideline to assess our 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 flow. See "Liquidity and Capital Resources" section for further discussion.

The following tables present our non-GAAP performance measures for the three and nine months ended June 30, 2023 and 2022 (in thousands, except per share, number of shares and percentages):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Reconciliation of GAAP net income to Adjusted EBITDA				
Net income attributable to RCIHH common stockholders	$ 9,085	$ 13,902	$ 27,055	$ 35,429
Income tax expense	2,269	3,767	7,447	10,056
Interest expense, net	4,229	2,925	11,412	8,175
Settlement of lawsuits	63	132	3,183	709
Impairment of assets	2,631	1,722	3,293	1,722
Gain on sale of businesses and assets	(105)	(266)	(692)	(666)
Gain on debt extinguishment	—	(53)	—	(138)
Unrealized loss on equity securities	—	—	—	1
Gain on insurance	—	(87)	(91)	(408)
Stock-based compensation	470	—	2,117	—
Depreciation and amortization	4,041	2,565	11,108	7,636
Adjusted EBITDA	$ 22,683	$ 24,607	$ 64,832	$ 62,516
Reconciliation of GAAP net income to non-GAAP net income				
Net income attributable to RCIHH common stockholders	$ 9,085	$ 13,902	$ 27,055	$ 35,429
Amortization of intangibles	918	25	2,722	124
Settlement of lawsuits	63	132	3,183	709
Impairment of assets	2,631	1,722	3,293	1,722
Gain on sale of businesses and assets	(105)	(266)	(692)	(666)
Gain on debt extinguishment	—	(53)	—	(138)
Unrealized loss on equity securities	—	—	—	1
Gain on insurance	—	(87)	(91)	(408)
Stock-based compensation	470	—	2,117	—
Net income tax effect	(812)	(312)	(2,258)	(59)
Non-GAAP net income	$ 12,250	$ 15,063	$ 35,329	$ 36,714

Reconciliation of GAAP diluted earnings per share to non-GAAP diluted earnings per share				
Diluted shares	9,430,225	9,389,675	9,308,624	9,428,461
GAAP diluted earnings per share	$ 0.96	$ 1.48	$ 2.91	$ 3.76
Amortization of intangibles	0.10	0.00	0.29	0.01
Settlement of lawsuits	0.01	0.01	0.34	0.08
Impairment of assets	0.28	0.18	0.35	0.18
Gain on sale of businesses and assets	(0.01)	(0.03)	(0.07)	(0.07)
Gain on debt extinguishment	—	(0.01)	—	(0.01)
Unrealized loss on equity securities	—	—	—	0.00
Gain on insurance	0.00	(0.01)	(0.01)	(0.04)
Stock-based compensation	0.05	—	0.23	—
Net income tax effect	(0.09)	(0.03)	(0.24)	(0.01)
Non-GAAP diluted earnings per share	$ 1.30	$ 1.60	$ 3.80	$ 3.89
Reconciliation of GAAP operating income to non-GAAP operating income				
Income from operations	$ 15,515	$ 20,507	$ 45,840	$ 53,499
Amortization of intangibles	918	25	2,722	124
Settlement of lawsuits	63	132	3,183	709
Impairment of assets	2,631	1,722	3,293	1,722
Gain on sale of businesses and assets	(105)	(266)	(692)	(666)
Gain on insurance	—	(87)	(91)	(408)
Stock-based compensation	470	—	2,117	—
Non-GAAP operating income	$ 19,492	$ 22,033	$ 56,372	$ 54,980
Reconciliation of GAAP operating margin to non-GAAP operating margin				
Income from operations	20.1 %	29.0 %	21.0 %	27.3 %
Amortization of intangibles	1.2 %	0.0 %	1.2 %	0.1 %
Settlement of lawsuits	0.1 %	0.2 %	1.5 %	0.4 %
Impairment of assets	3.4 %	2.4 %	1.5 %	0.9 %
Gain on sale of businesses and assets	(0.1)%	(0.4)%	(0.3)%	(0.3)%
Gain on insurance	0.0 %	(0.1)%	0.0 %	(0.2)%
Stock-based compensation	0.6 %	— %	1.0 %	— %
Non-GAAP operating margin	25.3 %	31.2 %	25.8 %	28.0 %

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

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

Liquidity and Capital Resources

At June 30, 2023, our cash and cash equivalents were approximately $23.6 million compared to $36.0 million at September 30, 2022. Because of the large volume of cash we handle, we have very stringent cash controls. As of June 30, 2023, we had negative working capital of $11.4 million compared to working capital of $18.6 million as of September 30, 2022, excluding net assets held for sale amounting to $0 and $1.0 million as of June 30, 2023 and September 30, 2022, respectively. The negative working capital at June 30, 2023 was caused by borrowings, of which a large portion have current maturities, and which were used to fund business acquisitions.

Since the pandemic hard hit fiscal 2020, we have since recovered and have seen a more normal stream of operations in 2021 and 2022. Toward the end of fiscal 2022 and continuing to the current fiscal year, geopolitical and macroeconomic events have impacted our operating results and cash flows by causing inflation on wages and other operating expenses. In the event global inflation leads to a major economic downturn, our business operations and cash flow could be significantly affected. We believe that we can borrow capital if needed but currently we do not have unused credit facilities so there can be no guarantee that additional liquidity will be readily available or available on favorable terms.

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

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

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

	For the Nine Months Ended June 30,	
	2023	**2022**
Operating activities	$ 47,004	$ 46,754
Investing activities	(57,047)	(56,222)
Financing activities	(2,353)	11,282
Net increase (decrease) in cash and cash equivalents	$ (12,396)	$ 1,814

Cash Flows from Operating Activities

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

	For the Nine Months Ended June 30,	
	2023	**2022**
Net income	$ 26,981	$ 35,479
Depreciation and amortization	11,108	7,636
Deferred income tax benefit	(790)	(409)
Impairment of assets	3,293	1,722
Stock-based compensation	2,117	—
Gain on debt extinguishment	—	(83)
Net change in operating assets and liabilities	2,579	1,421
Other	1,716	988
Net cash provided by operating activities	$ 47,004	$ 46,754

Net cash provided by operating activities increased from year to year primarily due to higher sales, partially offset by higher interest expense and lower income tax refund.

Cash Flows from Investing Activities

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

	For the Nine Months Ended June 30,	
	2023	2022
Payments for property and equipment and intangible assets	$ (29,919)	$ (17,173)
Acquisition of businesses	(30,200)	(44,302)
Proceeds from sale of businesses and assets	2,811	4,611
Proceeds from insurance	91	515
Proceeds from notes receivable	170	127
Net cash used in investing activities	$ (57,047)	$ (56,222)

Following is a breakdown of our payments for property and equipment and intangible assets for the nine months ended June 30, 2023 and 2022 (in thousands):

	For the Nine Months Ended June 30,	
	2023	2022
New facilities, equipment, and intangible assets	$ 24,970	$ 14,788
Maintenance capital expenditures	4,949	2,385
Total capital expenditures	$ 29,919	$ 17,173

The capital expenditures during the nine months ended June 30, 2023 and 2022 were composed primarily of real estate and new equipment and furniture purchases for the newly acquired clubs. Maintenance capital expenditures refer mainly to capitalized replacement of productive assets in already existing locations. Variances in capital expenditures are primarily due to the number and timing of new, remodeled, or reconcepted locations under construction.

Cash Flows from Financing Activities

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

	For the Nine Months Ended June 30,	
	2023	2022
Proceeds from debt obligations	$ 11,595	$ 35,820
Payments on debt obligations	(11,431)	(10,714)
Purchase of treasury stock	(98)	(12,057)
Payment of dividends	(1,580)	(1,322)
Payment of loan origination costs	(239)	(445)
Share in return of investment by noncontrolling partner	(600)	—
Net cash provided by financing activities	$ (2,353)	$ 11,282

We purchased 1,500 shares of our common stock at an average price of $65.02 during the nine months ended June 30, 2023, while we purchased 213,712 shares of our common stock at an average price of $56.42 during the nine months ended June 30, 2022. As of June 30, 2023, we have approximately $18.8 million authorization remaining to purchase additional shares. Subsequent to the balance sheet date through August 4, 2023, we repurchased 10,440 shares of our common stock at an average price of $69.48.

Prior to the second quarter of fiscal 2022, we have been paying $0.04 per share in quarterly dividends. From the second quarter of fiscal 2022 until the first quarter of fiscal 2023, we have paid $0.05 per share, and starting in the second quarter of fiscal 2023, we have paid $0.06 per share in quarterly dividends.

See Note 7 to our unaudited condensed consolidated financial statements for future maturities of our debt obligations. We have paid all our debts on time and have not defaulted nor requested forbearance on any of our debts during the nine months ended June 30, 2023 and 2022.

Management also uses certain non-GAAP cash flow measures such as free cash flow. We calculate free cash flow as net cash provided by operating activities less maintenance capital expenditures. We use free cash flow as the baseline for the implementation of our capital allocation strategy.

Below is a table reconciling free cash flow to its most directly comparable GAAP measure (in thousands):

	For the Nine Months Ended June 30,	
	2023	2022
Net cash provided by operating activities	$ 47,004	$ 46,754
Less: Maintenance capital expenditures	4,949	2,385
Free cash flow	$ 42,055	$ 44,369

Our free cash flow for the nine-month period decreased by 5.2% compared to the comparable prior-year period primarily due to higher interest expense, lower income tax refund, and higher maintenance capital expenditures from renovations and remodeling of several of our clubs, partially offset by higher sales.

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

Other than the ongoing impact of the COVID-19 pandemic, the current geopolitical and macroeconomic events happening globally, and the notes payable financing described above, we are not aware of any event or trend that would adversely impact our liquidity. In our opinion, working capital is not a true indicator of our financial status. Typically, businesses in our industry carry current liabilities in excess of current assets because businesses in our industry receive substantially immediate payment for sales, with nominal receivables, while inventories and other current liabilities normally carry longer payment terms. Vendors and purveyors often remain flexible with payment terms, providing businesses in our industry with opportunities to adjust to short-term business downturns. We consider the primary indicators of financial status to be the long-term trend of revenue growth, the mix of sales revenues, overall cash flow, profitability from operations and the level of long-term debt.

The following table presents a summary of such indicators for the nine months ended June 30 (in thousands, except percentages):

	2023	Increase (Decrease)	2022	Increase (Decrease)	2021
Sales of alcoholic beverages	$ 93,937	12.5 %	$ 83,504	33.1 %	$ 62,725
Sales of food and merchandise	32,757	(2.6)%	33,628	11.3 %	30,205
Service revenues	77,916	14.9 %	67,821	76.4 %	38,442
Other	13,930	23.4 %	11,289	26.2 %	8,945
Total revenues	$ 218,540	11.4 %	$ 196,242	39.9 %	$ 140,317
Net income attributable to RCIHH common stockholders	$ 27,055	(23.6)%	$ 35,429	26.4 %	$ 28,036
Net cash provided by operating activities	$ 47,004	0.5 %	$ 46,754	45.1 %	$ 32,217
Adjusted EBITDA*	$ 64,832	3.7 %	$ 62,516	46.5 %	$ 42,675
Free cash flow*	$ 42,055	(5.2)%	$ 44,369	60.7 %	$ 27,609
Debt (end of period)	$ 243,823	29.7 %	$ 187,965	47.3 %	$ 127,603

* See definition and calculation of Adjusted EBITDA and Free Cash Flow above in the Non-GAAP Financial Measures subsection of Results of Operations.

Impact of Inflation

To the extent permitted by competition, we have managed to recover increased costs through price increases and may continue to do so. However, there can be no assurance that we will be able to do so in the future.

Seasonality

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

Capital Allocation Strategy

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

Based on our current capital allocation strategy:

- We consider 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 is above 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.

Growth Strategy

We believe that we can continue to grow organically and through careful entry into markets with high growth potential. Our growth strategy includes acquiring existing units, opening new units after market analysis, developing new club concepts that are consistent with our management and marketing skills, franchising our Bombshells brand, and developing and opening our Bombshells concept as our capital and manpower allow.

All twelve of the existing Bombshells as of June 30, 2023 were located in Texas, including the former franchisee location that we acquired in February 2023 (see Note 4 to our unaudited condensed consolidated financial statements). 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.

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 3. Quantitative and Qualitative Disclosures About Market Risk.

As of June 30, 2023, there were no material changes to the information provided in Item 7A of the Company’s Annual Report on Form 10-K for fiscal year ended September 30, 2022.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures, defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that the information required to be filed or submitted with the SEC under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management of the company with the participation of its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, an evaluation was performed under the supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based on their evaluation, they have concluded that our disclosure controls and procedures were not effective as of June 30, 2023. This determination is based on the previously reported material weakness management previously identified in our internal control over financial reporting, as described below. We are in the process of remediating the material weakness in our internal control, as described below. We believe the completion of these processes should remedy our disclosure controls and procedures. We will continue to monitor this issue.

Previously Reported Material Weakness in Internal Control Over Financial Reporting

In our Annual Report for the year ended September 30, 2022, filed with the SEC on December 14, 2022, management concluded that our internal control over financial reporting was not effective as of September 30, 2022. In the evaluation, management identified a material weakness in internal control related to the proper design and implementation of controls over management's review of the Company's accounting for business combinations, specifically related to the identification of and accounting for intangible assets acquired in a business combination.

Remediation Efforts to Address Material Weakness

Management is committed to the remediation of the material weakness described above, as well as the continued improvement of the Company’s internal control over financial reporting. As such, we have added controls to enhance management's review of purchase documents to identify intangible assets acquired and controls to increase the precision of the review of all assumptions used in the intangible asset valuation models. We will also conduct senior management reviews of any and all material estimates that are applied in these instances.

It is our belief that these actions will effectively remediate the existing material weakness.

Changes in Internal Control Over Financial Reporting

Other than as described above, there were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

See the "Legal Matters" section within Note 10 of the unaudited condensed consolidated financial statements within this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

Item 1A. Risk Factors.

There were no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2022, except for such risks and uncertainties that may result from the additional disclosure in the "Legal Matters" section within Note 10 of the unaudited condensed consolidated financial statements within this Quarterly Report on Form 10-Q, which information is incorporated herein by reference. The risks described in the Annual Report on Form 10-K and in this Form 10-Q are not the only risks the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company deems to be immaterial, also may have a material adverse impact on the Company's business, financial condition or results of operations.

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

During the three months ended June 30, 2023, we did not repurchase any shares of our common stock. Subsequent to the balance sheet date through August 4, 2023, we repurchased 10,440 shares of our common stock at an average price of $69.48. As of August 4, 2023, we have approximately $18.0 million remaining to purchase additional shares under our share repurchase program.

Item 6. Exhibits.

Exhibit No.	Description
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	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	The following financial information from RCI Hospitality Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Changes in Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

RCI HOSPITALITY HOLDINGS, INC.

Date: August 9, 2023	By: */s/ Eric S. Langan*
	Eric S. Langan
	Chief Executive Officer and President
Date: August 9, 2023	By: */s/ Bradley Chhay*
	Bradley Chhay
	Chief Financial Officer and Principal Accounting Officer