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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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
(State or other jurisdiction of
incorporation or organization)

76-0458229
(I.R.S. Employer Identification No.)

10959 Cutten Road
Houston, Texas 77066
(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of April 30, 2015, 10,252,127 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, in 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 affects on our financial condition and results of operations include, but are not limited to, the risks and uncertainties related to our future operational and financial results, competitive factors, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, our dependence on key personnel, the ability to manage operations and the future operational strength of management, and the laws governing the operation of adult entertainment businesses. 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,” “RCIHH,” “we,” “our,” and similar terms include RCI Hospitality Holdings, Inc. and its subsidiaries, unless the context indicates otherwise.

RCI HOSPITALITY HOLDINGS, INC.
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

RCI HOSPITALITY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETSASSETS

(in thousands, except per share data)	March 31, 2015 (UNAUDITED)	September 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,661	\$ 9,964
Accounts receivable:		
Trade, net	2,635	1,060
Other, net	762	685
Marketable securities	609	596
Inventories	2,426	1,879
Deferred tax asset	7,041	5,378
Prepaid expenses and other current assets	3,342	3,789
Total current assets	30,476	23,351
Property and equipment, net	117,558	113,962
Other assets:		
Goodwill	43,425	43,374
Indefinite lived intangibles	56,175	53,968
Definite lived intangibles	10,471	675
Other	2,367	3,812
Total other assets	112,438	101,829
Total assets	\$ 260,472	\$ 239,142

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>(in thousands, except per share data)</u>	March 31, 2015 <u>(UNAUDITED)</u>	September 30, 2014
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,189	\$ 2,198
Accrued liabilities	17,336	9,195
Texas patron tax liability	17,057	15,486
Current portion of long-term debt	8,590	12,315
Total current liabilities	<u>46,172</u>	<u>39,194</u>
Deferred tax liability	29,594	27,688
Other long-term liabilities	908	924
Long-term debt	<u>62,952</u>	<u>58,037</u>
Total liabilities	139,626	125,843
Commitments and contingencies		
PERMANENT STOCKHOLDERS' EQUITY:		
Preferred stock, \$.10 par, 1,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.01 par, 20,000 shares authorized; 10,252 and 10,067 shares issued and outstanding, respectively	103	101
Additional paid-in capital	70,391	66,727
Accumulated other comprehensive income	104	91
Retained earnings	<u>43,888</u>	<u>43,370</u>
Total RCIHH permanent stockholders' equity	114,486	110,289
Noncontrolling interests	<u>6,360</u>	<u>3,010</u>
Total permanent stockholders' equity	120,846	113,299
Total liabilities and stockholders' equity	<u>\$ 260,472</u>	<u>\$ 239,142</u>

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<u>(in thousands, except per share data)</u>	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2015	2014	2015	2014
	(UNAUDITED)		(UNAUDITED)	
Revenues:				
Sales of alcoholic beverages	\$ 15,576	\$ 12,985	\$ 30,815	\$ 24,674
Sales of food and merchandise	5,241	3,979	10,466	7,402
Service revenues	14,559	14,347	28,783	27,077
Other	2,034	1,559	3,833	3,140
Total revenues	<u>37,410</u>	<u>32,870</u>	<u>73,897</u>	<u>62,293</u>
Operating expenses:				
Cost of goods sold	5,381	4,041	10,492	7,788
Salaries and wages	8,115	6,854	16,147	13,431
Stock compensation	120	151	240	154
Other general and administrative:				
Taxes and permits	5,709	5,142	11,102	9,557
Charge card fees	544	449	1,091	877
Rent	1,184	1,156	2,325	2,384
Legal and professional	1,064	426	2,023	1,214
Advertising and marketing	1,312	1,406	2,679	2,691
Insurance	801	972	1,621	1,771
Utilities	708	646	1,442	1,241
Depreciation and amortization	1,886	1,513	3,531	2,906
(Gain) loss on sale of property	(18)	(86)	(18)	(86)
Impairment of assets	-	-	1,358	-
Settlement of lawsuits and other one time costs	10,303	150	10,550	270
Other	2,917	2,591	5,790	5,022
Total operating expenses	<u>40,026</u>	<u>25,411</u>	<u>70,373</u>	<u>49,220</u>
Operating income (loss)	(2,616)	7,459	3,524	13,073
Other income (expense):				
Interest income	26	35	39	112
Interest expense	(1,783)	(1,924)	(3,402)	(3,936)
Gain from original investment in Drink Robust, Inc.	-	-	577	-
Income (loss) before income taxes	(4,373)	5,570	738	9,249
Income taxes (benefit)	(1,265)	1,922	581	3,245
Net income (loss)	(3,108)	3,648	157	6,004
Less: net (income) loss attributable to noncontrolling interests	267	74	362	121
Net income (loss) attributable to RCI Hospitality Holdings, Inc.	<u>\$ (2,841)</u>	<u>\$ 3,722</u>	<u>\$ 519</u>	<u>\$ 6,125</u>
Basic earnings (loss) per share attributable to RCIHH shareholders:				
Net income	\$ (0.28)	\$ 0.39	\$ 0.05	\$ 0.64
Diluted earnings (loss) per share attributable to RCIHH shareholders:				
Net income	\$ (0.28)	\$ 0.37	\$ 0.05	\$ 0.62
Weighted average number of common shares outstanding:				
Basic	10,275	9,661	10,269	9,604
Diluted	10,275	10,853	10,273	10,763

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2015	2014	2015	2014
	(UNAUDITED)		(UNAUDITED)	
Net income (loss)	\$ (3,108)	\$ 3,648	\$ 157	\$ 6,004
Other comprehensive income:				
Unrealized holding gain (loss) on securities available for sale	5	18	13	18
Comprehensive income (loss)	(3,103)	3,666	170	6,022
Comprehensive (income) loss attributable to noncontrolling interests	267	74	362	121
Comprehensive income (loss) to common stockholders	<u>\$ (2,836)</u>	<u>\$ 3,740</u>	<u>\$ 532</u>	<u>\$ 6,143</u>

RCI HOSPITALITY HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, except per share data)

FOR THE SIX MONTHS
ENDED MARCH 31,

2015 2014

(UNAUDITED)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 157	\$ 6,004
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	3,531	2,906
Deferred taxes	1,461	734
Impairment of assets	1,358	-
Amortization of note discount	33	44
(Gain) from original investment in Drink Robust	(577)	-
Deferred rents	(16)	(16)
Beneficial conversion	5	-
Stock compensation expense	240	154
Changes in operating assets and liabilities:		
Accounts receivable	(2,844)	(746)
Inventories	(428)	(300)
Prepaid expenses and other assets	2,782	(2,107)
Accounts payable and accrued liabilities	7,417	4,924
Cash provided by operating activities	13,119	11,597
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(2,869)	(8,198)
Acquisition of development rights in New York building	-	(5,325)
Acquisition of businesses, net of cash acquired	(1,244)	(500)
Net cash used by investing activities	(4,113)	(14,023)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(8,234)	(4,335)
Proceeds from long-term debt	4,958	7,025
Exercise of stock options	-	844
Purchase of treasury stock	(1,925)	-
Distribution to noncontrolling interests	(108)	(108)
Cash provided by (used in) financing activities	(5,309)	3,426
NET INCREASE IN CASH	3,697	1,000
CASH AT BEGINNING OF PERIOD	9,964	10,638
CASH AT END OF PERIOD	\$ 13,661	\$ 11,638
CASH PAID DURING PERIOD FOR:		
Interest	\$ 3,078	\$ 3,375
Income taxes	\$ 1,724	\$ 475

See accompanying notes to consolidated financial statements.

Non-cash transactions and other:

During the six months ended March 31, 2015, the Company incurred \$1.4 million in seller-financed long-term debt in connection with the acquisition of real estate.

During the six months ended March 31, 2015, the Company converted debt principal and interest valued at \$1.8 million into 177,018 common shares.

During the six months ended March 31, 2015, the Company purchased and retired 192,427 common treasury shares. The cost of these shares was \$1.9 million.

During the six months ended March 31, 2015, the Company issued 200,000 shares of common stock for the acquisition of a controlling interest in Drink Robust, Inc.

During the six months ended March 31, 2014, the Company incurred \$4.3 million in seller-financed long-term debt in connection with the acquisition of real estate and an aircraft.

During the six months ended March 31, 2014, the Company converted debt principal and interest valued at \$1.1 million into 113,750 common shares.

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2015
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("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 accounting principles generally accepted in the United States of America for complete financial statements. 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, 2014 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-K. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the six months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015.

2. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENT

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of our pending adoption of ASU 2014-09 on its consolidated financial statements and have not yet determined the method by which it will adopt the standard in fiscal year 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

Following are certain remarkable accounting principles and disclosures.

Fair Value Accounting

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

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

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

RCI HOSPITALITY HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2015
(UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Fair Value Accounting

The Company classifies its marketable securities as available-for-sale, which are reported at fair value. Unrealized holding gains and losses, net of the related income tax effect, if any, on available-for-sale securities are excluded from income and are reported as accumulated other comprehensive income in stockholders' equity. Realized gains and losses from securities classified as available-for-sale are included in income.

The Company measures the fair value of its marketable securities based on quoted prices for identical securities in active markets, or Level 1 inputs. As of March 31, 2015, available-for-sale securities consisted of the following:

(in thousands) Available for Sale	Cost Basis	Gross Unrealized Gains	Fair Value
Tax-Advantaged Bond Fund	\$ 505	\$ 104	\$ 609

The Company reviews its marketable securities to determine whether a decline in fair value of a security below the cost basis is other than temporary. Should the decline be considered other than temporary, the Company writes down the cost basis of the security and include the loss in current earnings as opposed to an unrealized holding loss. No losses were recognized during the quarter ended March 31, 2015.

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

(in thousands) March 31, 2015	Carrying Amount	Level 1	Level 2	Level 3
Marketable securities	\$ 609	\$ 609	\$ -	\$ -

(in thousands) September 30, 2014	Carrying Amount	Level 1	Level 2	Level 3
Marketable securities	\$ 555	\$ 555	\$ -	\$ -

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

RCI HOSPITALITY HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2015
(UNAUDITED)

4. STOCK OPTIONS AND STOCK-BASED EMPLOYEE COMPENSATION

Employee and Director Stock Option Plans

In 1995, the Company adopted the 1995 Stock Option Plan (the "1995 Plan") for employees and directors. In August 1999, the Company adopted the 1999 Stock Option Plan (the "1999 Plan") and in 2010, the Company's Board of Directors approved the 2010 Stock Option Plan (the "2010 Plan") (collectively, "the Plans"). The 2010 Plan was approved by the shareholders of the Company at the 2011 Annual Meeting of Shareholders. The options granted under the Plans may be either incentive stock options, or non-qualified options. The Plans are administered by the Board of Directors or by a compensation committee of the Board of Directors. The Board of Directors has the exclusive power to select individuals to receive grants, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price equal to at least 85% of the fair market value of the common stock covered by the option on the grant date and to make all determinations necessary or advisable under the Plans.

The compensation costs recognized for the three months ended March 31, 2015 and 2014 were \$120,012 and \$150,605, respectively, and were \$240,024 and \$153,527 for the six months then ended, respectively. There were 100,000 stock option exercises during the quarter ended March 31, 2014, aggregating \$843,600. There were no stock option grants or exercises for the three and six months ended March 31, 2015.

Stock Option Activity

The following is a summary of all stock option transactions for the six months ended March 31, 2015:

(in thousands, except for per share and year information)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2014	10	\$ 8.70		
Granted	-	-		
Cancelled or expired	-	-		
Exercised	-	8.70		
Outstanding as of March 31, 2015	<u>10</u>	<u>\$ 8.70</u>	<u>0.25</u>	<u>\$ 17</u>
Options exercisable as of March 31, 2015	<u>10</u>	<u>\$ 8.70</u>	<u>0.25</u>	<u>\$ 17</u>

5. GOODWILL AND OTHER INTANGIBLES

Following are the changes in the carrying amounts of goodwill and licenses for the six months ended March 31, 2015 and 2014:

(in thousands)	2015			2014		
	Definite- Lived Intangibles	Licenses	Goodwill	Definite- Lived Intangibles	Licenses	Goodwill
Beginning balance	\$ 729	\$ 53,968	\$ 43,374	\$ 1,065	\$ 54,966	\$ 43,987
Intangibles acquired	10,375	3,565	-	-	-	-
Impairment	-	(1,358)	-	-	-	-
Other	(633)	-	51	(171)	265	-
Ending balance	<u>\$ 10,471</u>	<u>\$ 56,175</u>	<u>\$ 43,425</u>	<u>\$ 894</u>	<u>\$ 55,231</u>	<u>\$ 43,987</u>

During the six months ended March 31, 2015, we have recorded an impairment of \$1.4 million for the indefinite-lived intangible assets at our Temptations Cabaret in Lubbock.

RCI HOSPITALITY HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2015
(UNAUDITED)

6. LONG-TERM DEBT

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

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

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

In December 2014, the Company borrowed \$2.0 million from a lender. The 12% note is collateralized by a certain subsidiary's stock and is payable interest only until it matures in three years.

On October 15, 2013, the Company sold to certain investors (i) 9% Convertible Debentures with an aggregate principal amount of \$4,525,000 (the "Debentures"), under the terms and conditions set forth in the Debentures, and (ii) warrants to purchase a total of 72,400 shares of the Company's common stock (the "Warrants"), under the terms and conditions set forth in the Warrants. Each of the Debentures has a term of three years, is convertible into shares of our common stock at a conversion price of \$12.50 per share (subject to adjustment), and has an annual interest rate of 9%, with one initial payment of interest only due April 15, 2014. Thereafter, the principal amount is payable in 10 equal quarterly principal payments, which amounts to a total of \$452,500, plus accrued and unpaid interest. Six months after the issue date of the Debentures, we have the right to redeem the Debentures if the Company's common stock has a closing price of \$16.25 (subject to adjustment) for 20 consecutive trading days. The Warrants have an exercise price of \$12.50 per share (subject to adjustment) and expire on October 15, 2016. In the event there is an effective registration statement registering the shares of common stock underlying the Warrants, we have the right to require exercise of the Warrants if our common stock has a closing price of \$16.25 (subject to adjustment) for 20 consecutive trading days. The Company sold the Debentures and Warrants to the investors in a private transaction and received consideration of \$4,525,000. An adviser to the Company received compensation in the amount of \$271,500 in connection with advising the Company regarding the sale of the Debentures and Warrants.

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

Volatility	28.4%
Expected life	1.5 years
Expected dividend yield	-
Risk free rate	.33%

The cost of the warrants has been recognized as a discount on the related debt and was amortized over the life of the debt.

In October 2013 the Company borrowed \$2.5 million from an individual. The note is collateralized by a second lien on the Company's Miami nightclub, bears interest at 13% and interest only is payable monthly until the principal matures in 36 months.

In December 2013 the Company purchased an aircraft for \$4.3 million which was partially financed by a \$3.6 million note to a bank. The note is payable \$40,654 monthly, including interest at 7.45% until February 2017 when the entire principal balance becomes due.

7. COMMON STOCK

During the six months ended March 31, 2015, the Company purchased and retired 192,427 common treasury shares. The cost of these shares was \$1.9 million.

During the six months ended March 31, 2015, the Company converted debt principal and interest valued at \$1.8 million into 177,018 common shares.

During the quarter ended December 31, 2014, the Company issued 200,000 shares of common stock for the acquisition of a controlling interest in Drink Robust, Inc.

RCI HOSPITALITY HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2015
(UNAUDITED)

8. EARNINGS PER SHARE (EPS)

The Company computes earnings per share in accordance with GAAP, which provides for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of the Company.

Potential common stock shares consist of shares that may arise from outstanding dilutive common stock warrants and options (the number of which is computed using the "treasury stock method") and from outstanding convertible debentures (the number of which is computed using the "if converted method").

Diluted EPS considers the potential dilution that could occur if the Company's outstanding common stock options, warrants and convertible debentures were converted into common stock that then shared in the Company's earnings (as adjusted for interest expense) that would no longer occur if the debentures were converted).

	FOR THE QUARTER ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2015	2014	2015	2014
Basic earnings per share:				
Net income (loss) attributable to RCIHH's shareholders	\$ (2,841)	\$ 3,722	\$ 519	\$ 6,125
Average number of common shares outstanding	10,275	9,661	10,269	9,604
Basic earnings (loss) per share - net income attributable to RCIHH's shareholders	\$ (0.28)	\$ 0.39	\$ 0.05	\$ 0.64
Diluted earnings per share:				
Net income (loss) attributable to RCIHH's shareholders	\$ (2,841)	\$ 3,722	\$ 519	\$ 6,125
Adjustment to net earnings from assumed conversion of debentures (1)	-	250	-	490
Adjusted net income (loss) attributable to RCIHH's shareholders	\$ (2,841)	\$ 3,972	\$ 519	\$ 6,615
Average number of common shares outstanding:				
Common shares outstanding	10,275	9,661	10,269	9,604
Potential dilutive shares resulting from exercise of warrants and options (2)	-	176	4	173
Potential dilutive shares resulting from conversion of debentures (3)	-	1,016	-	986
Total average number of common shares outstanding used for dilution	10,275	10,853	10,273	10,763
Diluted earnings (loss) per share - net income attributable to RCIHH's shareholders	\$ (0.28)	\$ 0.37	\$ 0.05	\$ 0.62

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

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

(3) Convertible debentures (principal and accrued interest) outstanding at March 31, 2015 and 2014 totaling \$6.0 million and \$11.3 million, respectively, were convertible into common stock at a price of \$10.00 to \$12.50 per share each year. No potential dilutive shares for each of the three and six month periods ended March 31, 2014 have been excluded from earnings per share due to being anti-dilutive. During the three and six month periods ended March 31, 2015, 524,194 shares have been excluded from earnings per share due to being anti-dilutive each period.

* EPS may not foot due to rounding.

9. ACQUISITIONS

2015

On October 30, 2014, a 51% owned subsidiary of the Company ("Robust") acquired certain assets and liabilities of Robust Energy LLC for \$200,000 in cash and 200,000 shares of its restricted common stock for a total purchase price of \$5.0 million. The Company has also agreed to issue 50,000 shares of RCIHH common stock to the two principals of Robust Energy LLC if Robust has net income of at least \$1 million during the 2015 calendar year. The principals entered into a Lock-Up Agreement with the Company in connection with the issuance by the Company of its shares of common stock as explained above, which will provide that none of the shares will be sold for a period of one year after the date of issuance and, thereafter, neither principal will sell more than 1/6th of their respective shares per month that they receive in connection herewith. Robust is an energy drink distributor, targeting the on premises bar and mixer market.

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

(in thousands)	
Inventory and accounts receivable	\$ 501
Equipment, furniture and fixture	356
Definite-lived intangible	10,275
Accounts payable	(1,196)
Notes payable	(963)
Noncontrolling interest	(3,888)
Net assets	\$ 5,085

In accordance with GAAP, the Company recorded a gain of approximately \$577,000 on the value of its earlier 15% investment in this company.

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

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9. ACQUISITIONS - continued

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

(in thousands)	
Buildings and land	\$ 3,130
Furniture and fixtures	20
Inventory	4
SOB license	3,566
Noncompete	100
Net assets	<u>\$ 6,820</u>

10. INCOME TAXES

Income tax expense on continuing operations for the periods presented differs from the "expected" federal income tax expense computed by applying the U.S. federal statutory rate of 34% to earnings before income taxes for the three and six months ended March 31, as a result of the following:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2015	2014	2015	2014
Computed expected tax expense	\$ (1,487)	\$ 1,894	\$ 251	\$ 3,145
State income taxes	74	69	148	105
Permanent differences	(148)	(41)	182	(5)
Income tax expense	<u>\$ (1,265)</u>	<u>\$ 1,922</u>	<u>\$ 581</u>	<u>\$ 3,245</u>

Included in the Company's deferred tax liabilities at March 31, 2015 is approximately \$17.2 million representing the tax effect of indefinite lived intangible assets from club acquisitions which are not deductible for tax purposes. These deferred tax liabilities will remain in the Company's balance sheet until the related clubs are sold.

11. COMMITMENTS AND CONTINGENCIES

Legal Matters

Texas Patron Tax

Beginning January 1, 2008, the Company's Texas clubs became subject to a new state law requiring each club to collect and pay a \$5 surcharge for every club visitor. A lawsuit was filed by the Texas Entertainment Association ("TEA"), an organization to which the Company is a member, alleging the fee amounts to be an unconstitutional tax. On March 28, 2008, a State District Court Judge in Travis County, Texas ruled that the new state law violates the First Amendment to the United States Constitution and is therefore invalid. The judge's order enjoined the State from collecting or assessing the tax. The State appealed the Court's ruling. In Texas, when cities or the State give notice of appeal, it supersedes and suspends the judgment, including the injunction. Therefore, the judgment of the District Court cannot be enforced until the appeals are completed. Given the suspension of the judgment, the State gave notice of its right to collect the tax pending the outcome of its appeal but took no affirmative action to enforce that right. On June 5, 2009, the Court of Appeals for the Third District (Austin) affirmed the District Court's judgment that the Sexually Oriented Business ("S.O.B.") Fee violated the First Amendment to the U.S. Constitution but on August 26, 2011, the Texas Supreme Court reversed the judgment of the Court of Appeals, ruling that the SOB Fee does not violate the First Amendment to the U.S. Constitution, and remanded the case to the District Court to determine whether the fee violates the Texas Constitution.

TEA appealed the Texas Supreme Court's decision to the U.S. Supreme Court (regarding the constitutionality of the fee under the First Amendment of the U.S. Constitution), but the U.S. Supreme Court denied the appeal on January 23, 2012. Subsequently, the case was remanded to the District Court for consideration of the remaining issues raised by TEA. On June 28, 2012, the District Court in Travis County held a hearing on TEA's Texas Constitutional claims and on July 9, 2012 entered an order finding that the tax was a constitutional Occupations Tax. The Court denied the remainder of TEA's constitutional claims. TEA appealed the trial court's ruling to the Third Court of Appeals and on May 9, 2014, the Third Court of Appeals issued a ruling adverse to TEA and in favor of the State. TEA filed a petition for review to the Texas Supreme Court on July 17, 2014. The Texas Supreme Court denied TEA's petition for review on November 21, 2014. On February 5, 2015, TEA filed a petition for writ of certiorari with the United States Supreme Court. On March 23, 2015, the Supreme Court denied TEA's writ of certiorari.

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11. COMMITMENTS AND CONTINGENCIES - CONTINUED

The Company has not made any payments of these taxes since the first quarter of 2009, except as set forth below. However, based on the Court ruling, the Company will continue to accrue and expense the potential tax liability on its financial statements.

We also believe that, in the event of loss of the Patron Tax issue, the State of Texas would waive any penalties and allow us to pay out any liability over a reasonable amount of time. We have made plans for the payment of the lawsuit settlement and we believe that, in the event of a loss in the Patron Tax matter, we will be able to pay the remaining liabilities over time.

Since the inception of the tax, the Company has paid more than \$2 million to the State of Texas under protest for all four quarters of 2008 and the first quarter of 2009, expensing it in the consolidated financial statements (except for two locations in Dallas where the taxes have not been paid, but the Company is accruing and expensing the liability). For all subsequent quarters, as a result of the Third Court's 2009 decision, the Company has accrued the tax, but not paid the State. Accordingly, as of March 31, 2015, the Company has approximately \$17.1 million in accrued liabilities for this tax. Patron tax expense amounted to approximately \$805,000 and \$866,000 for the quarters ended March 31, 2015 and 2014, respectively. The Company's Texas clubs have filed a separate lawsuit against the State in which the Company raises additional challenges to the statute imposing the fee or tax, demanding repayment of the taxes the Company has paid under this statute. The courts have not yet addressed these additional claims. If the Company is successful in the remaining litigation, the amount the Company has paid under protest should be repaid or applied to any future, constitutional admission tax or other Texas state tax liabilities. The Company has employed special state tax counsel in Austin to negotiate settlement of the Patron Taxes. In connection with the negotiations, the Company has filed and paid the Patron Taxes for the quarter ended March 31, 2015. If settled, the lawsuit mentioned above will be dismissed.

New York Settlement

On April 1, 2015, we and our subsidiaries, RCI Entertainment (New York), Inc. and Peregrine Enterprises, Inc., entered into an agreement to settle in full a New York based federal wage and hour class action case filed in the United States District Court for the Southern District of New York. The settlement has been filed with the court for preliminary approval. Trial was scheduled to begin April 27, 2015. Under terms of the agreement, RCI Entertainment (New York), Inc. and Peregrine Enterprises, Inc. will make up to \$15 million available to class members and their attorneys. The actual amount paid will be determined based on the number of class members responding by the end of a three-month notice period, with final court approval expected sometime after that. Any unclaimed checks or payments will revert back to our subsidiaries. Based on the current schedule, an initial payment of \$1,833,333 will be made in approximately five months, with two subsequent payments of \$1,833,333 each being made in equal annual installments. As part of the settlement, we were required to guarantee the obligations of RCI Entertainment (New York), Inc. and Peregrine Enterprises, Inc. under the settlement.

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

In accordance with GAAP, the Company has accrued \$10.3 million as of March 31, 2015 as the estimated liability for its obligations under the settlement.

Indemnity Insurance

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, 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 in her capacity as receiver ("Receiver"). The order empowered the Receiver 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. Since the expiration of the order the lawsuits have resumed. We are funding 100% of the costs of litigation and will seek reimbursement from the bankruptcy receiver.

On April 10, 2014, the Court of Chancery of the State of Delaware entered a Liquidation and Injunction Order With Bar Date, which ordered the liquidation of IIC and terminated all insurance policies or contracts of insurance issued by IIC. The order further ordered that all claims against IIC must be filed with the Receiver before the close of business on January 16, 2015 and that all pending lawsuits involving IIC as the insurer are further stayed or abated until October 7, 2014. As a result, the Company and its subsidiaries no longer have insurance coverage under the liability policy with IIC. Currently, there are multiple civil lawsuits pending or threatened against the Company and its subsidiaries, and other potential lawsuits for incidents that occurred before October 25, 2013 could still be filed. The Company has retained counsel to evaluate and defend against these claims and lawsuits. It is unknown at this time what effect this liability exposure will have on the Company. The Company filed the appropriate claims against IIC with the Receiver before the January 16, 2015 deadline. There can be no assurance, however, of any recovery from these claims. The Company's new general liability coverage obtained from another insurer will cover any claims arising from actions after October 25, 2013.

Settlement of lawsuits and other one-time costs include no settlements during the quarters ended December 31, 2014 and 2013 in settlements with claimants which were unpaid by our general liability insurance carrier.

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12. SEGMENT INFORMATION

The Company is engaged in adult nightclubs and Bombshells Restaurants and Bars. The Company has identified such segments based on management responsibility and the nature of the Company's products, services and costs. There are no major distinctions in geographical areas served as all operations are in the United States. The Company measures segment profit (loss) as income (loss) from operations. Total assets are those assets controlled by each reportable segment. The other category below includes our media, Robust and internet divisions.

Below is the financial information related to the Company's segments:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Business segment sales:				
Night clubs	\$ 31,933	\$ 31,196	\$ 62,995	\$ 59,550
Bombshells	4,813	1,379	9,721	2,083
Other	664	295	1,181	660
	<u>\$ 37,410</u>	<u>\$ 32,870</u>	<u>\$ 73,897</u>	<u>\$ 62,293</u>
Business segment operating income:				
Night clubs	\$ 114	\$ 9,644	\$ 8,671	\$ 17,618
Bombshells	571	(12)	1,111	(317)
Other	(797)	(87)	(1,344)	(257)
General corporate	(2,504)	(2,086)	(4,914)	(3,971)
	<u>\$ (2,616)</u>	<u>\$ 7,459</u>	<u>\$ 3,524</u>	<u>\$ 13,073</u>
Business segment capital expenditures:				
Night clubs	\$ 710	\$ 813	\$ 675	\$ 4,365
Bombshells	676	1,735	1,553	3,151
Other	430	-	444	-
General Corporate	91	37	197	682
	<u>\$ 1,907</u>	<u>\$ 2,585</u>	<u>\$ 2,869</u>	<u>\$ 8,198</u>
Business segment depreciation and amortization:				
Night clubs	\$ 763	\$ 848	\$ 1,584	\$ 1,648
Bombshells	221	41	274	53
Other	305	4	510	10
General corporate	597	620	1,163	1,195
	<u>\$ 1,886</u>	<u>\$ 1,513</u>	<u>\$ 3,531</u>	<u>\$ 2,906</u>

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

13. RESTRICTED STOCK ISSUANCE

In July 2014, the Company granted to an executive officer and an officer of a subsidiary an aggregate total of 96,325 shares of restricted stock. The total grant date fair value of all of these awards was \$938,478 and vest in two years. Restricted stock awards are awards of common stock that are subject to restrictions on transfer and to a risk of forfeiture if the awardee terminates employment with the Company prior to the lapse of the restrictions. The fair value of such stock was determined using the closing price on the grant date and compensation expense is recorded over the applicable vesting periods. Forfeitures are recognized as a reversal of expense of any unvested amounts in the period incurred. Unamortized expense amounted to \$620,519 at March 31, 2015. The compensation cost recognized for the six months ended March 31, 2015 was \$240,024.

14. WARRANTS ISSUED

In February 2014, the Company issued warrants to acquire 100,000 shares of the Company's common stock to a financial adviser. The exercise price of the warrants is \$11.77. The warrants were exercisable immediately and expire in two years. The fair value of the warrants, which was entirely charged to expense upon issuance, was estimated to be \$147,683 in accordance GAAP, using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	31.5%
Expected life	1.0 years
Expected dividend yield	-
Risk free rate	.12%

15. SUBSEQUENT EVENTS

On May 4, 2015 a Company subsidiary purchased The Seville gentlemen's club in Minneapolis Minnesota. As part of the transaction, another subsidiary also purchased the club's real estate. Total consideration of \$8.5 million consisted of \$4.5 million for the assets of the club business and \$4.0 million for the real estate. Payment was made through bank financing of \$5.7 million at 5.5% interest, seller financing of \$1.8 million at 6% and cash of \$1.1 million. At this time, the Company has not allocated the purchase price to the acquired assets.

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

The following discussion should be read in conjunction with our audited consolidated financial statements and related notes thereto included in this quarterly report.

GENERAL

At the Company's Annual Meeting of Stockholders on August 6, 2014, its name was officially changed from Rick's Cabaret International, Inc. to RCI Hospitality Holdings, Inc. RCI Hospitality Holdings, Inc. (sometimes referred to as RCIHH herein) was incorporated in the State of Texas in 1994. Through our subsidiaries, as of April 30, 2015, we operate a total of forty-five establishments that offer live adult entertainment, and/or restaurant and bar operations. We have two reportable segments, nightclubs and Bombshells Restaurants and Bars. RCI Hospitality Holdings, Inc. is a holding company and operates through its subsidiaries including its management company, RCI Management Services, Inc. All services and management operations are conducted by subsidiaries of RCI Hospitality Holdings, Inc. In the context of club and bar/restaurant operations, the terms the "Company," "we," "our," "us" and similar terms used herein refer to subsidiaries of RCI Hospitality Holdings, Inc. Excepting executive officers of RCI Hospitality Holdings, Inc., any employment referenced in this document is not with RCI Hospitality Holdings, Inc. but solely with one of its subsidiaries.

SCHEDULE OF UNITS

Name of Establishment	Date Acquired/Opened
Club Onyx, Houston, TX	1995
RICK'S Cabaret, Minneapolis, MN	1998
XTC Cabaret, Austin, TX	1998
XTC Cabaret, San Antonio, TX	1998
XTC Cabaret North, Houston, TX	2004
RICK'S Cabaret, New York City, NY	2005
Club Onyx, Charlotte, NC	2005
RICK'S Cabaret, San Antonio, TX	2006
XTC Cabaret South, South Houston, TX	2006
RICK'S Cabaret, Fort Worth, TX	2007
Tootsie's Cabaret, Miami Gardens, FL	2008
XTC Cabaret, Dallas, TX	2008
Club Onyx, Dallas, TX	2008
Club Onyx, Philadelphia, PA	2008
RICK'S Cabaret, North Austin, TX	2009
Cabaret North, Fort Worth, TX	2009
Cabaret East, Fort Worth, TX	2010
RICK'S Cabaret DFW, Fort Worth, TX	2011
Downtown Cabaret, Minneapolis, MN	2011
RICK'S Cabaret, Indianapolis, IN	2011
Temptations, Aledo, TX	2011
Silver City Cabaret, Dallas, TX	2012
Jaguars Club, Odessa, TX	2012
Jaguars Club, Phoenix, AZ	2012
Jaguars Club, Lubbock, TX	2012
Jaguars Club, Longview, TX	2012
Jaguars Club, Tye, TX	2012
Jaguars Club, Edinburg, TX	2012
Jaguars Club, El Paso, TX	2012
Jaguars Club, Harlingen, TX	2012
Rick's Cabaret, Lubbock, TX	2012
Jaguar's Club, Beaumont, TX	2012
Vee Lounge, Fort Worth, TX	2013
Bombshells, Dallas, TX	2013
Temptations, Sulphur, LA	2013
Temptations, Beaumont, TX	2013
Bombshells, Webster, TX	2013
The Black Orchid, Dallas, TX	2013
Vivid Cabaret, New York, NY	2014
Bombshells, Austin, TX	2014
RICK'S Cabaret, Odessa, TX	2014
Bombshells, Spring TX	2014
Bombshells, Fuqua (Houston)	2014
Union Square, Fort Worth, TX	2014
Bombshells, Willowbrook (Houston) (1)	2015
Down in Texas Saloon, Austin TX (2)	2015

(1) To be opened in fall 2015.

(2) Acquired in January 2015.

As noted above, we have the following nightclubs/restaurant under contract as of March 31, 2015:

- Bombshells Willowbrook to be opened in fall 2015.

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

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles of the United States of America ("GAAP"). GAAP consists of a set of standards issued by the FASB and other authoritative bodies in the form of FASB Statements, Interpretations, FASB Staff Positions, Emerging Issues Task Force consensuses and American Institute of Certified Public Accountants Statements of Position, among others. The Company has updated references to GAAP in this Form 10-Q to reflect the guidance in the ASC. The preparation of these 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.

Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation and amortization are made using straight-line rates over the estimated useful lives of the related assets and the shorter of useful lives or terms of the applicable leases for leasehold improvements. Buildings have estimated useful lives ranging from 29 to 40 years. Furniture, equipment and leasehold improvements have estimated useful lives between five and 40 years. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are charged or credited in the accompanying consolidated statement of income of the respective period.

Goodwill and Intangible Assets

GAAP addresses the accounting for goodwill and other intangible assets. Goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed on an annual basis for impairment. Definite lived intangible assets are amortized on a straight-line basis over their estimated lives. Fully amortized assets are written-off against accumulated amortization.

Impairment of Long-Lived Assets

In accordance with GAAP, long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Goodwill and intangible assets that have indefinite useful lives are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired in accordance with GAAP. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

For goodwill, the impairment determination is made at the reporting unit level. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Fair Value of Financial Instruments

The Company calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short maturity of these instruments. The carrying value of short and long-term debt also approximates fair value since these instruments bear market rates of interest. None of these instruments are held for trading purposes.

Revenue Recognition

The Company recognizes revenue from the sale of alcoholic beverages, food and merchandise, other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

The Company recognizes Internet revenue from monthly subscriptions to its online entertainment sites when notification of a new or existing subscription and its related fee are received from the third party hosting company or from the credit card company, usually two to three days after the transaction has occurred. The monthly fee is not refundable. The Company recognizes Internet auction revenue when payment is received from the credit card as revenues are not deemed estimable nor collection deemed probable prior to that point.

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 in August.

Income Taxes

Deferred income taxes are determined using the liability method in accordance with GAAP. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

GAAP creates a single model to address accounting for uncertainty in tax positions by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FASB ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. There are no unrecognized tax benefits to disclose in the notes to the consolidated financial statements.

Stock-Based Compensation

The compensation cost recognized for the six months ended March 31, 2015 and 2014 was \$240,024 (from restricted stock) and \$150,605 (from options), respectively. There were no stock options exercises for the six months ended March 31, 2015. There were 100,000 stock options exercised during the quarter ended March 31, 2014, aggregating \$843,600.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2015 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2014

For the three months ended March 31, 2015, we had consolidated total revenues of \$37.4 million compared to consolidated total revenues of \$32.9 million for the three months ended March 31, 2014, an increase of \$4.5 million or 13.8%. The increase in total revenues was primarily attributable to clubs acquired or opened during the last year with a 2.1% increase in same-store sales. Total revenues for same-location-same-period of club operations increased to \$29.1 million for the three months ended March 31, 2015 from \$28.5 million for the same period ended March 31, 2014. This increase is principally due to increases at many clubs, offset by severe winter weather in 2015, especially in Dallas/Fort Worth in March, where we have eleven units.

Following is a comparison of the Company's income statement for the quarters ended March 31, 2015 and 2014 with percentages compared to total revenue:

(in thousands)	2015	%	2014	%
Sales of alcoholic beverages	\$ 15,576	41.6%	\$ 12,985	39.5%
Sales of food and merchandise	5,241	14.0%	3,979	12.1%
Service Revenues	14,559	38.9%	14,347	43.6%
Other	2,034	5.4%	1,559	4.7%
Total Revenues	37,410	100.0%	32,870	100.0%
Cost of Goods Sold	5,381	14.4%	4,041	12.3%
Salaries & Wages	8,115	21.7%	6,854	20.9%
Stock-based Compensation	120	0.3%	151	0.5%
Taxes and permits	5,709	15.3%	5,142	15.6%
Charge card fees	544	1.5%	449	1.4%
Rent	1,184	3.2%	1,156	3.5%
Legal & professional	1,064	2.9%	426	1.3%
Advertising and marketing	1,312	3.5%	1,406	4.3%
Insurance	801	2.1%	972	3.0%
Utilities	708	1.9%	646	2.0%
Depreciation and amortization	1,886	5.0%	1,513	4.6%
Gain on sale of property	(18)	0.0%	(86)	-0.3%
Impairment of assets	-	0.0%	-	0.0%
Settlement of lawsuits and other one-time costs	10,303	27.5%	150	0.5%
Other	2,917	7.8%	2,591	7.9%
Total operating expenses	40,026	107.0%	25,411	77.3%
Operating income (loss)	(2,616)	-7.0%	7,459	22.7%
Interest income	26	0.1%	35	0.1%
Interest expense	(1,783)	-4.8%	(1,924)	-5.9%
Gain from original investment in Drink Robust, Inc.	-	0.0%	-	0.0%
Income (loss) from continuing operations before income taxes	\$ (4,373)	-11.7%	\$ 5,570	16.9%

Following is an explanation of significant variances in the above amounts.

Service revenues include cover charges, fees paid by entertainers, room rentals, memberships and fees charged for credit card processing. Other revenues include ATM commissions earned, video games and other vending and certain promotion fees charged to our entertainers. We recognize revenue from other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding and media postage. The cost of goods sold for the club operations was 11.9% and 11.5% for the three months ended March 31, 2015 and 2014, respectively. The cost of goods sold for same-location-same-period of club operations for the three months ended March 31, 2015 was 12.2%, compared to 11.7% for the same period ended March 31, 2014.

Payroll for same-location-same-period of club operations was \$5.1 million for the three months ended March 31, 2015 and \$4.7 million for the same period in 2014. Management currently believes that its labor and management staff levels are appropriate.

The increase in legal and professional expense is principally due to the labor lawsuit in New York which was active and settled in 2015.

The decrease in insurance expense is principally due to a general liability insurance premium decrease in the current fiscal year compared to the prior year. Also see Note 11 of Notes to Consolidated Financial Statements for more information regarding our former general liability insurer.

See Note 11 of Notes to Consolidated Financial Statements for an explanation of the settlement of a lawsuit in 2015.

Income taxes (benefit), as a percentage of income (loss) before taxes was 28.9% and 34.5% for the quarters ended March 31, 2015 and 2014, respectively. The decrease in 2015 is principally due to the amount of the stock-based compensation, which is not deductible for tax purposes, relative to the small amount of the pretax loss, in addition to the stock option disqualifying disposition in 2014.

Operating income (loss) (exclusive of corporate overhead) for same-location-same-period of club operations was \$(2.6) million and \$7.4 million for the quarters ended March 31, 2015 and 2014, respectively. The decrease is due to the settlement of a lawsuit in 2015. Without the lawsuit settlement, operating income in the 2015 period would have been \$7.7 million.

Our "operating margin", the percentage of operating income to total revenues, was (7.0) % and 22.7% for the quarters ended March 31, 2015 and 2014, respectively. Excluding the Settlement of lawsuits, the 2015 operating margin would have been 20.4%. The operating margins of our bar/restaurants are lower than our adult nightclubs, contributing to the slight decline in 2015.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2015 AS COMPARED TO THE SIX MONTHS ENDED MARCH 31, 2014

For the six months ended March 31, 2015, we had consolidated total revenues of \$73.9 million compared to consolidated total revenues of \$62.3 million for the six months ended March 31, 2014, an increase of \$11.6 million or 18.6%. The increase in total revenues was primarily attributable to new club acquisitions and an increase in total revenues for same-location-same-period of 3.0% for the six months ended March 31, 2015 compared to the same period in 2014. This increase is despite the severe winter weather in 2015.

Following is a comparison of the Company's income statement for the six months ended March 31, 2015 and 2014 with percentages compared to total revenue:

(in thousands)	2015	%	2014	%
Sales of alcoholic beverages	\$ 30,815	41.7%	\$ 24,674	39.6%
Sales of food and merchandise	10,466	14.2%	7,402	11.9%
Service Revenues	28,783	39.0%	27,077	43.5%
Other	3,833	5.2%	3,140	5.0%
Total Revenues	73,897	100.0%	62,293	100.0%
Cost of Goods Sold	10,492	14.2%	7,788	12.5%
Salaries & Wages	16,147	21.9%	13,431	21.6%
Stock-based Compensation	240	0.3%	154	0.2%
Taxes and permits	11,102	15.0%	9,557	15.3%
Charge card fees	1,091	1.5%	877	1.4%
Rent	2,325	3.1%	2,384	3.8%
Legal & professional	2,023	2.7%	1,214	1.9%
Advertising and marketing	2,679	3.6%	2,691	4.3%
Insurance	1,621	2.2%	1,771	2.8%
Utilities	1,442	2.0%	1,241	2.0%
Depreciation and amortization	3,531	4.8%	2,906	4.7%
Gain on sale of property	(18)	0.0%	(86)	-0.1%
Impairment of assets	1,358	1.8%	-	0.0%
Settlement of lawsuits and other one-time costs	10,550	14.3%	270	0.4%
Other	5,790	7.8%	5,022	8.1%
Total operating expenses	70,373	95.2%	49,220	79.0%
Operating income	3,524	4.8%	13,073	21.0%
Interest income	39	0.1%	112	0.2%
Interest expense	(3,402)	-4.6%	(3,936)	-6.3%
Gain from original investment in Drink Robust, Inc.	577	0.8%	-	0.0%
Income from continuing operations before income taxes	\$ 738	1.0%	\$ 9,249	14.8%

Following is an explanation of significant variances in the above amounts.

Service revenues include cover charges, fees paid by entertainers, room rentals, memberships and fees charged for credit card processing. Other revenues include ATM commissions earned, video games and other vending and certain promotion fees charged to our entertainers. We recognize revenue from other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding, media postage and internet traffic purchases and webmaster payouts. The cost of goods sold for the club operations for the six months ended March 31, 2015 was 11.8% compared to 11.9% for the six months ended March 31, 2014. The cost of goods sold for same-location-same-period of club operations for the six months ended March 31, 2015 was 12.3%, compared to 12.1% for the same period ended March 31, 2014.

Payroll for same-location-same-period of club operations was \$10.0 million for the six months ended March 31, 2015 and \$9.5 million for the same period in 2014. Management currently believes that its labor and management staff levels are appropriate.

The decrease in stock-based compensation is due to the stock options issued to employees and Board members in 2012 completely vesting in 2013. The stock-based compensation for 2015 represents amortization of restricted stock issued to certain employees.

The increase in legal and professional expense is principally due to the labor lawsuit in New York which was active and settled in 2015.

The decrease in insurance expense is principally due to a general liability insurance premium decrease in the current fiscal year compared to the prior year. Also see Note 11 of Notes to Consolidated Financial Statements for more information regarding our former general liability insurer.

During the quarter ended December 31, 2014, we recorded an impairment of \$1.4 million for the indefinite-lived intangible assets at our Temptations Cabaret in Lubbock.

See Note 11 of Notes to Consolidated Financial Statements for an explanation of the settlement of a lawsuit in 2015.

Income tax expense, as a percentage of income before taxes was 78.7% and 35.0% for the six months ended March 31, 2015 and 2014, respectively. The higher rate in 2015 is principally due to the amount of the stock-based compensation, which is not deductible for tax purposes, relative to the small amount of the pretax income, in addition to the stock option disqualifying disposition in 2014.

Operating income (exclusive of corporate overhead) for same-location-same-period of club operations decreased to \$8.3 million for the six months ended March 31, 2015 from \$17.6 million for same period ended March 31, 2014. The 2015 period was affected by the accrual of the New York lawsuit settlement amounting to \$10.3 million. Without the lawsuit settlement, operating income in the 2015 period would have been \$18.9 million.

Our "operating margin", the percentage of operating income to total revenues, was 4.8% and 21.0% for the six months ended March 31, 2015 and 2014, respectively. The decrease is due to the settlement of lawsuit in 2015. Without the lawsuit settlement, operating margin in the 2015 period would have been 18.7%.

See Note 9 of Notes to Consolidated Financial Statements for an explanation of the gain from original investment in Drink Robust, Inc.

SEGMENT INFORMATION

The Company is engaged in adult nightclubs and Bombshells Restaurants and Bars. The Company has identified such segments based on management responsibility and the nature of the Company's products, services and costs. There are no major distinctions in geographical areas served as all operations are in the United States. The Company measures segment profit (loss) as income (loss) from operations.

Below is the financial information related to the Company's segments:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Business segment sales:				
Night clubs	\$ 31,933	\$ 31,196	\$ 62,995	\$ 59,550
Bombshells	4,813	1,379	9,721	2,083
Other	664	295	1,181	660
	<u>\$ 37,410</u>	<u>\$ 32,870</u>	<u>\$ 73,897</u>	<u>\$ 62,293</u>
Business segment operating income (loss):				
Night clubs	\$ 114	\$ 9,644	\$ 8,671	\$ 17,618
Bombshells	571	(12)	1,111	(317)
Other	(797)	(87)	(1,344)	(257)
General corporate	(2,504)	(2,086)	(4,914)	(3,971)
	<u>\$ (2,616)</u>	<u>\$ 7,459</u>	<u>\$ 3,524</u>	<u>\$ 13,073</u>
Business segment capital expenditures:				
Night clubs	\$ 710	\$ 813	\$ 675	\$ 4,365
Bombshells	676	1,735	1,553	3,151
Other	430	-	444	-
General Corporate	91	37	197	682
	<u>\$ 1,907</u>	<u>\$ 2,585</u>	<u>\$ 2,869</u>	<u>\$ 8,198</u>
Business segment depreciation and amortization:				
Night clubs	\$ 763	\$ 848	\$ 1,584	\$ 1,648
Bombshells	221	41	274	53
Other	305	4	510	10
General corporate	597	620	1,163	1,195
	<u>\$ 1,886</u>	<u>\$ 1,513</u>	<u>\$ 3,531</u>	<u>\$ 2,906</u>

We had only one Bombshells open as of December 31, 2013. As of December 31, 2014, we had five Bombshells open and one more scheduled to open in the Spring of 2015. Therefore, the Bombshells brand was immature as of December 31, 2013 and was beginning to mature into a profitable segment by March 31, 2015.

Nightclubs operating income above is reduced by \$10.3 million settlement of lawsuits and one-time costs for the three and six months ended March 31, 2015.

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 some recurring charges that are included in the most directly comparable measures calculated and presented in accordance with GAAP. Relative to each of the non-GAAP financial measures, we further set forth our rationale as follows:

Non-GAAP Operating Income and Non-GAAP Operating Margin. We exclude from non-GAAP operating income and non-GAAP operating margin amortization of intangibles, patron taxes, pre-opening costs, gains and losses from asset sales, stock-based compensation charges, litigation and other one-time legal settlements, gain on contractual debt reduction and acquisition costs. 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 Basic Share and per Diluted Share. We exclude from non-GAAP net income and non-GAAP net income per diluted share and per basic share amortization of intangibles, patron taxes, pre-opening costs, income tax expense, impairment charges, gains and losses from asset sales, stock-based compensation, litigation and other one-time legal settlements, gain on contractual debt reduction and acquisition costs, and include the Non-GAAP provision for income taxes, calculated as the tax-effect at 35% effective tax rate of the pre-tax non-GAAP income before taxes less stock-based compensation, because we believe that excluding such measures helps management and investors better understand our operating activities.

Adjusted EBITDA. We exclude from earnings before interest, taxes, depreciation and amortization (EBITDA) depreciation expense, amortization of intangibles, income tax, interest expense, interest income, gains and losses from asset sales, acquisition costs, litigation and other one-time legal settlements, gain on contractual debt reduction and impairment charges because we believe that adjusting for such items helps management and investors better understand operating activities. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for Federal, state and local taxes which have considerable variation between domestic jurisdictions. Also, we exclude interest cost in our calculation of Adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use Adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our acquisitions of nightclubs.

The following tables present our non-GAAP measures for the periods ended March 31, 2015 and 2014 (in thousands, except per share amounts):

(in thousands)	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2015	2014	2015	2014
Reconciliation of GAAP net income to Adjusted EBITDA				
GAAP net income (loss)	\$ (2,841)	\$ 3,722	\$ 519	\$ 6,125
Income tax expense	(1,265)	1,922	362	3,245
Interest expense and income and gain on Drink Robust investment	1,783	1,924	3,402	3,936
Litigation and other one-time legal settlements	10,303	150	10,550	270
Preopening costs	268	-	328	-
Acquisition costs	95	-	178	-
Impairment of assets	-	-	1,358	-
Depreciation and amortization	1,886	1,513	3,531	2,906
Adjusted EBITDA	<u>\$ 10,229</u>	<u>\$ 9,231</u>	<u>\$ 20,228</u>	<u>\$ 16,482</u>
Reconciliation of GAAP net income (loss) to non-GAAP net income				
GAAP net income (loss)	\$ (2,841)	\$ 3,722	\$ 519	\$ 6,125
Patron tax	805	866	1,567	1,605
Amortization of intangibles	336	82	579	171
Gain on Drink Robust investment	-	-	(577)	-
Stock-based compensation	120	151	240	154
Litigation and other one-time settlements	10,303	150	10,550	270
Pre-opening costs	268	122	328	416
Income tax expense	(1,265)	1,922	362	3,245
Acquisition costs	95	18	178	18
Impairment of assets	-	-	1,358	-
Non-GAAP provision for income taxes	(2,695)	(2,409)	(5,202)	(4,148)
Non-GAAP net income	<u>\$ 5,126</u>	<u>\$ 4,624</u>	<u>\$ 9,902</u>	<u>\$ 7,857</u>
Reconciliation of GAAP diluted net income per share to non-GAAP diluted net income per share				
Fully diluted shares	<u>10,275</u>	<u>10,853</u>	<u>10,273</u>	<u>10,763</u>
GAAP net income	\$ (0.28)	\$ 0.37	\$ 0.05	\$ 0.62
Patron tax	0.08	0.08	0.15	0.15
Amortization of intangibles	0.03	0.01	0.06	0.02
Gain on Drink Robust investment	-	-	(0.06)	-
Stock-based compensation	0.01	0.01	0.02	0.01
Litigation and other one-time settlements	1.00	0.01	1.03	0.03
Pre-opening costs	0.03	0.01	0.03	0.04
Income tax expense	(0.12)	0.18	0.04	0.30
Acquisition costs	0.01	0.00	0.02	0.00
Impairment of assets	-	-	0.13	-
Non-GAAP provision for income taxes	(0.26)	(0.22)	(0.51)	(0.39)
Non-GAAP diluted net income per share	<u>\$ 0.50</u>	<u>\$ 0.45</u>	<u>\$ 0.96</u>	<u>\$ 0.78</u>
Reconciliation of GAAP operating income to non-GAAP operating income				
GAAP operating income (loss)	\$ (2,616)	\$ 7,459	\$ 3,524	\$ 13,073
Patron tax	805	866	1,567	1,605
Amortization of intangibles	336	82	579	171
Stock-based compensation	120	151	240	154
Impairment of assets	-	-	-	-
Litigation and other one-time settlements	10,303	150	10,550	270
Pre-opening costs	268	122	328	416
Acquisition costs	95	18	178	18
Non-GAAP operating income	<u>\$ 9,311</u>	<u>\$ 8,848</u>	<u>\$ 16,966</u>	<u>\$ 15,707</u>
Reconciliation of GAAP operating margin to non-GAAP operating margin				
GAAP operating income	-7.0%	22.7%	4.8%	21.0%
Patron tax	2.2%	2.6%	2.1%	2.6%
Amortization of intangibles	0.9%	0.2%	0.8%	0.3%
Stock-based compensation	0.3%	0.5%	0.3%	0.2%
Impairment of assets	0.0%	0.0%	0.0%	0.0%
Litigation and other one-time settlements	27.5%	0.5%	14.3%	0.4%
Pre-opening costs	0.7%	0.4%	0.4%	0.7%
Acquisition costs	0.3%	0.1%	0.2%	0.0%
Non-GAAP operating margin	<u>24.9%</u>	<u>26.9%</u>	<u>23.0%</u>	<u>25.2%</u>

LIQUIDITY AND CAPITAL RESOURCES

We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. Refer to the heading "Cash Flows from Operating Activities" below. The near-term outlook for our business remains strong, and we expect to generate substantial cash flows from operations in 2015. As a result of our expected cash flows from operations, we have significant flexibility to meet our financial commitments. The Company has not recently raised capital through the issuance of equity securities. Instead, we use debt financing to lower our overall cost of capital and increase our return on shareowners' equity. Refer to the heading "Cash Flows from Financing Activities" below. We have a history of borrowing funds in private transactions and from sellers in acquisition transactions and continue to have the ability to borrow funds at reasonable interest rates in that manner. We have historically utilized these cash flows to invest in property and equipment and adult nightclubs. Refer to the heading "Cash Flows from Investing Activities" below.

As of March 31, 2015, excluding the patron tax liability, we had working capital of \$1.4 million compared to working capital deficit of \$357,000 as of September 30, 2014. As much of this current portion of debt is convertible debt, it is anticipated that it will be redeemed with common shares. Because of the large volume of cash we handle, stringent cash controls have been implemented. At March 31, 2015, our cash and cash equivalents were \$13.7 million compared to \$10.0 million at September 30, 2014.

Our depreciation for the quarter ended March 31, 2015 was \$1.5 million compared to \$1.4 million for the quarter ended March 31, 2014. Our amortization for the quarter ended March 31, 2015 was \$335,000 compared to \$82,000 for the quarter ended March 31, 2014.

Sources and Use of Funds

Cash flows from operating activities are generally the result of net income adjusted for depreciation and amortization expenses, deferred taxes, (increases) decreases in accounts receivable, inventories and prepaid expenses and increases (decreases) in accounts payable and accrued liabilities. See a summary of these activities below.

Cash flows used in investing activities generally reflect payments relating to acquisitions of businesses, property and equipment and marketable securities. See a summary of these activities below.

Cash flows from financing activities generally reflect proceeds from issuance of shares and long-term debt, and payments on debt and put options and purchase of treasury stock. See a summary of these activities below.

Cash Flows from Operating Activities

Following are our summarized cash flows from operating activities:

(In thousands)	Six Months Ended March 31,	
	2015	2014
Net income	\$ 157	\$ 6,004
Depreciation and amortization	3,531	2,906
Deferred taxes	1,461	734
Stock compensation expense	240	154
Change in operating assets and liabilities	6,927	1,771
Impairment of assets	1,358	-
Gain from original investment in Drink Robust	(577)	-
Other	22	28
	<u>\$ 13,119</u>	<u>\$ 11,597</u>

Cash Flows from Investing Activities

(In thousands)	Six Months Ended March 31,	
	2015	2014
Additions to property and equipment	\$ (2,869)	\$ (8,198)
Acquisition of development rights in New York building		(5,325)
Additions of businesses, net of cash acquired	(1,244)	(500)
	<u>\$ (4,113)</u>	<u>\$ (14,023)</u>

Following is a reconciliation of our additions to property and equipment for the six months ended March 31, 2015 and 2014:

(in thousands)	Six Months Ended March 31,	
	2015	2014
Acquisition of real estate	\$ 4,149	\$ 1,977
Purchase of aircraft and upgrades	-	-
Capital expenditures funded by debt	(3,678)	(4,348)
New capital expenditure in new clubs and purchase of aircraft	1,919	9,883
Maintenance capital expenditures	479	686
Total capital expenditures in consolidated statement of cash flows	<u>\$ 2,869</u>	<u>\$ 8,198</u>

Cash Flows from Financing Activities

(In thousands)	Six Months Ended March 31,	
	2015	2014
Proceeds from long-term debt	\$ 4,958	\$ 7,025
Payments on long-term debt	(8,234)	(4,335)
Exercise of stock options	-	844
Purchase of treasury stock	(1,925)	-
Distribution of minority interests	(108)	(108)
	<u>\$ (5,309)</u>	<u>\$ 3,426</u>

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

(In thousands)	Six Months Ended March 31,	
	2015	2014
Operating activities	\$ 13,119	\$ 11,597
Investing activities	(4,113)	(14,023)
Financing activities	(5,309)	3,426
Net increase (decrease) in cash	<u>\$ 3,697</u>	<u>\$ 1,000</u>

The following table presents a summary of such indicators for the six months ended March 31:

	2015	Increase (Decrease)	2014
Sales of alcoholic beverages	\$ 30,815	24.9%	\$ 24,674
Sales of food and merchandise	10,466	41.4%	7,402
Service Revenues	28,783	6.3%	27,077
Other	3,833	22.1%	3,140
Total Revenues	<u>\$ 73,897</u>	18.6%	<u>\$ 62,293</u>
Net cash provided by operating activities	13,119	13.1%	11,597
Adjusted EBITDA*	20,228	22.7%	16,482
Long-term debt	71,542	2.0%	70,352

* See definition of adjusted EBITDA above under Results of Operations.

We have not established lines of credit or financing other than the above mentioned notes payable and our existing debt. There can be no assurance that we will be able to obtain additional financing on reasonable terms in the future, if at all, should the need arise.

Share repurchase

On September 29, 2008, our Board of Directors authorized us to repurchase up to \$5 million worth of our common stock in the open market. As of April 2013, we completed the repurchase of all \$5 million in stock authorized under this plan. On April 25, 2013, our Board of Directors authorized us to repurchase up to an additional \$3 million worth of our common stock in the open market or in privately negotiated transactions. During May 2014, our Board of Directors increased the repurchase authorization to \$10 million. During the quarter ended March 31, 2015, we purchased 82,811 shares of common stock in the open market for an aggregate cost of \$840,340. Under the Board's authority, we have \$7.0 million remaining to purchase additional shares as of March 31, 2015.

Other Liquidity and Capital Resources

We have not established lines of credit or financing other than the notes payable and our existing debt. 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 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 with the strongest operating results occurring during October through March.

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 is: (a) to open new clubs after market analysis, (b) to acquire existing clubs in locations that are consistent with our growth and income targets and which appear receptive to the upscale club formula we have developed, (c) 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, (d) to develop new club concepts that are consistent with our management and marketing skills, (e) to develop and open our restaurant concepts as our capital and manpower allow, and/or (f) to control the real estate in connection with club operations, although some clubs may be in leased premises.

During fiscal 2012, we acquired eleven existing nightclub operations and two other licensed locations under development for a total cost of approximately \$35.4 million, including real property of approximately \$7.6 million. These acquisitions were funded primarily with cash of approximately \$4.9 million, debt of \$22 million and real property debt of approximately \$9.0 million. These nightclub operations had total revenues of approximately \$18.5 million and \$4.3 million and net income before taxes of approximately \$2.9 million and \$620,000 for fiscal years 2014 and 2013, respectively. These amounts do not include the acquisition of approximately \$10.1 million of real estate relating to the Jaguars acquisition which was closed on October 16, 2012.

During fiscal 2013, in addition to the real estate explained in the previous paragraph, we have acquired an existing licensed location for \$3,000,000 (\$1.5 million in cash and the balance in promissory notes). This location was remodeled and opened in January 2014. We also acquired the remaining 50% of an unopened club for \$863,000 of common stock in May 2013. We also acquired another club for \$300,000 in cash. We previously had acquired the real estate for this location.

In October 2013, the Company purchased 49 percent of a corporation that operates the Dallas club "PT's Platinum" and also acquired the building and personal property. Total cost of the transaction was \$500,000. During fiscal 2013, in addition to the real estate explained in the previous paragraph, we have acquired an existing licensed location for \$3,000,000 (\$1.5 million in cash and the balance in promissory notes). This location was being remodeled and opened in 2013. We also acquired the remaining 50% of an unopened club for \$863,000 of common stock in May 2013. We also acquired another club for \$300,000 in cash. We previously had acquired the real estate for this location. We also opened two bar/restaurants in 2013.

During fiscal 2014, we acquired 49% of an adult club, including the building in which it operates, for \$500,000. We also opened two more bar/restaurants in fiscal 2014 and opened another in November 2014.

On October 30, 2014, a 51% owned subsidiary of the Company ("Robust") acquired certain assets and liabilities of Robust Energy LLC for \$200,000 in cash and 200,000 shares of its common stock for a total purchase price of \$5.0 million. The Company has also agreed to issue 50,000 shares of RCIHH common stock to the two principals of Robust Energy LLC if Robust has net income of at least \$1 million during the 2015 calendar year. Robust is an energy drink distributor, targeting the on premises bar and mixer market.

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

Principally during 2014 and 2015, we have opened five Bombshells and we have another unit under construction at this time. We are considering other locations to add to our Bombshells division.

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 will require us to obtain additional debt or issuance of 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 March 31, 2015, 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, 2014.

Item 4. Controls and Procedures.*Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of the Company's senior management, including the Company's chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on this evaluation, the Company's chief executive officer and chief financial officer concluded as of the Evaluation Date that the Company's disclosure controls and procedures were effective such that the information relating to the Company, including consolidated subsidiaries, required to be disclosed in the Company's Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2015 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 "Legal Matters" under Note 11 of Notes to Consolidated Financial Statements above, which information is incorporated herein by reference.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended September 30, 2014, as such factors could materially affect the Company's business, financial condition or future results. In the three months ended March 31, 2015, there were no material changes to the risk factors disclosed in the Company's 2014 Annual Report on Form 10-K. The risks described in the Annual Report on Form 10-K 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.

On September 29, 2008, our Board of Directors authorized us to repurchase up to \$5 million worth of our common stock in the open market. As of April 2013, we completed the repurchase of all \$5 million in stock authorized under this plan. On April 25, 2013, our Board of Directors authorized us to repurchase up to an additional \$3 million worth of our common stock in the open market or in privately negotiated transactions. During May 2014, our Board of Directors increased the repurchase authorization to \$10 million. During the quarter ended March 31, 2015, we purchased 82,811 shares of common stock in the open market for an aggregate cost of \$840,340. Under the Board's authority, we have \$7.0 million remaining to purchase additional shares as of March 31, 2015.

Following is a summary of our purchases by month:

(in thousands, except per share data)

Period:	(a)	(b)	(c)	(d)
Month Ending	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (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
Jan-15	40	\$ 9.94	40	\$ 7,724
Feb-15	12	\$ 9.83	12	\$ 7,712
Mar-15	31	\$ 10.53	31	\$ 7,681
Total for the three months ended March 31, 2015	83	\$ 10.15	83	7,681

(1) All shares were purchased pursuant to the repurchase plan approved in May 2014, as described above.

(2) Prices include any commissions and transaction costs.

Item 6. Exhibits.

Exhibit 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.

Exhibit 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.

Exhibit 32.1 -- Certification of Chief Executive Officer and Chief Financial Officer of RCI Hospitality Holdings, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.

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: May 11, 2015

By: /s/ Eric S. Langan

Eric S. Langan

Chief Executive Officer and President

Date: May 11, 2015

By: /s/ Phillip K. Marshall

Phillip K. Marshall

Chief Financial Officer and Principal Accounting Officer

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 issuer as of, and for, the periods presented in this report;
4. The issuer'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)) for the issuer 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 issuer, 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 issuer'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 issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's independent registered public accounting firm and the audit committee of the issuer'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 issuer'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 issuer's internal control over financial reporting.

Date: May 11, 2015

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

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 issuer as of, and for, the periods presented in this report;
4. The issuer'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)) for the issuer 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 issuer, 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 issuer'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 issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's independent registered public accounting firm and the audit committee of the issuer'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 issuer'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 issuer's internal control over financial reporting.

Date: May 11, 2015

By: /s/ Phillip K. Marshall

Phillip K. Marshall

Chief Financial Officer and Principal Accounting Officer

**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 March 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on their knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and 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
May 11, 2015

/s/ Phillip K. Marshall

Phillip K. Marshall
Chief Financial Officer
May 11, 2015

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.
