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

FORM 10-Q

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

For the quarterly period ended December 31, 2019

[ ] 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 [X]

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 [X] 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 [X] 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 [X]

As of February 25, 2020, 9,258,000 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 it operates, (iii) the success or lack thereof in launching and building the company’s businesses, (iv) cyber security, (v) conditions relevant to real estate transactions, (vi) our ability to regain and maintain compliance with the filing requirements of the SEC and the Nasdaq Stock Market, 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)

	December 31, 2019 (unaudited)	September 30, 2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 13,159	$ 14,097
Accounts receivable, net	3,131	6,289
Current portion of notes receivable	659	954
Inventories	2,739	2,598
Prepaid insurance	4,150	5,446
Other current assets	2,236	2,521
Assets held for sale	4,825	2,866
Total current assets	30,899	34,771
Property and equipment, net	183,657	183,956
Operating lease right-of-use assets	26,981	-
Notes receivable, net of current portion	4,149	4,211
Goodwill	53,630	53,630
Intangibles, net	75,795	75,951
Other assets	1,062	1,118
Total assets	$ 376,173	$ 353,637
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 3,202	$ 3,810
Accrued liabilities	13,759	14,644
Current portion of long-term debt	14,898	15,754
Current portion of operating lease liabilities	1,521	-
Total current liabilities	33,380	34,208
Deferred tax liability, net	21,508	21,658
Long-term debt, net of current portion and debt discount and issuance costs	126,928	127,774
Operating lease liabilities, net of current portion	26,745	-
Other long-term liabilities	407	1,696
Total liabilities	208,968	185,336
Commitments and contingencies (Note 9)		
Equity		
Preferred stock, $0.10 par value per share; 1,000 shares authorized; none issued and outstanding	-	-
Common stock, $0.01 par value per share; 20,000 shares authorized; 9,258 and 9,591 shares issued and outstanding as of December 31, 2019 and September 30, 2019, respectively	93	96
Additional paid-in capital	54,874	61,312
Retained earnings	112,404	107,049
Total RCIHH stockholders' equity	167,371	168,457
Noncontrolling interests	(166)	(156)
Total equity	167,205	168,301
Total liabilities and equity	$ 376,173	$ 353,637

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended December 31, 2019	2018
Revenues		
Sales of alcoholic beverages	$ 20,743	$ 18,310
Sales of food and merchandise	7,447	5,690
Service revenues	17,193	17,331
Other	3,011	2,692
Total revenues	48,394	44,023
Operating expenses		
Cost of goods sold		
Alcoholic beverages sold	4,146	3,736
Food and merchandise sold	2,553	1,984
Service and other	77	92
Total cost of goods sold (exclusive of items shown separately below)	6,776	5,812
Salaries and wages	13,223	12,096
Selling, general and administrative	16,531	14,027
Depreciation and amortization	2,204	2,053
Other gains, net	(26)	(1,097)
Total operating expenses	38,708	32,891
Income from operations	9,686	11,132
Other income (expenses)		
Interest expense	(2,485)	(2,521)
Interest income	98	51
Unrealized loss on equity securities	(72)	(447)
Income before income taxes	7,227	8,215
Income tax expense	1,593	1,811
Net income	5,634	6,404
Net income attributable to noncontrolling interests	-	(60)
Net income attributable to RCIHH common shareholders	$ 5,634	$ 6,344
Earnings per share		
Basic and diluted	$ 0.60	$ 0.65
Weighted average number of common shares outstanding		
Basic and diluted	9,322	9,713
Dividends per share	$ 0.03	$ 0.03

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Additional		Accumulated Other	Treasury Stock			
	Number of Shares	Amount	Paid-In Capital	Retained Earnings	Comprehensive Income	Number of Shares	Amount	Noncontrolling Interests	Total Equity
Balance at September 30, 2019	9,591	$ 96	$ 61,312	$ 107,049	$ -	-	$ -	$ (156)	$ 168,301
Purchase of treasury shares	-	-	-	-	-	(333)	(6,441)	-	(6,441)
Canceled treasury shares	(333)	(3)	(6,438)	-	-	333	6,441	-	-
Payment of dividends	-	-	-	(279)	-	-	-	-	(279)
Payments to noncontrolling interests	-	-	-	-	-	-	-	(10)	(10)
Net income	-	-	-	5,634	-	-	-	-	5,634
Balance at December 31, 2019	9,258	$ 93	$ 54,874	$ 112,404	$ -	-	$ -	$ (166)	$ 167,205
Balance at September 30, 2018	9,719	$ 97	$ 64,212	$ 88,906	$ 220	-	$ -	$ (103)	$ 153,332
Reclassification upon adoption of ASU 2016-01	-	-	-	220	(220)	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	(14)	(355)	-	(355)
Canceled treasury shares	(14)	-	(355)	-	-	14	355	-	-
Payment of dividends	-	-	-	(291)	-	-	-	-	(291)
Net income	-	-	-	6,344	-	-	-	60	6,404
Balance at December 31, 2018	9,705	$ 97	$ 63,857	$ 95,179	$ -	-	$ -	$ (43)	$ 159,090

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,634	$ 6,404
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,204	2,053
Deferred income tax expense (benefit)	(150)	458
Gain on sale of businesses and assets	(30)	(1,176)
Unrealized loss on equity securities	72	447
Amortization of debt discount and issuance costs	61	95
Deferred rent	-	142
Noncash lease expense	329	-
Gain on insurance	(20)	-
Changes in operating assets and liabilities:		
Accounts receivable	2,345	1,723
Inventories	(141)	(163)
Prepaid insurance, other current and other assets	1,565	1,939
Accounts payable, accrued and other liabilities	(1,596)	(470)
Net cash provided by operating activities	10,273	11,452
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of businesses and assets	51	1,245
Proceeds from insurance	932	-
Proceeds from notes receivable	357	32
Additions to property and equipment	(4,058)	(7,295)
Acquisition of businesses, net of cash acquired	-	(13,500)
Net cash used in investing activities	(2,718)	(19,518)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	318	5,652
Payments on long-term debt	(2,081)	(5,279)
Purchase of treasury stock	(6,441)	(355)
Payment of dividends	(279)	(291)
Distribution to noncontrolling interests	(10)	-
Net cash used in financing activities	(8,493)	(273)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(938)	(8,339)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,097	17,726
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 13,159	$ 9,387
CASH PAID DURING PERIOD FOR:		
Interest (net of amounts capitalized of $120 and $172, respectively)	$ 2,423	$ 2,345
Income taxes	$ 259	$ 243
Noncash investing and financing transactions:		
Notes receivable received as proceeds from sale of assets	$ -	$ 625
Operating lease right-of-use assets established upon adoption of ASC 842	$ 27,310	$ -
Deferred rent liabilities reclassified upon adoption of ASC 842	$ 1,241	$ -
Operating lease liabilities established upon adoption of ASC 842	$ 28,551	$ -
Unpaid liabilities on capital expenditures	$ 253	$ -

Non-cash and other transactions:

During the quarter ended December 31, 2018, in conjunction with the borrowings of $2.35 million from certain investors, the Company exchanged two notes payable with principal balances of $300,000 and $100,000 for two new notes amounting to $450,000 and $200,000, respectively. The Company received cash amounting to $1.95 million on the entire transaction.

During the quarter ended December 31, 2018, the Company acquired two clubs for a total acquisition price of $25.5 million by paying a total of $13.5 million at closing and executing three seller-financed notes for a total of $12.0 million.

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 or “RCIHH”) 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, 2019 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, 2019 included in the Company’s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 13, 2020. 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 three months ended December 31, 2019 are not necessarily indicative of the results that may be expected for the year ending September 30, 2020.

2. Recent Accounting Standards and Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*, on accounting for leases which requires lessees to recognize most leases on their balance sheets for the rights and obligations created by those leases. The guidance requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases, and will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. In July 2018, the FASB issued ASU 2018-11 providing for certain practical expedients in the implementation of ASU 2016-02. The guidance requires the use of a modified retrospective approach. We adopted ASU 2016-02 and related amendments as of October 1, 2019 and elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows us to retain historical lease classification, as well as relief from reviewing expired and existing contracts to determine if they contain leases. Our adoption of the new leasing standard resulted in an increase of $27.3 million in our total assets as of October 1, 2019 due to the recognition of operating lease right-of-use assets net of the reclassification of deferred rent liability of $1.2 million and an increase in total liabilities due to the recognition of a $28.6 million operating lease liabilities. Our adoption of ASC 842 did not have an impact on our consolidated statements of income and cash flows, except for additional required disclosures. See additional disclosures in Note 13.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU requires, among other things, the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model which requires the use of forward-looking information to calculate credit loss estimates. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. These changes will result in earlier recognition of credit losses. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are still evaluating the impact of this ASU, including all related updates, on the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* This ASU provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income ("AOCI") to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act ("Tax Act") is recorded. The ASU requires financial statement preparers to disclose (1) a description of the accounting policy for releasing income tax effects from AOCI; (2) whether they elect to reclassify the stranded income tax effects from the Tax Act; and (3) information about the other income tax effects that are reclassified. The amendments affect any organization that is required to apply the provisions of Topic 220, *Income Statement—Reporting Comprehensive Income*, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. The ASU is effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. We adopted ASU 2018-02 as of October 1, 2019. Our adoption of this guidance did not have an impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 modifies the disclosure requirements of Accounting Standards Codification ("ASC") Topic 820 with certain removals, modifications, and additions. Eliminated disclosures that may affect the Company include (1) transfers between level 1 and level 2 of the fair value hierarchy, and (2) policies related to valuation processes and the timing of transfers between levels of the fair value hierarchy. Modified disclosures that may affect the Company include (1) a requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse if the entity has communicated the timing publicly for investments in certain entities that calculate net asset value, and (2) clarification that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Additional disclosures that may affect the Company include (1) disclosure of changes in unrealized gains and losses for the period included in other comprehensive income for recurring level 3 fair value measurements held at the end of the reporting period, and (2) disclosure of the range and weighted average of significant unobservable inputs used to develop level 3 fair value measurements. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures upon issuance of the ASU and delay adoption of the additional disclosures until the effective date. We are still evaluating the impact of this ASU on the Company's consolidated financial statements.

In March 2019, the FASB issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*. ASU 2019-01 aligns the guidance for fair value of the underlying asset by lessors with existing guidance in Topic 842. The ASU requires that the fair value of the underlying asset at lease commencement is its cost reflecting in volume or trade discounts that may apply. However, if there has been a significant lapse of time between the date the asset was acquired and the lease commencement date, the definition of fair value as outlined in Topic 820 should be applied. In addition, the ASU exempts both lessees and lessors from having to provide certain interim disclosures in the fiscal year in which a company adopts the new leases standard. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are still evaluating the impact of this ASU on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU simplifies accounting for income taxes by removing the following exceptions: (1) exception to the incremental approach for intraperiod tax allocation, (2) exceptions to accounting for basis differences when there are ownership changes in foreign investments, and (3) exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. The ASU also improves financial statement preparers' application of income tax related guidance for franchise taxes that are partially based on income; transactions with a government that result in a step up in the tax basis of goodwill; separate financial statements of legal entities that are not subject to tax; and enacted changes in tax laws in interim periods. The ASU is effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted for public business entities for periods for which financial statements have not been issued. An entity that elects early adoption in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption should adopt all the amendments in the same period. We are still evaluating the impact of this ASU on the Company's consolidated financial statements.

3. Revenues

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

Commission revenues, such as ATM commission, are recognized when the basis for such commission has transpired. Revenues from the sale of magazines and advertising content are recognized when the issue is published and shipped. Revenues and external expenses related to the Company’s annual Expo convention are recognized upon the completion of the convention, which normally occurs during our fiscal fourth quarter. Other lease revenues are recognized when earned (recognized over time) and are more appropriately covered by guidance under ASC Topic 842, *Leases* (ASC 840 in prior year). See Note 13.

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

	Three Months Ended December 31, 2019				Three Months Ended December 31, 2018			
	Nightclubs	Bombshells	Other	Total	Nightclubs	Bombshells	Other	Total
Sales of alcoholic beverages	$ 14,684	$ 6,059	$ -	$ 20,743	$ 14,802	$ 3,508	$ -	$ 18,310
Sales of food and merchandise	3,264	4,183	-	7,447	3,207	2,483	-	5,690
Service revenues	17,094	99	-	17,193	17,313	18	-	17,331
Other revenues	2,817	9	185	3,011	2,406	4	282	2,692
	$ 37,859	$ 10,350	$ 185	$ 48,394	$ 37,728	$ 6,013	$ 282	$ 44,023
Recognized at a point in time	$ 37,434	$ 10,350	$ 178	$ 47,962	$ 37,392	$ 6,013	$ 267	$ 43,672
Recognized over time	425*	-	7	432	336*	-	15	351
	$ 37,859	$ 10,350	$ 185	$ 48,394	$ 37,728	$ 6,013	$ 282	$ 44,023

* Lease revenue (included in Other Revenues) as covered by ASC Topic 842 in the current year (and ASC Topic 840 in the prior year). All other revenues are covered by ASC Topic 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, 2019	Consideration Received	Recognized in Revenue	Balance at December 31, 2019
Ad revenue	$ 76	$ 221	$ (145)	$ 152
Expo revenue	-	269	-	269
Other	7	6	(8)	5
	$ 83	$ 496	$ (153)	$ 426

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

4. Selected Account Information

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

	December 31, 2019	September 30, 2019
Insurance	$ 3,188	$ 4,937
Sales and liquor taxes	3,088	3,086
Payroll and related costs	2,950	2,892
Property taxes	2,089	1,675
Patron tax	617	595
Unearned revenues	426	83
Lawsuit settlement	75	115
Other	1,326	1,261
	$ 13,759	$ 14,644

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

	For the Three Months Ended December 31,	
	2019	2018
Taxes and permits	$ 2,674	$ 2,181
Advertising and marketing	2,410	2,148
Supplies and services	1,534	1,456
Insurance	1,483	1,353
Legal	1,186	1,058
Lease	1,030	1,019
Charge card fees	1,046	933
Utilities	895	744
Security	848	709
Accounting and professional fees	1,208	650
Repairs and maintenance	797	587
Other	1,420	1,189
	$ 16,531	$ 14,027

5. Assets Held for Sale

As of September 30, 2019, the Company had two real estate properties for sale. The aggregate estimated fair value of the properties less cost to sell as of September 30, 2019 was approximately $2.9 million and was reclassified to assets held for sale in the Company's consolidated balance sheet. The assets were measured at the carrying value as adjusted for depreciation, which was lower than the fair value at the date reclassified.

During the quarter ended December 31, 2019, the Company classified as held-for-sale another real estate property. The aggregate estimated fair value of the property less cost to sell was $1.9 million.

The Company expects the properties held for sale, which are primarily comprised of land and buildings, to be sold within 12 months through property listings by our real estate brokers.

The assets held for sale do not have liabilities associated with them that need to be directly settled from the proceeds in the event of a transaction. The gain or loss on the sale of these properties held for sale is included in other charges/gains, net in the unaudited condensed consolidated statements of income.

6. Long-term Debt

In December 2019, the Company amended the $5.0 million short-term note payable related to the Scarlett's acquisition in May 2017, which had a balance of $3.0 million as of the amendment date, extending the maturity date to October 1, 2022. The amendment did not have an impact in the Company's results of operations and cash flows.

Included in the balance of long-term debt as of December 31, 2019 and September 30, 2019 is a $500,000 note borrowed from a related party (see Note 12) and three notes totaling $600,000 borrowed from two non-officer employees and a family member of a non-officer employee in which the terms of the notes are the same as the rest of the lender groups.

Subsequent to the quarter ended December 31, 2019, in February 2020, in relation to a $4.0 million 12% note payable earlier refinanced on August 15, 2018, the Company restructured the note with a private lender by executing a 12% 10-year note payable $57,388 monthly, including interest, starting March 2020. The restructured note eliminates a scheduled balloon principal payment of $4.0 million in August 2021. The refinancing did not have an impact in the Company's results of operations and cash flows.

Also in February 2020, in relation to a $9.9 million 12% note payable that was partially paid during the December 2017 Refinancing Loan, the Company restructured the note, which had a balance of $5.2 million as of the amendment date, by executing a 12% 10-year note payable $74,515 monthly, including interest, starting March 2020. The restructured note eliminates a scheduled balloon principal payment of $3.8 million in October 2021. As a result of the refinancing, the Company wrote off approximately $25,400 in unamortized debt issuance cost as interest expense in the unaudited condensed consolidated statement of income for the quarter ending March 31, 2020.

7. Equity

During the quarter ended December 31, 2019, the Company purchased and retired 332,671 common shares at a cost of approximately $6.4 million. The Company paid a $0.03 per share cash dividend during the quarter totaling approximately $279,000.

During the quarter ended December 31, 2018, the Company purchased and retired 14,111 common shares at a cost of approximately $355,000. The Company also paid a $0.03 per share cash dividend during the quarter totaling approximately $291,000.

On February 6, 2020, the Company's Board of Directors authorized an additional $10.0 million to repurchase the Company's common stock. As of February 25, 2020, the Company has $13.8 million remaining to purchase additional shares under its share repurchase program.

8. Income Taxes

Income tax expense was $1.6 million during the quarter ended December 31, 2019 compared to $1.8 million during the quarter ended December 31, 2018. The effective income tax rate was 22.0% for both quarters ended December 31, 2019 and 2018. Our effective tax rate for both years is affected by state taxes, permanent differences, and tax credits, including the FICA tip credit.

The Company or one of its subsidiaries file income tax returns for U.S. federal jurisdiction and various states. Fiscal years ended September 30, 2016 and thereafter remain open to tax examination. The Company's federal income tax returns for the years ended September 30, 2015, 2014 and 2013 have been examined by the Internal Revenue Service with no changes. Tax years 2014 through 2017 are now under examination for payroll taxes. The Company is also being examined for state income taxes, the outcome of which may occur within the next twelve months.

The Company accounts for uncertain tax positions pursuant to ASC Topic 740, *Income Taxes*. As of December 31, 2019 and September 30, 2019, the liability for uncertain tax positions was $0 and $0, respectively. The Company recognizes interest accrued related to uncertain tax positions in interest expense and penalties in selling, general and administrative expenses in our consolidated statements of income.

9. Commitments and Contingencies

Legal Matters

Texas Patron Tax

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

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

The aggregate balance of Patron Tax settlement liability, which is included in long-term debt in the consolidated balance sheets, amounted to $3.1 million and $3.4 million as of December 31, 2019 and September 30, 2019, respectively.

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. Constitutional challenges remain and will be resolved at trial.

Indemnity Insurance Corporation

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

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

On April 10, 2014, the Court of Chancery of the State of Delaware entered a Liquidation and Injunction Order With Bar Date ("Liquidation Order"), which ordered the liquidation of IIC and terminated all insurance policies or contracts of insurance issued by IIC. The Liquidation Order further ordered that all claims against IIC must have been filed with the Receiver before the close of business on January 16, 2015 and that all pending lawsuits involving IIC as the insurer were further stayed or abated until October 7, 2014. As a result, the Company and its subsidiaries no longer have insurance coverage under the liability policy with IIC. 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 December 31, 2019, we have 2 unresolved claims out of the original 71 claims.

Shareholder Class and Derivative Actions

In May and June 2019, three putative securities class action complaints were filed against RCI Hospitality Holdings, Inc. and certain of its officers in the Southern District of Texas, Houston Division. The complaints allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and 10b-5 promulgated thereunder based on alleged materially false and misleading statements made in the Company's SEC filings and disclosures as they relate to various alleged transactions by the Company and management. The complaints seek unspecified damages, costs, and attorneys' fees. These lawsuits are Hoffman v. RCI Hospitality Holdings, Inc., et al. (filed May 21, 2019, naming the Company and Eric Langan); Gu v. RCI Hospitality Holdings, Inc., et al. (filed May 28, 2019, naming the Company, Eric Langan, and Phil Marshall); and Grossman v. RCI Hospitality Holdings, Inc., et al. (filed June 28, 2019, naming the Company, Eric Langan, and Phil Marshall). The plaintiffs in all three cases moved to consolidate the purported class actions. On January 10, 2020 an order consolidating the Hoffman, Grossman, and Gu cases was entered by the Court. The consolidated case is styled In re RCI Hospitality Holdings, Inc., No. 4:19-cv-01841. On February 24, 2020, the plaintiffs in the consolidated case filed an Amended Class Action Complaint, continuing to allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and 10b-5 promulgated thereunder. In addition to naming the Company, Eric Langan, and Phil Marshall, the amended complaint also adds director Nour-Dean Anakar and former director Steven Jenkins as defendants. The Company intends to vigorously defend against this action and will move to dismiss the lawsuit. This action is in its preliminary phase, and a potential loss cannot yet be estimated.

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On August 16, 2019, a shareholder derivative action was filed in the Southern District of Texas, Houston Division against officers and directors, Eric S. Langan, Phillip Marshall, Nour-Dean Anakar, Yura Barabash, Luke Lirot, Travis Reese, former director Steven Jenkins, and RCI Hospitality Holdings, Inc., as nominal defendant. The action alleges that the individual officers and directors made or caused the Company to make a series of materially false and/or misleading statements and omissions regarding the Company's business, operations, prospects, and legal compliance and engaged in or caused the Company to engage in, inter alia, related party transactions, questionable uses of corporate assets, and failure to maintain internal controls. The action asserts claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, and violations of Sections 14(a), 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaint seeks injunctive relief, damages, restitution, costs, and attorneys' fees. The case, *Cecere v. Langan, et al.*, is in its early stage, and a potential loss cannot yet be estimated.

SEC Matter and Internal Review

In mid- and late 2018, a series of negative articles about the Company was anonymously published in forums associated with the short-selling community. Subsequently in 2019, the SEC initiated an informal inquiry. In connection with these events, a special committee of the Company's audit committee engaged independent outside counsel to conduct an internal review. Management of the Company fully cooperated with the internal review conducted by the special committee and its outside counsel. The board of directors has implemented the recommendations resulting from the internal review. As of the date hereof, the internal review has been completed subject to any ongoing cooperation with regulatory authorities.

Since the initiation of the informal inquiry by the SEC in early 2019, the Company and its management have fully cooperated and continue to fully cooperate with the SEC matter, which has now converted to a formal investigation and is ongoing. At this time, the Company is unable to predict the duration, scope, result or related costs associated with the investigation. The Company is also unable to predict what, if any, action may be taken as a result of the investigation. Any determination by the SEC that the Company's activities were not in compliance with federal securities laws or regulations, however, could result in the imposition of fines, penalties, disgorgement, or equitable relief, which could have a material adverse effect on the Company.

Other

On March 26, 2016, an image infringement lawsuit was filed in federal court in the Southern District of New York against the Company and several of its subsidiaries. Plaintiffs allege that their images were misappropriated, intentionally altered and published without their consent by clubs affiliated with the Company. The causes of action asserted in Plaintiffs' Complaint include alleged violations of the Federal Lanham Act, the New York Civil Rights Act, and other statutory and common law theories. The Company contends that there is insurance coverage under an applicable insurance policy. The insurer has raised several issues regarding coverage under the policy. At this time, this disagreement remains unresolved. The Company has denied all allegations, continues to vigorously defend against the lawsuit and continues to believe the matter is covered by insurance.

The Company has been sued by a landlord in the 333rd Judicial District Court of Harris County, Texas for a Houston Bombshells which was under renovation in 2015. The plaintiff alleges RCI Hospitality Holdings, Inc.'s subsidiary, BMB Dining Services (Willowbrook), Inc., breached a lease agreement by constructing an outdoor patio, which allegedly interfered with the common areas of the shopping center, and by failing to provide Plaintiff with proposed plans before beginning construction. Plaintiff also asserts RCI Hospitality Holdings, Inc. is liable as guarantor of the lease. The lease was for a Bombshells restaurant to be opened in the Willowbrook Shopping Center in Houston, Texas. Both RCI Hospitality Holdings, Inc. and BMB Dining Services (Willowbrook), Inc. have denied liability and assert that Plaintiff has failed to mitigate its claimed damages. Further, BMB Dining Services (Willowbrook), Inc. asserts that Plaintiff affirmatively represented that the patio could be constructed under the lease and has filed counter claims and third-party claims against Plaintiff and Plaintiff's manager asserting that they committed fraud and that the landlord breached the applicable agreements. The case was tried to a jury in late September 2018 and an adverse judgment was entered in January 2019 in the amount totaling $1.0 million, which includes damages, attorney fees and interest. The matter is being appealed. The appeal process required that a check be deposited in the registry of the court in the amount of $690,000, which was deposited in April 2019 and included in other current assets in both consolidated balance sheets as of December 31, 2019 and September 30, 2019. Management believes that the case has no merit and is vigorously defending itself in the appeal.

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

As set forth in the risk factors as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2019, 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.

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 quarter ended December 31, 2019 and 2018 amount to approximately $24,000 and $60,000, respectively. As of December 31, 2019 and September 30, 2019, the Company has accrued $75,000 and $115,000 in accrued liabilities, respectively, related to settlement of lawsuits.

10. Acquisition

On November 5, 2019, the Company announced that its subsidiaries have signed definitive agreements to acquire the assets and related real estate of a well-established, top gentlemen's club located in the Northeast Corridor for $15.0 million. Under the terms of the agreements, Company subsidiaries will pay $7.2 million for the club and $7.8 million for the real estate using $4.0 million in seller financing at 6.0% for the club with the balance of cash from an anticipated $11.0 million bank loan at a blended rate of 6.25%. As of the filing of this report, closing of this transaction is still pending subject to certain conditions. The Company will not present pro forma results of operations for this acquisition because the acquisition did not meet the threshold of a significant acquisition under Regulation S-X 3-05.

11. Segment Information

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

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

	For the Three Months Ended December 31, 2019	For the Three Months Ended December 31, 2018
Revenues		
Nightclubs	$ 37,859	$ 37,728
Bombshells	10,350	6,013
Other	185	282
	$ 48,394	$ 44,023
Income (loss) from operations		
Nightclubs	$ 13,776	$ 15,387
Bombshells	1,573	119
Other	(207)	(119)
General corporate	(5,456)	(4,255)
	$ 9,686	$ 11,132
Depreciation and amortization		
Nightclubs	$ 1,470	$ 1,507
Bombshells	417	292
Other	104	104
General corporate	213	150
	$ 2,204	$ 2,053
Capital expenditures		
Nightclubs	$ 2,332	$ 447
Bombshells	1,725	4,009
Other	-	9
General corporate	1	2,830
	$ 4,058	$ 7,295

	December 31, 2019	September 30, 2019
Total assets		
Nightclubs	$ 292,966	$ 274,071
Bombshells	51,567	44,144
Other	1,853	1,773
General corporate	29,787	33,649
	$ 376,173	$ 353,637

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.

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 December 31, 2019 and September 30, 2019 is $86.3 million and $86.8 million, respectively.

Included in the $2.35 million borrowing on November 1, 2018 was a $500,000 note borrowed from a related party (Ed Anakar, an employee of the Company and brother of our director Nourdean Anakar). The terms of this related party note are the same as the rest of the lender group in the November 1, 2018 transaction.

We used the services of Sherwood Forest Creations, LLC, a furniture fabrication company that manufactures tables, chairs and other furnishings for our Bombshells locations, as well as providing ongoing maintenance. Sherwood Forest is owned by a brother of Eric Langan. Amounts billed to us for goods and services provided by Sherwood Forest were $19,144 and $9,743 during the quarter ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and September 30, 2019, we owed Sherwood Forest $6,347 and $6,588, respectively, in unpaid billings.

TW Mechanical LLC (“TW Mechanical”) provided plumbing and HVAC services to both a third-party general contractor providing construction services to the Company, as well as directly to the Company during fiscal 2020 and 2019. A son-in-law of Eric Langan owns a noncontrolling interest in TW Mechanical. Amounts billed by TW Mechanical to the third-party general contractor were $11,827 and $76,300 for the quarter ended December 31, 2019 and 2018, respectively. Amounts billed directly to the Company were $1,825 and $0 for the quarter ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and September 30, 2019, the Company owed TW Mechanical $206 and $0, respectively, in unpaid direct billings.

13. Leases

The Company leases certain facilities and equipment under operating leases. Under ASC 840, lease expense for the Company's operating leases, which generally have escalating rentals over the term of the lease, is recorded using the straight-line method over the initial lease term whereby an equal amount of lease expense is attributed to each period during the term of the lease, regardless of when actual payments are made. Generally, this results in lease expense in excess of cash payments during the early years of a lease and lease expense less than cash payments in the later years. The difference between lease expense recognized and actual lease payments is accumulated and included in other long-term liabilities in the consolidated balance sheets.

Included in lease expense in our unaudited condensed consolidated statements of income (see Note 4) were lease payments for a house that the Company's CEO rented to the Company for corporate housing for its out-of-town Bombshells management and trainers, of which lease expense totaled $19,500 and $19,500 for the quarter ended December 31, 2019 and 2018, respectively. This lease terminated on December 31, 2019.

Undiscounted future minimum annual lease obligations as of September 30, 2019 are as follows (in thousands):

2020	$	3,237
2021		3,154
2022		3,057
2023		2,889
2024		2,850
Thereafter		21,038
Total future minimum lease obligations	$	36,225

Included in the future minimum lease obligations are billboard and outdoor sign leases. These leases were recorded as advertising and marketing expenses, and included in selling, general and administrative expenses in our unaudited condensed consolidated statements of income. Under ASC 840, we recorded lease expense amounting to $1.0 million during the quarter ended December 31, 2018.

The Company adopted ASC 842 as of October 1, 2019. The Company's adoption of ASC 842 included renewal or termination options for varying periods which we deemed reasonably certain to exercise. This determination is based on our consideration of certain economic, strategic and other factors that we evaluate at lease commencement date and reevaluate throughout the lease term.

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

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

Our adoption of ASC 842 did not have a material impact on our lease revenue accounting as a lessor. See Note 3.

Future maturities of lease liabilities as of December 31, 2019 are as follows (in thousands):

	Principal Payments		Interest Payments		Total Payments	
January – December 2020	$	1,521	$	1,664	$	3,185
January – December 2021		1,658		1,568		3,226
January – December 2022		1,755		1,465		3,220
January – December 2023		1,674		1,361		3,035
January – December 2024		1,818		1,256		3,074
Thereafter		19,840		6,220		26,060
	$	28,266	$	13,534	$	41,800

Total lease expense, under ASC 842, was included in selling, general and administrative expenses in our unaudited condensed consolidated statement of income, except for sublease income which was included in other revenue, for the quarter ended December 31, 2019 as follows (in thousands):

Operating lease expense – fixed payments	$	842
Variable lease expense		65
Short-term equipment and other lease expense (includes $146 recorded in advertising and marketing, and $125 recorded in repairs and maintenance; see Note 4)		394
Sublease income		(2)
Total lease expense, net	$	1,299
Other information:		
Operating cash outflows from operating leases	$	1,255
Weighted average remaining lease term		13 years
Weighted average discount rate		6.1%

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, 2019.

Overview

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

Through our subsidiaries, as of December 31, 2019, we operated a total of 47 establishments that offer live adult entertainment and/or restaurant and bar operations. 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 other operating segments 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.

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, including investment impairment. These estimates are based on management's historical industry experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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, 2019 filed with the SEC on February 13, 2020.

We adopted ASC 842, *Leases*, as of October 1, 2019. Our adoption of ASC 842 resulted in an increase of $27.3 million in our total assets as of the adoption date due to the recognition of operating lease right-of-use assets net of the reclassification of deferred rent liability of $1.2 million and an increase in total liabilities due to the recognition of a $28.6 million operating lease liabilities.

During the quarter ended December 31, 2019, there were no significant changes in our accounting policies and estimates other than the newly adopted accounting standards that are disclosed in Note 2 to our unaudited condensed consolidated financial statements.

Results of Operations

Highlights of the operating results of the Company during the quarter ended December 31, 2019 are as follows:

- Total revenues were $48.4 million compared to $44.0 million during the comparable prior-year period, a 9.9% increase (Nightclubs revenue of $37.9 million compared to $37.7 million, a 0.3% increase; and Bombshells revenue of $10.4 million compared to $6.0 million, a 72.1% increase)

- Consolidated same-store sales increased by 0.7% (1.8% decrease for Nightclubs and 19.2% increase for Bombshells)

- Basic and diluted earnings per share ("EPS") of $0.60 compared to $0.65, a 7.7% decrease (non-GAAP diluted EPS* of $0.62 compared to $0.61, a 1.6% increase)

- Net cash provided by operating activities of $10.3 million compared to $11.5 million during the comparable prior-year period, a 10.3% decrease (free cash flow* of $9.3 million compared to $11.1 million, a 16.5% 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 for the quarter ended December 31, 2019 and 2018 (dollars in thousands):

	For the Three Months Ended					
	December 31, 2019		December 31, 2018		Increase (Decrease)	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
Revenues						
Sales of alcoholic beverages	$ 20,743	42.9%	$ 18,310	41.6%	$ 2,433	13.3%
Sales of food and merchandise	7,447	15.4%	5,690	12.9%	1,757	30.9%
Service revenues	17,193	35.5%	17,331	39.4%	(138)	-0.8%
Other	3,011	6.2%	2,692	6.1%	319	11.8%
Total revenues	48,394	100.0%	44,023	100.0%	4,371	9.9%
Operating expenses						
Cost of goods sold						
Alcoholic beverages sold	4,146	20.0%	3,736	20.4%	410	11.0%
Food and merchandise sold	2,553	34.3%	1,984	34.9%	569	28.7%
Service and other	77	0.4%	92	0.5%	(15)	-16.3%
Total cost of goods sold (exclusive of items shown separately below)	6,776	14.0%	5,812	13.2%	964	16.6%
Salaries and wages	13,223	27.3%	12,096	27.5%	1,127	9.3%
Selling, general and administrative	16,531	34.2%	14,027	31.9%	2,504	17.9%
Depreciation and amortization	2,204	4.6%	2,053	4.7%	151	7.4%
Other gains, net	(26)	-0.1%	(1,097)	-2.5%	(1,071)	-97.6%
Total operating expenses	38,708	80.0%	32,891	74.7%	5,817	17.7%
Income from operations	9,686	20.0%	11,132	25.3%	(1,446)	-13.0%
Other income (expenses)						
Interest expense	(2,485)	-5.1%	(2,521)	-5.7%	(36)	-1.4%
Interest income	98	0.2%	51	0.1%	47	92.2%
Unrealized loss on equity securities	(72)	-0.1%	(447)	-1.0%	(375)	-83.9%
Income before income taxes	7,227	14.9%	8,215	18.7%	(988)	-12.0%
Income tax expense	1,593	3.3%	1,811	4.1%	(218)	-12.0%
Net income	$ 5,634	11.6%	$ 6,404	14.5%	$ (770)	-12.0%

* 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 increased by $4.4 million, or 9.9%, due primarily to a 10.7% increase from new units, a 0.7% increase in same-store sales (contributing a 0.6% increase in total revenues), and a 1.4% decrease from closed units. Nightclub same-store sales decreased by 1.8%, while Bombshells same-store sales increased by 19.2%.

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

	For the Three Months Ended December 31,	
	2019	2018
Nightclubs	$ 37,859	$ 37,728
Bombshells	10,350	6,013
Other	185	282
	$ 48,394	$ 44,023

Nightclubs same-store sales decreased by 1.8% during the quarter (contributing a 1.6% decrease in total Nightclubs revenues) due to the fact that there were three full weeks between Thanksgiving and Christmas in the current quarter versus four in the comparable prior-year period. These weeks are typically a large seasonal period for Nightclubs. New clubs contributed a 3.4% increase, while closed clubs contributed a 1.6% decrease in Nightclubs revenues.

Bombshells same-store sales increased by 19.2% during the quarter (contributing a 14.8% increase in total Bombshells revenues) benefitting from the pro baseball championship series. Four new Bombshells units, which are not yet included in the same-store sales base, contributed a 57.3% increase in segment revenues.

Operating Expenses

Total operating expenses, as a percent of revenues, increased to 80.0% from 74.7% from year-ago, with a $5.8 million increase, or 17.7%. Significant contributors to the changes in operating expenses are explained below.

Cost of goods sold increased by $964,000, or 16.6%, mainly due to the increase in sales from newly acquired clubs and newly constructed Bombshells. As a percent of total revenues, cost of goods sold increased to 14.0% from 13.2% mainly due to a decrease in sales mix of higher-margin service revenue and an increase in sales mix of lower-margin food revenue.

Salaries and wages increased by $1.1 million, or 9.3%, in line with the increase in total revenues. As a percent of total revenues, salaries and wages were 27.3% from 27.5% mainly due to relatively fixed corporate salaries.

Selling, general and administrative expenses increased by $2.5 million, or 17.9%, primarily due to increases in accounting and professional fees, taxes and permits, advertising and marketing, utilities, and repairs and maintenance. Accounting and professional fees increased due to the re-audit conducted by our external auditors, while taxes and permits, advertising and marketing, utilities, and repairs and maintenance increased due to increase in units. As a percent of total revenues, selling, general and administrative expenses increased to 34.2% from 31.9% mainly due to accounting and professional fees.

Our adoption of ASC 842 as of October 1, 2019 did not have an impact in our results of operations and cash flows for the quarter ended December 31, 2019. See Note 2 to our unaudited condensed consolidated financial statements.

Depreciation and amortization increased by $151,000, or 7.4% due to higher unit count from new units.

Other gains, net of $26,000 in the current quarter compared to a net gain of $1.1 million in the prior-year quarter was mainly due to the sale of two real estate properties and a business in the prior-year first quarter.

Income from Operations

For the quarter ended December 31, 2019 and 2018, our operating margin was 20.0% and 25.3%, respectively. The main drivers for the decrease in operating margin are discussed above, but more significantly from net other gains and accounting and professional fees.

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

	For the Three Months Ended December 31,	
	2019	2018
Nightclubs	$ 13,776	$ 15,387
Bombshells	1,573	119
Other	(207)	(119)
General corporate	(5,456)	(4,255)
	$ 9,686	$ 11,132

Operating margin for the Nightclubs segment was 36.4% and 40.8% for the quarter ended December 31, 2019 and 2018, respectively, while operating margin for Bombshells was 15.2% and 2.0%, respectively. The decrease in Nightclubs operating margin was mainly due to the change in net other gains, as discussed above. The increase in Bombshells operating margin was primarily due to the relief from pre-opening expenses in the prior-year quarter from Bombshells units that were under construction. Excluding net other gains, Nightclubs would have had non-GAAP operating margin of 36.6% and 37.8% for the quarter ended December 31, 2019 and 2018, respectively, which is mainly from higher taxes and permits and advertising and marketing, as discussed above. Bombshells does not have material non-GAAP adjustments during the current and prior-year quarters.

Non-Operating Items

Interest expense decreased by $36,000, or 1.4%.

Our total occupancy costs, defined as the sum of lease expense and interest expense, were 7.3% and 8.0% of revenue during the quarter ended December 31, 2019 and 2018, respectively. The lower occupancy costs in the current quarter were due to lower interest expense dollars in relation to revenues.

Income Taxes

Income tax expense was $1.6 million during the quarter ended December 31, 2019 compared to $1.8 million during the quarter ended December 31, 2018. The effective income tax rate was 22.0% for both quarters ended December 31, 2019 and 2018. Our effective tax rate for both years is affected by state taxes, permanent differences, and tax credits, including the FICA tip credit.

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) gains or losses on sale of businesses and assets, (c) gains or losses on insurance, and (d) settlement of lawsuits. We believe that excluding these items assists investors in evaluating period-over-period changes in our operating income and operating margin without the impact of items that are not a result of our day-to-day business and operations.

Non-GAAP Net Income and Non-GAAP Net Income per Diluted Share. We 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) gains or losses on sale of businesses and assets, (c) gains or losses on insurance, (d) unrealized gains or losses on equity securities, (e) settlement of lawsuits, and (f) 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 21.8% and 22.2% effective tax rate of the pre-tax non-GAAP income before taxes for the quarter ended December 31, 2019 and 2018, 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, and (g) settlement of lawsuits. 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 quarter ended December 31, 2019 and 2018 (in thousands, except per share amounts and percentages):

	For the Three Months Ended December 31,	
	2019	2018
Reconciliation of GAAP net income to Adjusted EBITDA		
Net income attributable to RCIHH common shareholders	$ 5,634	$ 6,344
Income tax expense	1,593	1,811
Interest expense, net	2,387	2,470
Settlement of lawsuits	24	60
Gain on sale of businesses and assets	(30)	(1,157)
Unrealized loss on equity securities	72	447
Gain on insurance	(20)	-
Depreciation and amortization	2,204	2,053
Adjusted EBITDA	$ 11,864	$ 12,028
Reconciliation of GAAP net income to non-GAAP net income		
Net income attributable to RCIHH common shareholders	$ 5,634	$ 6,344
Amortization of intangibles	156	156
Settlement of lawsuits	24	60
Gain on sale of businesses and assets	(30)	(1,157)
Unrealized loss on equity securities	72	447
Gain on insurance	(20)	-
Net income tax effect of adjustments above	(26)	110
Non-GAAP net income	$ 5,810	$ 5,960
Reconciliation of GAAP diluted earnings per share to non-GAAP diluted earnings per share		
Diluted shares	9,322	9,713
GAAP diluted earnings per share	$ 0.60	$ 0.65
Amortization of intangibles	0.02	0.02
Settlement of lawsuits	0.00	0.01
Gain on sale of businesses and assets	(0.00)	(0.12)
Unrealized loss on equity securities	0.01	0.05
Gain on insurance	(0.00)	-
Net income tax effect of adjustments above	(0.00)	0.01
Non-GAAP diluted earnings per share	$ 0.62	$ 0.61
Reconciliation of GAAP operating income to non-GAAP operating income		
Income from operations	$ 9,686	$ 11,132
Amortization of intangibles	156	156
Settlement of lawsuits	24	60
Gain on sale of businesses and assets	(30)	(1,157)
Gain on insurance	(20)	-
Non-GAAP operating income	$ 9,816	$ 10,191
Reconciliation of GAAP operating margin to non-GAAP operating margin		
Income from operations	20.0%	25.3%
Amortization of intangibles	0.3%	0.4%
Settlement of lawsuits	0.0%	0.1%
Gain on sale of businesses and assets	-0.1%	-2.6%
Gain on insurance	-0.0%	-
Non-GAAP operating margin	20.3%	23.1%

* 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 December 31, 2019, our cash and cash equivalents were approximately $13.2 million compared to $14.1 million at September 30, 2019. Because of the large volume of cash we handle, we have very stringent cash controls. As of December 31, 2019, we had negative working capital of $7.3 million compared to a negative working capital of $2.3 million as of September 30, 2019, excluding assets held for sale of $4.8 million and $2.9 million as of December 31, 2019 and September 30, 2019, respectively. We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. Our net cash provided by operating activities was $10.3 million for the quarter ended December 31, 2019 compared to $11.5 million for the quarter ended December 31, 2018. The near-term outlook for our business remains strong, and we expect to generate substantial cash flows from operations for the next 12 months from the issuance of this report. As a result of our expected cash flows from operations, we have significant flexibility to meet our financial commitments.

We have not recently raised capital through the issuance of equity securities. Instead, we use debt financing to lower our overall cost of capital and increase our return on stockholders' equity. We have a history of borrowing funds in private transactions and from sellers in acquisition transactions and have recently secured traditional bank financing on our new development projects and refinancing of our existing notes payable. We continue to have the ability to borrow funds at reasonable interest rates from those sources. We also have historically utilized these cash flows to invest in property and equipment, adult nightclubs and restaurants/sports bars.

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

	For the Three Months Ended December 31,	
	2019	2018
Operating activities	$ 10,273	$ 11,452
Investing activities	(2,718)	(19,518)
Financing activities	(8,493)	(273)
Net decrease in cash and cash equivalents	$ (938)	$ (8,339)

Cash Flows from Operating Activities

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

	For the Three Months Ended December 31,	
	2019	2018
Net income	$ 5,634	$ 6,404
Depreciation and amortization	2,204	2,053
Deferred tax expense (benefit)	(150)	458
Net change in operating assets and liabilities	2,173	3,029
Other	412	(492)
Net cash provided by operating activities	$ 10,273	$ 11,452

Net cash provided by operating activities decreased from year-to-year due primarily to the decrease in income from operations, excluding the impact of other gains, net.

Cash Flows from Investing Activities

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

	For the Three Months Ended December 31,	
	2019	2018
Additions to property and equipment	$ (4,058)	$ (7,295)
Acquisition of businesses, net of cash acquired	-	(13,500)
Proceeds from sale of businesses and assets	51	1,245
Proceeds from insurance	932	-
Proceeds from notes receivable	357	32
Net cash used in investing activities	$ (2,718)	$ (19,518)

Following is a breakdown of our additions to property and equipment for the quarter ended December 31, 2019 and 2018 (in thousands):

	For the Three Months Ended December 31,	
	2019	2018
New facilities and equipment	$ 3,037	$ 6,919
Maintenance capital expenditures	1,021	376
Total capital expenditures	$ 4,058	$ 7,295

The capital expenditures during the quarter ended December 31, 2019 were composed primarily of construction and development costs for two new Bombshells locations and the rehabilitation of a club that was damaged by fire, while the capital expenditures during the quarter ended December 31, 2018 were composed primarily of construction and development costs for four new Bombshells locations. Variances in capital expenditures are primarily due to the number and timing of new, remodeled, or reconcepted locations under construction.

Prior year acquisitions of $13.5 million relate to $7.5 million cash paid on the Pittsburgh club acquisition and the $6.0 million cash paid on the Chicago club acquisition.

Cash Flows from Financing Activities

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

	For the Three Months Ended December 31,	
	2019	2018
Proceeds from long-term debt	$ 318	$ 5,652
Payments on long-term debt	(2,081)	(5,279)
Purchase of treasury stock	(6,441)	(355)
Payment of dividends	(279)	(291)
Distribution to noncontrolling interests	(10)	-
Net cash used in financing activities	$ (8,493)	$ (273)

We purchased 332,671 shares of our common stock at an average price of $19.36 during the quarter ended December 31, 2019, while we purchased 14,111 shares of our common stock at an average price of $25.21 during the same period last year. We paid quarterly dividends of $0.03 per share during each of the current- and prior-year quarters.

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.

	For the Three Months Ended December 31,	
	2019	2018
Net cash provided by operating activities	$ 10,273	$ 11,452
Less: Maintenance capital expenditures	1,021	376
Free cash flow	$ 9,252	$ 11,076

Our free cash flow for the current-year quarter decreased by 16.5% compared to the comparable prior-year period primarily due to lower income from operations and capital expenditures remodeling of an older Bombshells unit and on upgrades in our Miami clubs in preparation for the pro football championship.

Other than the notes payable financing described above, we are not aware of any event or trend that would potentially significantly affect liquidity. In the event such a trend develops, we believe our working capital and capital expenditure requirements will be adequately met by cash flows from operations. In our opinion, working capital is not a true indicator of our financial status. Typically, businesses in our industry carry current liabilities in excess of current assets because businesses in our industry receive substantially immediate payment for sales, with nominal receivables, while inventories and other current liabilities normally carry longer payment terms. Vendors and purveyors often remain flexible with payment terms, providing businesses in our industry with opportunities to adjust to short-term business down turns. 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 quarter ended December 31:

	2019	Increase (Decrease)	2018	Increase (Decrease)	2017
Sales of alcoholic beverages	$ 20,743	13.3%	$ 18,310	2.8%	$ 17,805
Sales of food and merchandise	7,447	30.9%	5,690	7.2%	5,307
Service revenues	17,193	-0.8%	17,331	9.1%	15,889
Other	3,011	11.8%	2,692	21.8%	2,211
Total revenues	48,394	9.9%	44,023	6.8%	41,212
Net cash provided by operating activities	$ 10,273	-10.3%	$ 11,452	40.6%	$ 8,145
Adjusted EBITDA*	$ 11,864	-1.4%	$ 12,028	8.4%	$ 11,094
Free cash flow*	$ 9,252	-16.5%	$ 11,076	47.0%	$ 7,537
Long-term debt (end of period)	$ 141,826	-7.4%	$ 153,095	21.5%	$ 125,992

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

Share Repurchase

We purchased 332,671 shares of our common stock at an average price of $19.36 during the quarter ended December 31, 2019, while we purchased 14,111 shares of our common stock at an average price of $25.21 during the same period last year. In February 2020, the Company's Board of Directors authorized an additional $10.0 million to repurchase the Company's common stock. As of February 25, 2020, we have $13.8 million remaining to purchase additional shares under our share repurchase program.

Other Liquidity and Capital Resources

We have not established financing other than the notes payable in the consolidated balance sheets. 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.

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

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

Impact of Inflation

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

Seasonality

Our nightclub operations are affected by seasonal factors. Historically, we have experienced reduced revenues from April through September (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 the circumstances warrant. We calculate free cash flow as net cash flows from operating activities minus maintenance capital expenditures. Using the after-tax yield of buying our own stock as baseline, management believes that we are able to make better investment decisions.

Based on our current capital allocation strategy:

- We consider buying back our own stock if the after-tax yield on free cash flow is above 10%;

- We consider disposing of underperforming units to free up capital for more productive use;

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

We believe that Bombshells can grow organically and through careful entry into markets and demographic segments with high growth potential. All nine of the existing Bombshells as of December 31, 2019 are located in Texas. Our growth strategy is to diversify our operations with these units which do not require SOB licenses, which are sometimes difficult to obtain. While we are searching for adult nightclubs to acquire, we are able to also search for restaurant/sports bar locations that are consistent with our income targets.

We opened one Bombshells unit during the quarter ended December 31, 2019. In January 2020, subsequent to the quarter ended December 31, 2019, we opened another Bombshells unit.

On November 5, 2019, the Company announced that its subsidiaries have signed definitive agreements to acquire the assets and related real estate of a well-established, top gentlemen's club located in the Northeast Corridor for $15.0 million. Under the terms of the agreements, Company subsidiaries will pay $7.2 million for the club and $7.8 million for the real estate using $4.0 million in seller financing at 6.0% for the club with the balance of cash from an anticipated $11.0 million bank loan at a blended rate of 6.25%. As of the filing of this report, closing of this transaction is still pending subject to certain conditions.

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 December 31, 2019, 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, 2019.

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 December 31, 2019, 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 December 31, 2019. 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 weaknesses 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 these issues.

Previously Reported Material Weakness in Internal Control Over Financial Reporting

In our Annual Report for the year ended September 30, 2019, filed with the SEC on February 13, 2020, management concluded that our internal control over financial reporting was not effective as of September 30, 2019. In the evaluation, management identified a material weakness in internal control related to ineffective financial statement close and reporting controls in the areas of management review of financial statement information, independent review of journal entries, disclosure of related party transactions, and accounting for loss contingencies.

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. Management has been implementing, and continues to implement, measures designed to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively.

To address the material weakness, management has completed, or is in the process of:

- developing policies and procedures to enhance the precision of management review of financial statement information;
- implementing policies and procedures to enhance independent review of journal entries;
- developing and implementing procedures to ensure the completeness of related party disclosures; and
- developing and implementing procedures related to the identification and accounting for loss contingencies.

We believe that these actions will remediate the material weakness. The material weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control Over Financial Reporting

Other than as described above, no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2019 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 9 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, 2019, except for such risks and uncertainties that may result from the additional disclosure in the "Legal Matters" section within Note 9 of the unaudited condensed consolidated financial statements within this Quarterly Report on Form 10-Q, which information is incorporated herein by reference, as well as such risks and uncertainties associated with the Company's ability to regain and maintain compliance with the filing requirements of the SEC and the Nasdaq Stock Market. 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.

In September 2008, our Board of Directors authorized us to repurchase up to $5.0 million worth of our common stock in the open market or in privately negotiated transactions. As of April 2013, we completed the repurchase of all $5.0 million in stock authorized under this plan. In April 2013, our Board of Directors authorized us to repurchase up to an additional $3.0 million worth of our common stock, and in May 2014, our Board of Directors increased the repurchase authorization by another $7.0 million. In May 2016, the Board of Directors increased the repurchase authorization by an additional $5.0 million. In January 2019, the Board of Directors increased the repurchase authorization by an additional $10.0 million. During the quarter ended December 31, 2019, we purchased 332,671 shares of our common stock in the open market at prices ranging from $18.30 to $20.80 per share. In February 2020, the Board of Directors increased the repurchase authorization by an additional $10.0 million. As of February 25, 2020, we have $13.8 million remaining to purchase additional shares.

Following is a summary of our purchases during the quarter ended December 31, 2019:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)(2)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet be Purchased Under the Plans or Programs
October 1-31, 2019	269,851	$ 19.44	269,851	$ 4,993,004
November 1-30, 2019	52,820	$ 19.13	52,820	$ 3,982,734
December 1-31, 2019	10,000	$ 18.47	10,000	$ 3,798,030
Total	332,671	$ 19.36	332,671	

(1) All shares were purchased pursuant to the repurchase plans approved by the Board of Directors, as described above.

(2) Prices include any commissions and transaction costs.

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.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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: February 27, 2020	By: */s/ Eric S. Langan*
	Eric S. Langan Chief Executive Officer and President
Date: February 27, 2020	By: */s/ Phillip K. Marshall*
	Phillip K. Marshall Chief Financial Officer and Principal Accounting Officer

EXHIBIT 31.1

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

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

1. I have reviewed this quarterly report on Form 10-Q of RCI Hospitality Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

By: */s/ Eric S. Langan*
Eric S. Langan
Chief Executive Officer and President

EXHIBIT 31.2

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

I, Phillip K. Marshall, Chief Financial Officer of RCI Hospitality Holdings, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of RCI Hospitality Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

By: */s/ Phillip K. Marshall*
Phillip K. Marshall
Chief Financial Officer and Principal Accounting Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of RCI Hospitality Holdings, Inc. (the "Company") on Form 10-Q for the fiscal period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, the Chief Executive Officer and the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on our knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of and for the periods covered in the Report.

/s/ Eric S. Langan
Eric S. Langan
Chief Executive Officer
February 27, 2020

/s/ Phillip K. Marshall
Phillip K. Marshall
Chief Financial Officer
February 27, 2020

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

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