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

FORM 10-Q

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

For the quarterly period ended June 30, 2021

☐ **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.)

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☒ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of August 4, 2021, 8,999,910 shares of the registrant's common stock were outstanding.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among other things, statements regarding plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Forward-looking statements may appear throughout this report, including, without limitation, the following sections: Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements generally can be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will be," "will continue," "will likely result," and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q and those discussed in other documents we file with the Securities and Exchange Commission ("SEC"). Important factors that in our view could cause material adverse effects on our financial condition and results of operations include, but are not limited to, the risks and uncertainties associated with (i) operating and managing an adult business, (ii) the business climates in cities where it operates, (iii) the success or lack thereof in launching and building the company's businesses, (iv) cyber security, (v) conditions relevant to real estate transactions, (vi) the impact of the COVID-19 pandemic, and (vii) numerous other factors such as laws governing the operation of adult entertainment businesses, competition and dependence on key personnel. We undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

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

RCI HOSPITALITY HOLDINGS, INC.
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2021 (unaudited)	September 30, 2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 29,068	$ 15,605
Accounts receivable, net	2,458	6,767
Current portion of notes receivable	217	201
Inventories	2,479	2,372
Prepaid expenses and other current assets	4,062	6,488
Assets held for sale	4,887	-
Total current assets	43,171	31,433
Property and equipment, net	178,087	181,383
Operating lease right-of-use assets, net	24,481	25,546
Notes receivable, net of current portion	2,819	2,908
Goodwill	45,440	45,686
Intangibles, net	73,019	73,077
Other assets	922	900
Total assets	$ 367,939	$ 360,933
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 4,909	$ 4,799
Accrued liabilities	11,738	14,573
Current portion of debt obligations, net	13,695	16,304
Current portion of operating lease liabilities	1,720	1,628
Total current liabilities	32,062	37,304
Deferred tax liability, net	19,960	20,390
Debt, net of current portion and debt discount and issuance costs	113,908	125,131
Operating lease liabilities, net of current portion	24,360	25,439
Other long-term liabilities	354	362
Total liabilities	190,644	208,626
Commitments and contingencies (Note 10)		
Equity		
Preferred stock, $0.10 par value per share; 1,000 shares authorized; none issued and outstanding	-	-
Common stock, $0.01 par value per share; 20,000 shares authorized; 9,000 and 9,075 shares issued and outstanding as of June 30, 2021 and September 30, 2020, respectively	90	91
Additional paid-in capital	50,040	51,833
Retained earnings	127,753	100,797
Total RCIHH stockholders’ equity	177,883	152,721
Noncontrolling interests	(588)	(414)
Total equity	177,295	152,307
Total liabilities and equity	$ 367,939	$ 360,933

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended June 30, 2021	For the Three Months Ended June 30, 2020	For the Nine Months Ended June 30, 2021	For the Nine Months Ended June 30, 2020
Revenues				
Sales of alcoholic beverages	$ 25,092	$ 7,623	$ 62,725	$ 45,285
Sales of food and merchandise	12,058	3,452	30,205	17,378
Service revenues	16,880	2,907	38,442	34,448
Other	3,830	739	8,945	6,430
Total revenues	57,860	14,721	140,317	103,541
Operating expenses				
Cost of goods sold				
Alcoholic beverages sold	4,621	1,245	11,613	8,826
Food and merchandise sold	4,043	1,128	9,961	5,974
Service and other	208	17	304	148
Total cost of goods sold (exclusive of items shown separately below)	8,872	2,390	21,878	14,948
Salaries and wages	13,870	5,421	36,556	30,866
Selling, general and administrative	14,697	8,908	39,467	39,889
Depreciation and amortization	2,057	2,235	6,197	6,696
Other charges (gains), net	(143)	424	1,288	8,588
Total operating expenses	39,353	19,378	105,386	100,987
Income (loss) from operations	18,507	(4,657)	34,931	2,554
Other income (expenses)				
Interest expense	(2,281)	(2,459)	(7,079)	(7,403)
Interest income	72	80	194	263
Non-operating gains (losses), net	9	31	5,356	(103)
Income (loss) before income taxes	16,307	(7,005)	33,402	(4,689)
Income tax expense (benefit)	3,986	(1,437)	5,540	(1,262)
Net income (loss)	12,321	(5,568)	27,862	(3,427)
Net loss (income) attributable to noncontrolling interests	(19)	94	174	135
Net income (loss) attributable to RCIHH common stockholders	$ 12,302	$ (5,474)	$ 28,036	$ (3,292)
Earnings (loss) per share				
Basic and diluted	$ 1.37	$ (0.60)	$ 3.11	$ (0.36)
Weighted average number of common shares outstanding				
Basic and diluted	9,000	9,125	9,006	9,224
Dividends per share	$ 0.04	$ 0.03	$ 0.12	$ 0.10

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Additional		Treasury Stock			
	Number of Shares	Amount	Paid-In Capital	Retained Earnings	Number of Shares	Amount	Noncontrolling Interests	Total Equity
Balance at September 30, 2020	9,075	$ 91	$ 51,833	$ 100,797	-	$ -	$ (414)	$ 152,307
Purchase of treasury shares	-	-	-	-	(75)	(1,794)	-	(1,794)
Canceled treasury shares	(75)	(1)	(1,793)	-	75	1,794	-	-
Payment of dividends	-	-	-	(360)	-	-	-	(360)
Net income (loss)	-	-	-	9,643	-	-	(134)	9,509
Balance at December 31, 2020	9,000	90	50,040	110,080	-	-	(548)	159,662
Payment of dividends	-	-	-	(360)	-	-	-	(360)
Net income (loss)	-	-	-	6,091	-	-	(59)	6,032
Balance at March 31, 2021	9,000	90	50,040	115,811	-	-	(607)	165,334
Payment of dividends	-	-	-	(360)	-	-	-	(360)
Net income	-	-	-	12,302	-	-	19	12,321
Balance at June 30, 2021	9,000	$ 90	$ 50,040	$ 127,753	-	$ -	$ (588)	$ 177,295
Balance at September 30, 2019	9,591	$ 96	$ 61,312	$ 108,168	-	$ -	$ (156)	$ 169,420
Purchase of treasury shares	-	-	-	-	(333)	(6,441)	-	(6,441)
Canceled treasury shares	(333)	(3)	(6,438)	-	333	6,441	-	-
Payment of dividends	-	-	-	(279)	-	-	-	(279)
Payment to noncontrolling interest	-	-	-	-	-	-	(10)	(10)
Net income	-	-	-	5,634	-	-	-	5,634
Balance at December 31, 2019	9,258	93	54,874	113,523	-	-	(166)	168,324
Purchase of treasury shares	-	-	-	-	(133)	(2,047)	-	(2,047)
Canceled treasury shares	(133)	(2)	(2,045)	-	133	2,047	-	-
Payment of dividends	-	-	-	(368)	-	-	-	(368)
Payment to noncontrolling interest	-	-	-	-	-	-	(21)	(21)
Net loss	-	-	-	(3,452)	-	-	(41)	(3,493)
Balance at March 31, 2020	9,125	91	52,829	109,703	-	-	(228)	162,395
Payment of dividends	-	-	-	(273)	-	-	-	(273)
Net loss	-	-	-	(5,474)	-	-	(94)	(5,568)
Balance at June 30, 2020	9,125	$ 91	$ 52,829	$ 103,956	-	$ -	$ (322)	$ 156,554

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Nine Months Ended June 30, 2021	For the Nine Months Ended June 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 27,862	$ (3,427)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,197	6,696
Deferred income tax benefit	(430)	(1,517)
Gain on sale of businesses and assets	(626)	(749)
Impairment of assets	1,672	9,192
Unrealized loss on equity securities	58	103
Amortization of debt discount and issuance costs	160	194
Gain on debt extinguishment	(5,298)	-
Noncash lease expense	1,282	1,244
Gain on insurance	(294)	(33)
Doubtful accounts expense (reversal) on notes receivable	(22)	495
Changes in operating assets and liabilities:		
Accounts receivable	4,309	(53)
Inventories	(107)	(29)
Prepaid expenses, other current and other assets	2,346	4,942
Accounts payable, accrued and other liabilities	(4,892)	(4,911)
Net cash provided by operating activities	32,217	12,147
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of businesses and assets	3,213	2,041
Proceeds from insurance	294	945
Proceeds from notes receivable	95	1,555
Payments for property and equipment and intangible assets	(10,788)	(5,565)
Net cash used in investing activities	(7,186)	(1,024)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt obligations	2,176	6,503
Payments on debt obligations	(10,845)	(7,489)
Purchase of treasury stock	(1,794)	(8,488)
Payment of dividends	(1,080)	(920)
Payment of loan origination costs	(25)	-
Distribution to noncontrolling interests	-	(31)
Net cash used in financing activities	(11,568)	(10,425)
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,463	698
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	15,605	14,097
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 29,068	$ 14,795
CASH PAID DURING PERIOD FOR:		
Interest (net of amounts capitalized of $0 and $155, respectively)	$ 7,761	$ 7,303
Income taxes	$ 4,047	$ 2,067
Noncash investing and financing transactions:		
Principal of Paycheck Protection Program loans forgiven	$ 5,298	$ -
Operating lease right-of-use assets established upon adoption of ASC 842	$ -	$ 27,310
Deferred rent liabilities reclassified upon adoption of ASC 842	$ -	$ 1,241
Operating lease liabilities established upon adoption of ASC 842	$ -	$ 28,551
Adjustment to operating lease right-of-use assets and operating lease liabilities related to renewed lease	$ 217	$ -
Unpaid liabilities on capital expenditures	$ 995	$ 6

See accompanying notes to unaudited condensed consolidated financial statements.

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of RCI Hospitality Holdings, Inc. (the "Company or "RCIHH") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP" or "U.S. GAAP") for interim financial information and with the instructions to Form 10-Q of Regulation S-X. They do not include all information and footnotes required by GAAP for complete financial statements. The September 30, 2020 consolidated balance sheet data were derived from audited financial statements but do not include all disclosures required by GAAP. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements for the year ended September 30, 2020 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on December 14, 2020. The interim unaudited condensed consolidated financial statements should be read in conjunction with those consolidated financial statements included in the Form 10-K. In the opinion of management, all adjustments considered necessary for a fair statement of the financial statements, consisting solely of normal recurring adjustments, have been made. Operating results for the three and nine months ended June 30, 2021 are not necessarily indicative of the results that may be expected for the year ending September 30, 2021.

Certain reclassifications of cost of goods sold components with immaterial amounts have been made to prior year's financial statements to conform to the current year financial statement presentation. There is no impact in total cost of goods sold, results of operations, and cash flows in all periods presented.

2. Recent Accounting Standards and Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU requires, among other things, the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model which requires the use of forward-looking information to calculate credit loss estimates. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. These changes will result in earlier recognition of credit losses. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We adopted ASU 2016-13 as of October 1, 2020. Our adoption of this guidance did not have a significant impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 modifies the disclosure requirements of Accounting Standards Codification ("ASC") Topic 820 with certain removals, modifications, and additions. Eliminated disclosures that may affect the Company include (1) transfers between level 1 and level 2 of the fair value hierarchy, and (2) policies related to valuation processes and the timing of transfers between levels of the fair value hierarchy. Modified disclosures that may affect the Company include (1) a requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse if the entity has communicated the timing publicly for investments in certain entities that calculate net asset value, and (2) clarification that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Additional disclosures that may affect the Company include (1) disclosure of changes in unrealized gains and losses for the period included in other comprehensive income for recurring level 3 fair value measurements held at the end of the reporting period, and (2) disclosure of the range and weighted average of significant unobservable inputs used to develop level 3 fair value measurements. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures upon issuance of the ASU and delay adoption of the additional disclosures until the effective date. We adopted ASU 2018-13 as of October 1, 2020. Our adoption of this guidance did not have a significant impact on our consolidated financial statements.

In March 2019, the FASB issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*. ASU 2019-01 aligns the guidance for fair value of the underlying asset by lessors with existing guidance in Topic 842. The ASU requires that the fair value of the underlying asset at lease commencement is its cost reflecting in volume or trade discounts that may apply. However, if there has been a significant lapse of time between the date the asset was acquired and the lease commencement date, the definition of fair value as outlined in Topic 820 should be applied. In addition, the ASU exempts both lessees and lessors from having to provide certain interim disclosures in the fiscal year in which a company adopts the new leases standard. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We adopted ASU 2019-01 as of October 1, 2020. Our adoption of this guidance did not have an impact on our consolidated financial statements.

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

3. Liquidity and Impact of COVID-19 Pandemic

Since the U.S. declaration of COVID-19 as a pandemic in March 2020, we have had a major disruption in our business operations that threatened to significantly impact our cash flow. The declaration resulted in a significant reduction in customer traffic in our clubs and restaurants due to changes in consumer behavior as social distancing practices, dining room closures and other restrictions were mandated or encouraged by federal, state and local governments. To adapt to the situation, we took significant steps to augment an anticipated decline in operating cash flows, including negotiating deferment of some of our debts, reducing the number of our employees and related payroll costs where necessary, and deferring or modifying certain fixed and variable monthly expenses, among others.

The temporary closure of our clubs and restaurants caused by the COVID-19 pandemic presented operational challenges. Our strategy is to open locations and operate in accordance with local and state guidelines. We believe that we can borrow capital if need be but currently we do not have unused credit facilities so there can be no guarantee that additional liquidity will be readily available or available on favorable terms, especially the longer the COVID-19 pandemic lasts.

On May 8, 2020, the Company received approval and funding under the Paycheck Protection Program (“PPP”) of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) for its restaurants, shared services entity and lounge. See Notes 7 and 9.

As of the release of this report, we do not know the future extent and duration of the impact of COVID-19 on our businesses. Closures and operating restrictions, as caused by local, state and national guidelines, could lead to adverse financial results. However, we will continually monitor and evaluate the situation and will determine any further measures to be instituted.

We continue to adhere to state and local government mandates regarding the pandemic and, since March 2020, have closed and reopened a number of our locations depending on changing government mandates, including operating hour and limited occupancy restrictions, where applicable.

Valuation of Goodwill, Indefinite-Lived Intangibles and Long-Lived Assets

We consider the COVID-19 pandemic a triggering event in the assessment of recoverability of the goodwill, indefinite-lived intangibles, and long-lived assets in our clubs and restaurants that are affected. Based on our evaluation, we determined that our assets are impaired in a total amount of approximately $1.7 million comprised of $245,500 in goodwill and $1.4 million in assets held for sale.

4. Revenues

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

Commission revenues, such as ATM commission, are recognized when the basis for such commission has transpired. Revenues from the sale of magazines and advertising content are recognized when the issue is published and shipped. Revenues and external expenses related to the Company’s annual Expo convention are recognized upon the completion of the convention, which normally occurs during our fiscal fourth quarter. Due to the pandemic, the Expo convention, initially scheduled in August 2020, was moved to May 2021, hence, no Expo-related revenue in fiscal 2020. Lease revenue (included in other revenues) is recognized when earned (recognized over time) and is more appropriately covered by guidance under ASC 842, *Leases*. See Note 13.

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

	Three Months Ended June 30, 2021				Three Months Ended June 30, 2020			
	Nightclubs	Bombshells	Other	Total	Nightclubs	Bombshells	Other	Total
Sales of alcoholic beverages	$ 16,130	$ 8,962	$ -	$ 25,092	$ 1,777	$ 5,846	$ -	$ 7,623
Sales of food and merchandise	5,062	6,996	-	12,058	774	2,678	-	3,452
Service revenues	16,772	108	-	16,880	2,906	1	-	2,907
Other revenues	3,067	11	752	3,830	556	6	177	739
	$ 41,031	$ 16,077	$ 752	$ 57,860	$ 6,013	$ 8,531	$ 177	$ 14,721
Recognized at a point in time	$ 40,599	$ 16,075	$ 751	$ 57,425	$ 5,781	$ 8,531	$ 175	$ 14,487
Recognized over time	432*	2	1	435	232*	-	2	234
	$ 41,031	$ 16,077	$ 752	$ 57,860	$ 6,013	$ 8,531	$ 177	$ 14,721

	Nine Months Ended June 30, 2021				Nine Months Ended June 30, 2020			
	Nightclubs	Bombshells	Other	Total	Nightclubs	Bombshells	Other	Total
Sales of alcoholic beverages	$ 38,398	$ 24,327	$ -	$ 62,725	$ 28,321	$ 16,964	$ -	$ 45,285
Sales of food and merchandise	12,567	17,638	-	30,205	6,837	10,541	-	17,378
Service revenues	38,216	226	-	38,442	34,290	158	-	34,448
Other revenues	7,834	27	1,084	8,945	5,791	21	618	6,430
	$ 97,015	$ 42,218	$ 1,084	$ 140,317	$ 75,239	$ 27,684	$ 618	$ 103,541
Recognized at a point in time	$ 95,816	$ 42,215	$ 1,080	$ 139,111	$ 74,192	$ 27,684	$ 605	$ 102,481
Recognized over time	1,199*	3	4	1,206	1,047*	-	13	1,060
	$ 97,015	$ 42,218	$ 1,084	$ 140,317	$ 75,239	$ 27,684	$ 618	$ 103,541

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

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

	Balance at September 30, 2020	Consideration Received	Recognized in Revenue	Balance at June 30, 2021
Ad revenue	$ 92	$ 456	$ (477)	$ 71
Expo revenue	211	247	(448)	10
Other	33	123	(6)	150
	$ 336	$ 826	$ (931)	$ 231

Contract liabilities with customers are included in accrued liabilities as unearned revenues in our unaudited condensed consolidated balance sheets (see also Note 5), while the revenues associated with these contract liabilities are included in other revenues in our unaudited condensed consolidated statements of operations.

On December 22, 2020, the Company signed a franchise development agreement with a group of private investors to open three Bombshells locations in San Antonio, Texas over a period of five years, and the right of first refusal for three more locations in Corpus Christi, New Braunfels, and San Marcos, all in Texas. Upon execution of the agreement, the Company collected $75,000 in development fees representing 100% of the initial franchise fee of the first restaurant and 50% of the initial franchise fee of the second restaurant. Revenue from initial franchise fees is recognized as the performance obligations are satisfied over the term of the franchise agreement.

5. Selected Account Information

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

	June 30, 2021	September 30, 2020
Credit card receivables	$ 1,220	$ 880
Income tax refundable	201	4,325
ATM in-transit	253	160
Insurance receivable	-	191
Other (net of allowance for doubtful accounts of $605 and $261, respectively)	784	1,211
Total accounts receivable, net	$ 2,458	$ 6,767

Notes receivable consist primarily of secured promissory notes executed between the Company and various buyers of our businesses and assets with interest rates ranging from 6% to 9% per annum and having terms ranging from 1 to 20 years, net of allowance for doubtful notes amounting to $160,000 and $182,000 as of June 30, 2021 and September 30, 2020, respectively.

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

	June 30, 2021	September 30, 2020
Prepaid insurance	$ 1,506	$ 4,884
Prepaid legal	761	735
Prepaid taxes and licenses	506	428
Prepaid rent	372	37
Other	917	404
Total prepaid expenses and other current assets	$ 4,062	$ 6,488

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

	June 30, 2021	September 30, 2020
Payroll and related costs	$ 3,243	$ 2,419
Sales and liquor taxes	2,467	2,613
Insurance	1,382	4,405
Property taxes	1,636	2,003
Unearned revenues	231	336
Interest	517	1,390
Patron tax	488	309
Lawsuit settlement	103	100
Other	1,671	998
Total accrued liabilities	$ 11,738	$ 14,573

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2021	2020	2021	2020
Taxes and permits	$ 2,345	$ 1,187	$ 6,457	$ 6,101
Supplies and services	1,701	681	4,417	3,605
Insurance	1,474	1,481	4,358	4,437
Advertising and marketing	1,929	428	4,502	4,745
Lease	992	1,010	2,941	3,063
Utilities	873	512	2,444	2,205
Security	1,073	272	2,763	1,869
Legal	1,255	841	2,928	3,109
Charge card fees	988	146	2,247	2,037
Repairs and maintenance	787	353	2,037	1,802
Accounting and professional fees	336	407	1,348	2,916
Other	944	1,590	3,025	4,000
Total selling, general and administrative expenses	$ 14,697	$ 8,908	$ 39,467	$ 39,889

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	

	2021	2020	2021	2020
Impairment of assets	$ 271	$ 982	$ 1,672	$ 9,192
Settlement of lawsuits	127	50	280	74
Gain on disposal of businesses and assets	(541)	(608)	(455)	(645)
Gain on insurance	-	-	(209)	(33)
Total other charges (gains), net	$ (143)	$ 424	$ 1,288	$ 8,588

The components of non-operating gains (losses), net are as follows (in thousands):

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2021	2020	2021	2020
Gain on debt extinguishment	$ -	$ -	$ 5,329	$ -
Unrealized gain (loss) on equity securities	9	31	(58)	(103)
Other	-	-	85	-
Total non-operating gains (losses), net	$ 9	$ 31	$ 5,356	$ (103)

6. Assets Held for Sale

As of June 30, 2021 and September 30, 2020, the Company had net carrying value of assets held for sale at $4.9 million and $0, respectively.

During the three months ended March 31, 2021, the Company classified as held-for-sale three real estate properties with an aggregate estimated fair value less cost to sell of $7.4 million after recognizing a Nightclub segment impairment charge of $1.4 million, included in other charges, net in our unaudited condensed consolidated statement of operations, on one property.

On May 7, 2021, the Company sold one of the properties held for sale for $3.1 million. The property had a carrying value of $2.3 million as of March 31, 2021. The Company paid related debt amounting to $2.0 million from the proceeds of the sale.

The Company expects the held-for-sale properties, which are primarily comprised of land and buildings, to be sold within 12 months through property listings by our real estate brokers. Liabilities that are expected to be paid with the sale of held-for-sale assets were $1.1 million as of June 30, 2021, which is included in current portion of debt obligations in our unaudited condensed consolidated balance sheet.

7. Debt

On October 31, 2020, the Company negotiated extensions to November 1, 2021 on $1,690,000 of $1,940,000 of notes to individuals that were due on November 1, 2020. The Company paid $250,000 to a certain lender who only extended a portion of his original note.

On January 25, 2021, the Company borrowed $2.175 million from a bank lender by executing a 20-year promissory note with an initial interest rate of 3.99% per annum. The note is payable $13,232 per month for the first five years after which the interest rate will be repriced at the then-current prime rate plus 1.0% per annum, with a floor rate of 3.99%. The note is guaranteed by the Company's CEO, Eric Langan. See Note 12. The Company paid approximately $25,000 in debt issuance costs at closing.

Included in the balance of debt obligations as of June 30, 2021 and September 30, 2020 are two notes borrowed from related parties (see Note 12)—one note for $500,000 (from an employee of the Company who is also the brother of our director, Nourdean Anakar) and another note for $100,000 (from a brother of Company CFO, Bradley Chhay)—and two notes totaling $500,000 borrowed from two non-officer employees. All four notes are part of a larger group of private lenders, with the terms of the notes being the same as the rest of the lender group.

Future maturities of debt obligations as of June 30, 2021 are as follows: $13.9 million, $11.5 million, $8.3 million, $8.3 million, $8.5 million, and $78.2 million for the twelve months ending June 30, 2022, 2023, 2024, 2025, 2026, and thereafter, respectively. Of the maturity schedule mentioned above, $4.0 million, $3.7 million, $0, $0, $0, and $42.3 million, respectively, relate to scheduled balloon payments. Unamortized debt discount and issuance costs amounted to $1.1 million and $1.2 million as of June 30, 2021 and September 30, 2020, respectively.

Included in the balance of debt obligations as of June 30, 2021 and September 30, 2020 are PPP loans amounting to approximately $124,000 and $5.4 million, respectively. During the three and nine months ended June 30, 2021, we received 0 and 11 notices, respectively, approving the forgiveness of 100% of each of the 11 PPP loans amounting to $0 and $5.3 million, respectively, in principal and interest, which are included in non-operating gains (losses), net in our unaudited condensed consolidated statement of operations. As of the date of the filing of this report, we have not received a forgiveness notice for only one PPP loan that, if not forgiven, under the terms of the loans as provided by the CARES Act, bears an interest rate of 1% per annum. See Note 3.

8. Equity

During the three and nine months ended June 30, 2021, the Company purchased and retired 0 and 74,659 common shares, respectively, at a cost of approximately $0 and $1.8 million, respectively. The Company paid $0.04 and $0.12 per share cash dividend during the three and nine months ended June 30, 2021 totaling approximately $360,000 and $1.1 million, respectively.

During the three and nine months ended June 30, 2020, the Company purchased and retired 0 and 465,390 common shares, respectively, at a cost of approximately $0 and $8.5 million, respectively. The Company paid $0.03 and $0.10 per share cash dividend during the three and nine months ended June 30, 2020 totaling approximately $273,000 and $920,000, respectively.

9. Income Taxes

Income taxes expense was $4.0 million and $5.5 million during the three and nine months ended June 30, 2021, respectively, compared to a benefit of $1.4 million and $1.3 million during the three and nine months ended June 30, 2020, respectively. The effective income tax rate was an expense of 24.4% and 16.6% for the three and nine months ended June 30, 2021, respectively, compared to a benefit of 20.5% and 26.9% for the three and nine months ended June 30, 2020, respectively. Our effective tax rate is affected by the statutory federal income tax rate, state taxes, permanent differences, and tax credits, including the FICA tip credit, for both years, and the change in the deferred tax asset valuation allowance and the impact of the forgiveness of the PPP loans in the current year-to-date period.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states. The Company's federal income tax returns for the years ended September 30, 2013 through 2017 have been examined by the Internal Revenue Service with only immaterial changes. Fiscal year ended September 30, 2018 and subsequent years remain open to federal tax examination.

The Company accounts for uncertain tax positions pursuant to ASC Topic 740, *Income Taxes*. As of June 30, 2021 and September 30, 2020, there was no liability for uncertain tax positions. The Company recognizes interest accrued related to uncertain tax positions in interest expense and penalties in selling, general and administrative expenses in our consolidated statements of operations.

On March 27, 2020, former President Trump signed the CARES Act into law. As a result of this, additional avenues of relief were made available to workers and families through enhanced unemployment insurance provisions and to small businesses through programs administered by the Small Business Administration. The CARES Act included, among other items, provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property. The Company is currently evaluating the impact of the provisions of the CARES Act. The CARES Act also established the Paycheck Protection Program, whereby certain small businesses are eligible for loans to fund payroll expenses, rent, and related costs. The loans may be forgiven if the funds are used for payroll and other qualified expenses. The Company submitted its application for a PPP loan and on May 8, 2020 received approval and funding for its restaurants, shared service entity and lounge. Ten of our restaurant subsidiaries received amounts ranging from $271,000 to $579,000 for an aggregate amount of $4.2 million; our shared-services subsidiary received $1.1 million; and one of our lounges received $124,000. None of our adult nightclub and other non-core business subsidiaries received funding under the PPP. The Company believes it has used the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The Company has currently utilized all of the PPP funds and has submitted its forgiveness applications. During the three and nine months ended June 30, 2021, we received 0 and 11 Notices of PPP Forgiveness Payment, respectively, from the Small Business Administration out of the 12 of our PPP loans granted. All of the notices received forgave 100% of each of the 11 PPP loans totaling the amount of $0 and $5.3 million in principal and interest during the three and nine months ended June 30, 2021, respectively, and were included in non-operating gains (losses), net in our unaudited condensed consolidated statement of operations. No assurance can be provided that the Company will obtain forgiveness of the $124,000 remaining PPP loan in whole or in part. See Notes 3 and 7.

10. Commitments and Contingencies

Legal Matters

<u>Texas Patron Tax</u>

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

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

The aggregate balance of Patron Tax settlement liability, which is included in debt in the consolidated balance sheets, amounted to $1.2 million and $2.2 million as of June 30, 2021 and September 30, 2020, respectively.

A declaratory judgment action was brought by five operating subsidiaries of the Company to challenge a Texas Comptroller administrative rule related to the $5 per customer Patron Tax Fee assessed against Sexually Oriented Businesses. An administrative rule attempted to expand the fee to cover venues featuring dancers using latex cover as well as traditional nude entertainment. The administrative rule was challenged on both constitutional and statutory grounds. On November 19, 2018, the Court issued an order that a key aspect of the administrative rule is invalid based on it exceeding the scope of the Comptroller's authority. On March 6, 2020, the U.S. District Court for the Western District of Texas, Austin Division, ruled that the Texas Patron Tax is unconstitutional as it has been applied and enforced by the Comptroller. The State of Texas has filed an appeal. We will continue to vigorously defend the matter through the appeals process.

Indemnity Insurance Corporation

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

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

On April 10, 2014, the Court of Chancery of the State of Delaware entered a Liquidation and Injunction Order With Bar Date ("Liquidation Order"), which ordered the liquidation of IIC and terminated all insurance policies or contracts of insurance issued by IIC. The Liquidation Order further ordered that all claims against IIC must have been filed with the Receiver before the close of business on January 16, 2015 and that all pending lawsuits involving IIC as the insurer were further stayed or abated until October 7, 2014. As a result, the Company and its subsidiaries no longer have insurance coverage under the liability policy with IIC. The Company has retained counsel to defend against and evaluate these claims and lawsuits. We are funding 100% of the costs of litigation and will seek reimbursement from the bankruptcy receiver. The Company filed the appropriate claims against IIC with the Receiver before the January 16, 2015 deadline and has provided updates as requested; however, there are no assurances of any recovery from these claims. It is unknown at this time what effect this uncertainty will have on the Company. As previously stated, since October 25, 2013, the Company has obtained general liability coverage from other insurers, which have covered and/or will cover any claims arising from actions after that date. As of June 30, 2021, we have 2 unresolved claims out of the original 71 claims.

Shareholder Class and Derivative Actions

In May and June 2019, three putative securities class action complaints were filed against RCI Hospitality Holdings, Inc. and certain of its officers in the Southern District of Texas, Houston Division. The complaints allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and 10b-5 promulgated thereunder based on alleged materially false and misleading statements made in the Company's SEC filings and disclosures as they relate to various alleged transactions by the Company and management. The complaints seek unspecified damages, costs, and attorneys' fees. These lawsuits are *Hoffman v. RCI Hospitality Holdings, Inc., et al.* (filed May 21, 2019, naming the Company and Eric Langan); *Gu v. RCI Hospitality Holdings, Inc., et al.* (filed May 28, 2019, naming the Company, Eric Langan, and Phil Marshall (who is no longer an officer of the Company)); and *Grossman v. RCI Hospitality Holdings, Inc., et al.* (filed June 28, 2019, naming the Company, Eric Langan, and Phil Marshall). The plaintiffs in all three cases moved to consolidate the purported class actions. On January 10, 2020 an order consolidating the *Hoffman*, *Grossman*, and *Gu* cases was entered by the Court. The consolidated case is styled *In re RCI Hospitality Holdings, Inc.*, No. 4:19-cv-01841. On February 24, 2020, the plaintiffs in the consolidated case filed an Amended Class Action Complaint, continuing to allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and 10b-5 promulgated thereunder. In addition to naming the Company, Eric Langan, and Phil Marshall, the amended complaint also adds director Nourdean Anakar and former director Steven Jenkins as defendants. On April 24, 2020, the Company and the individual defendants moved to dismiss the amended complaint for failure to state a claim upon which relief can be granted. On March 31, 2021, the court denied defendants' motion to dismiss the lawsuit. On April 14, 2021, defendants filed their answer and affirmative defenses, denying liability as to all claims. On June 14, 2021, a scheduling order was entered in the case, setting January 9, 2023 as the trial date. The Company intends to continue to vigorously defend against this action. This action is in its preliminary phase, and a potential loss cannot yet be estimated.

On August 16, 2019, a shareholder derivative action was filed in the Southern District of Texas, Houston Division against officers and directors Eric S. Langan, Phillip Marshall, Nourdean Anakar, Yura Barabash, Luke Lirot, Travis Reese, former director Steven Jenkins, and RCI Hospitality Holdings, Inc., as nominal defendant. The action, styled *Cecere v. Langan, et al.*, 4:19-cv-03080, alleged that the individual officers and directors made or caused the Company to make a series of materially false and/or misleading statements and omissions regarding the Company's business, operations, prospects, and legal compliance and engaged in or caused the Company to engage in, inter alia, related party transactions, questionable uses of corporate assets, and failure to maintain internal controls. The action asserted claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, and violations of Sections 14(a), 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaint sought injunctive relief, damages, restitution, costs, and attorneys' fees. On June 1, 2021, the Company and the individual defendants moved to dismiss the lawsuit based on the plaintiff's failure to make a pre-suit demand prior to filing of the derivative action, as is required under Texas law. In response, the plaintiff filed a motion to voluntarily dismiss his claims. On June 21, 2021, the court granted that motion and entered an order dismissing this lawsuit in its entirety, without prejudice.

Other

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

The Company has been sued by a landlord in the 333rd Judicial District Court of Harris County, Texas for a Houston Bombshells which was under renovation in 2015. The plaintiff alleges RCI Hospitality Holdings, Inc.'s subsidiary, BMB Dining Services (Willowbrook), Inc., breached a lease agreement by constructing an outdoor patio, which allegedly interfered with the common areas of the shopping center, and by failing to provide Plaintiff with proposed plans before beginning construction. Plaintiff also asserts RCI Hospitality Holdings, Inc. is liable as guarantor of the lease. The lease was for a Bombshells restaurant to be opened in the Willowbrook Shopping Center in Houston, Texas. Both RCI Hospitality Holdings, Inc. and BMB Dining Services (Willowbrook), Inc. have denied liability and assert that Plaintiff has failed to mitigate its claimed damages. Further, BMB Dining Services (Willowbrook), Inc. asserts that Plaintiff affirmatively represented that the patio could be constructed under the lease and has filed counter claims and third-party claims against Plaintiff and Plaintiff's manager asserting that they committed fraud and that the landlord breached the applicable agreements. The case was tried to a jury in late September 2018 and an adverse judgment was entered in January 2019 in the amount totaling $1.0 million, which includes damages, attorney fees and interest. The matter was appealed to the Court of Appeals for the First District of Texas. The appeal process required that a check be deposited in the registry of the court in the amount of $690,000, which was deposited in April 2019 and is included in other current assets in both consolidated balance sheets as of June 30, 2021 and September 30, 2020. On June 3, 2021, the Court of Appeals issued a decision affirming the lower court's judgment in the case. A motion for rehearing en-banc will be requested to ask the full court to reconsider the June 3rd decision. Management believes that the case has no merit and will continue to vigorously defend itself throughout the appeal.

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

As set forth in the risk factors as disclosed in our most recent Annual Report on Form 10-K, the adult entertainment industry standard is to classify adult entertainers as independent contractors, not employees. While we take steps to ensure that our adult entertainers are deemed independent contractors, from time to time, we are named in lawsuits related to the alleged misclassification of entertainers. Claims are brought under both federal and where applicable, state law. Based on the industry standard, the manner in which the independent contractor entertainers are treated at the clubs, and the entertainer license agreements governing the entertainer's work at the clubs, the Company believes that these lawsuits are without merit. Lawsuits are handled by attorneys with an expertise in the relevant law and are defended vigorously.

Due to several COVID-19 regulations and restrictions imposed on some of our businesses by local municipalities and/or States, certain of our subsidiaries are plaintiffs to lawsuits that have been filed on behalf of the affected entities to have the restrictions eased or removed entirely. The lawsuits may increase or decrease based on the spread of the disease and new or additional restrictions placed on our businesses.

General

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

Settlements of lawsuits for the three and nine months ended June 30, 2021 amount to approximately $127,000 and $280,000, respectively, while for the three and nine months ended June 30, 2020 amounted to approximately $50,000 and $74,000, respectively. As of June 30, 2021 and September 30, 2020, the Company has accrued $103,000 and $100,000 in accrued liabilities, respectively, related to settlement of lawsuits.

11. Segment Information

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

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2021	2020	2021	2020
Revenues (from external customers)				
Nightclubs	$ 41,031	$ 6,013	$ 97,015	$ 75,239
Bombshells	16,077	8,531	42,218	27,684
Other	752	177	1,084	618
	$ 57,860	$ 14,721	$ 140,317	$ 103,541
Income (loss) from operations				
Nightclubs	$ 18,350	$ (3,038)	$ 37,313	$ 13,002
Bombshells	4,404	1,850	10,263	4,109
Other	321	(92)	107	(423)
General corporate	(4,568)	(3,377)	(12,752)	(14,134)
	$ 18,507	$ (4,657)	$ 34,931	$ 2,554
Depreciation and amortization				
Nightclubs	$ 1,380	$ 1,470	$ 4,117	$ 4,426
Bombshells	459	455	1,377	1,328
Other	8	103	80	311
General corporate	210	207	623	631
	$ 2,057	$ 2,235	$ 6,197	$ 6,696
Capital expenditures				
Nightclubs	$ 2,479	$ 106	$ 5,810	$ 2,964
Bombshells	1,329	136	4,584	2,473
Other	-	-	1	-
General corporate	262	-	393	128
	$ 4,070	$ 242	$ 10,788	$ 5,565

	June 30, 2021	September 30, 2020
Total assets		
Nightclubs	$ 286,629	$ 277,960
Bombshells	52,503	48,991
Other	1,395	1,269
General corporate	27,412	32,713
	$ 367,939	$ 360,933

Excluded from revenues in the table above are intercompany rental revenues of the Nightclubs and Corporate segments for the three months ended June 30, 2021 amounting to $2.8 million and $31,000, respectively, and for the nine months ended June 30, 2021 amounting to $8.4 million and $173,000, respectively, and intercompany sales of Robust Energy Drink of Other segment for the three and nine months ended June 30, 2021 amounting to $20,000 and $95,000, respectively. Excluded from revenues in the table above are intercompany rental revenues of the Nightclubs and Corporate segments for the three months ended June 30, 2020 amounting to $2.8 million and $31,000, respectively, and for the nine months ended June, 2020 amounting to $8.2 million and $94,000, respectively, and intercompany sales of Robust Energy Drink of Other segment for the three and nine months ended June 30, 2020 amounting to $3,000 and $57,000, respectively. These intercompany revenue amounts are eliminated upon consolidation.

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

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

12. Related Party Transactions

Presently, our Chairman and President, Eric Langan, personally guarantees all of the commercial bank indebtedness of the Company. Mr. Langan receives no compensation or other direct financial benefit for any of the guarantees. The balance of our commercial bank indebtedness, net of debt discount and issuance costs, as of June 30, 2021 and September 30, 2020, was $81.6 million and $83.8 million, respectively.

Included in the $2.35 million borrowing on November 1, 2018 (included in debt obligations as of June 30, 2021 and September 30, 2020) were notes borrowed from related parties—one note for $500,000 (from an employee of the Company who is also the brother of our director Nourdean Anakar) and another note for $100,000 (from a brother of Company CFO, Bradley Chhay) as part of a larger group of private lenders. The terms of these related party notes are the same as the rest of the lender group in the November 1, 2018 transaction.

We used the services of Nottingham Creations, and previously Sherwood Forest Creations, LLC, both furniture fabrication companies that manufacture tables, chairs and other furnishings for our Bombshells locations, as well as providing ongoing maintenance. Nottingham Creations is owned by a brother of Eric Langan (as was Sherwood Forest). Amounts billed to us for goods and services provided by Nottingham Creations and Sherwood Forest were $3,182 and $118,092 during the three and nine months ended June 30, 2021, respectively, and $0 and $72,809 during the three and nine months ended June 30, 2020, respectively. As of June 30, 2021 and September 30, 2020, we owed Nottingham Creations and Sherwood Forest $12,205 and $0, respectively, in unpaid billings.

TW Mechanical LLC (“TW Mechanical”) provided plumbing and HVAC services to both a third-party general contractor providing construction services to the Company, as well as directly to the Company during fiscal 2021 and 2020. A son-in-law of Eric Langan owns a noncontrolling interest in TW Mechanical. Amounts billed by TW Mechanical to the third-party general contractor were $0 and $0 for the three and nine months ended June 30, 2021, respectively, and $0 and $18,758 for the three and nine months ended June 30, 2020, respectively. Amounts billed directly to the Company were $325,425 and $388,176 for the three and nine months ended June 30, 2021, respectively, and $11,363 and $37,605 for the three and nine months ended June 30, 2020, respectively. As of June 30, 2021 and September 30, 2020, the Company owed TW Mechanical $14,239 and $5,700, respectively, in unpaid direct billings.

13. Leases

The Company leases certain facilities and equipment under operating leases. Total lease expense, under ASC 842, was included in selling, general and administrative expenses in our unaudited condensed consolidated statement of operations, except for sublease income which was included in other revenue, for the three and nine months ended June 30, 2021 and 2020 as follows (in thousands):

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2021	2020	2021	2020
Operating lease expense – fixed payments	$ 828	$ 839	$ 2,485	$ 2,519
Variable lease expense	47	158	155	288
Short-term equipment and other lease expense (includes $73 and $12 recorded in advertising and marketing for the three months ended June 30, 2021 and 2020, respectively, and $232 and $303 for the nine months ended June 30, 2021 and 2020, respectively; and $106 and $72 recorded in repairs and maintenance for the three months ended June 30, 2021 and 2020, respectively, and $310 and $297 for the nine months ended June 30, 2021 and 2020, respectively; see Note 5)	296	97	843	856
Sublease income	(2)	(2)	(5)	(8)
Total lease expense, net	$ 1,169	$ 1,092	$ 3,478	$ 3,655
Other information:				
Operating cash outflows from operating leases	$ 1,147	$ 1,051	$ 3,400	$ 3,513
Weighted average remaining lease term			12 years	13 years
Weighted average discount rate			6.0%	6.1%

Future maturities of ASC 842 lease liabilities as of June 30, 2021 are as follows (in thousands):

	Principal Payments	Interest Payments	Total Payments
July 2021 – June 2022	$ 1,720	$ 1,528	$ 3,248
July 2022 – June 2023	1,736	1,423	3,159
July 2023 – June 2024	1,796	1,318	3,114
July 2024 – June 2025	1,967	1,206	3,173
July 2025 – June 2026	2,169	1,082	3,251
Thereafter	16,692	4,623	21,315
	$ 26,080	$ 11,180	$ 37,260

14. Subsequent Events

On July 23, 2021, we and certain of our subsidiaries entered into definitive agreements (the “Agreements”) to acquire eleven gentlemen’s clubs, nine of which are controlled by club entrepreneur Troy Lowrie of Lakewood, Colorado, six related real estate properties, and associated intellectual property for a total acquisition price of $88.0 million (the “Acquisition”). The Agreements for the eleven clubs being purchased include ten Asset Purchase Agreements and one Stock Purchase Agreement. The sellers collectively own and operate adult entertainment clubs in six states, four of which we do not currently have a presence. Closing of the Acquisition is subject to transfer of all necessary permits, licenses, and other authorizations; closing on the bank financing; and other customary closing conditions.

We have not completed our valuation analysis and related calculations in sufficient detail necessary to arrive at the fair values of the assets acquired, along with the determination of any goodwill or gain on the transaction. Since the initial accounting of the acquisition is incomplete, we also could not provide supplemental pro forma information of the combined entities as of this time.

As of the filing of this report, we are in negotiations with our bank lender to refinance most of our existing real estate debt and to partially finance the real estate purchases related to the Acquisition.

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes thereto included in this quarterly report, and the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended September 30, 2020.

Overview

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

Through our subsidiaries, as of June 30, 2021, we operated a total of 48 establishments that offer live adult entertainment and/or restaurant and bar operations, including one club that is being renovated due to hurricane damage. We also operated a leading business communications company serving the multi-billion-dollar adult nightclubs industry. We have two principal reportable segments: Nightclubs and Bombshells. We combine other operating segments into "Other." In the context of club and restaurant/sports bar operations, the terms the "Company," "we," "our," "us" and similar terms used in this report refer to subsidiaries of RCIHH. RCIHH was incorporated in the State of Texas in 1994. Our corporate offices are located in Houston, Texas.

Impact of COVID-19 Pandemic

Starting in March 2020, our businesses were heavily impacted by the COVID-19 pandemic through the temporary closure and reopening of a number of our clubs and restaurants in adherence to federal, state and local government mandates. Our total revenues for the three and nine months ended June 30, 2021 increased by 293.0% and 35.5%, respectively, versus last year due to the impact of the pandemic in fiscal 2020. For illustrative purposes, the current quarter and current year-to-date total revenues increased by 23.0% and 3.3% compared to the corresponding period in pre-pandemic fiscal 2019.

To adapt to the situation, we took significant steps to augment an anticipated decline in operating cash flows, including negotiating deferment of some of our debts, reducing the number of our employees and related payroll costs where necessary, and deferring or modifying certain fixed and variable monthly expenses, among others.

As of the release of this report, we do not know the future extent and duration of the impact of COVID-19 on our businesses. Closures and operating restrictions, as caused by local, state and national guidelines, could lead to adverse financial results. However, we will continually monitor and evaluate the situation and will determine any further measures to be instituted.

Critical Accounting Policies and Estimates

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

For a description of the accounting policies that, in management's opinion, involve the most significant application of judgment or involve complex estimation and which could, if different judgment or estimates were made, materially affect our reported financial position, results of operations, or cash flows, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020 filed with the SEC on December 14, 2020.

During the three and nine months ended June 30, 2021, there were no significant changes in our accounting policies and estimates other than the newly adopted accounting standards that are disclosed in Note 2 to our unaudited condensed consolidated financial statements.

We signed our first franchise agreement for Bombshells in December 2020. The financial impact of the franchise agreement was immaterial to the Company's results of operations and cash flows for the three and nine months ended June 30, 2021.

Results of Operations

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

<u>Third Quarter 2021</u>

- Total revenues were $57.9 million compared to $14.7 million during the corresponding prior-year quarter, a 293.0% increase (Nightclubs revenue of $41.0 million compared to $6.0 million, a 582.4% increase; and Bombshells revenue of $16.1 million compared to $8.5 million, an 88.5% increase)

- For illustrative purposes, total revenues increased by 23.0% compared to the corresponding period in fiscal 2019 (Nightclubs revenue increased by 8.3% and Bombshells revenue increased by 83.6%)

- No club nor Bombshells location qualified for same-store sales comparisons because of closures in fiscal 2020 in connection with the pandemic

- Basic and diluted earnings per share ("EPS") of $1.37 compared to a basic and diluted loss per share of $0.60 last year (non-GAAP diluted EPS* of $1.36 compared to a loss of $0.74)

- Net cash provided by operating activities of $15.0 million compared to $166,000 during the comparable prior-year period, an 8,918.7% increase (free cash flow* of $13.0 million compared to $166,000, a 7,703.6% increase)

Year-to-Date 2021

- Total revenues were $140.3 million compared to $103.5 million during the corresponding prior-year period, a 35.5% increase (Nightclubs revenue of $97.0 million compared to $75.2 million, a 28.9% increase; and Bombshells revenue of $42.2 million compared to $27.7 million, a 52.5% increase)

- For illustrative purposes, total revenues increased by 3.3% compared to the corresponding period in fiscal 2019 (Nightclubs revenue decreased by 13.9% and Bombshells revenue increased by 89.4%)

- Basic and diluted EPS of $3.11 compared to a basic and diluted loss per share of $0.36 (non-GAAP diluted EPS* of $2.50 compared to $0.36)

- Net cash provided by operating activities of $32.2 million compared to $12.1 million during the comparable prior-year period, a 165.2% increase (free cash flow* of $27.6 million compared to $10.0 million, a 175.1% increase)

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

Three Months Ended June 30, 2021 Compared to Three Months Ended June 30, 2020

The following table summarizes our results of operations for the three months ended June 30, 2021 (dollars in thousands):

	For the Three Months Ended					
	June 30, 2021		June 30, 2020		Better (Worse)	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
Revenues						
Sales of alcoholic beverages	$ 25,092	43.4%	$ 7,623	51.8%	$ 17,469	229.2%
Sales of food and merchandise	12,058	20.8%	3,452	23.4%	8,606	249.3%
Service revenues	16,880	29.2%	2,907	19.7%	13,973	480.7%
Other	3,830	6.6%	739	5.0%	3,091	418.3%
Total revenues	57,860	100.0%	14,721	100.0%	43,139	293.0%
Operating expenses						
Cost of goods sold						
Alcoholic beverages sold	4,621	18.4%	1,245	16.3%	(3,376)	(271.2)%
Food and merchandise sold	4,043	33.5%	1,128	32.7%	(2,915)	(258.4)%
Service and other	208	1.0%	17	0.5%	(191)	(1,123.5)%
Total cost of goods sold (exclusive of items shown separately below)	8,872	15.3%	2,390	16.2%	(6,482)	(271.2)%
Salaries and wages	13,870	24.0%	5,421	36.8%	(8,449)	(155.9)%
Selling, general and administrative	14,697	25.4%	8,908	60.5%	(5,789)	(65.0)%
Depreciation and amortization	2,057	3.6%	2,235	15.2%	178	8.0%
Other charges (gains), net	(143)	(0.2)%	424	2.9%	567	133.7%
Total operating expenses	39,353	68.0%	19,378	131.6%	(19,975)	(103.1)%
Income (loss) from operations	18,507	32.0%	(4,657)	(31.6)%	23,164	497.4%
Other income (expenses)						
Interest expense	(2,281)	(3.9)%	(2,459)	(16.7)%	178	7.2%
Interest income	72	0.1%	80	0.5%	(8)	(10.0)%
Non-operating gains, net	9	0.0%	31	0.2%	(22)	(71.0)%
Income (loss) before income taxes	16,307	28.2%	(7,005)	(47.6)%	23,312	332.8%
Income tax expense (benefit)	3,986	6.9%	(1,437)	(9.8)%	(5,423)	(377.4)%
Net income (loss)	$ 12,321	21.3%	$ (5,568)	(37.8)%	$ 17,889	321.3%

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

Revenues

Consolidated revenues increased by approximately $43.1 million, or 293.0%, due primarily to last year's impact of closures caused by the COVID-19 pandemic. No club or Bombshells location qualified for same-store sales since all units exceeded the number of closure days in the prior year to be considered not comparable. For illustrative purposes, we are including a comparison to the corresponding quarter of fiscal 2019 in the revenue discussion below.

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

	For the Three Months Ended June 30,		
	2021	2020	2019
Nightclubs			
Sales of alcoholic beverages	$ 16,130	$ 1,777	$ 14,597
Sales of food and merchandise	5,062	774	3,312
Service revenues	16,772	2,906	17,257
Other revenues	3,067	556	2,723
	41,031	6,013	37,889
Bombshells			
Sales of alcoholic beverages	8,962	5,846	4,973
Sales of food and merchandise	6,996	2,678	3,734
Service revenues	108	1	42
Other revenues	11	6	6
	16,077	8,531	8,755
Other			
Other revenues	752	177	383
	$ 57,860	$ 14,721	$ 47,027

Nightclubs revenues increased by 582.4% for the quarter ended June 30, 2021 compared to the prior-year quarter mainly due to the closure of all clubs in April 2020. Compared to pre-pandemic third quarter of 2019, current quarter Nightclubs revenues increased by 8.3% due to alcoholic beverages sales and food and merchandise sales increases of 10.5% and 52.8%, respectively, from higher traffic partially offset by a service revenue decrease of 2.8% due to social distancing restrictions.

Bombshells revenues increased by 88.5% compared to last year mainly due to closures in April 2020, while also up 83.6% compared to the 2019 quarter primarily due to two new locations.

Operating Expenses

Total operating expenses, as a percent of revenues, for the third quarter ended June 30, 2021 decreased to 68.0% from 131.6% from last year's third quarter, with a $20.0 million decrease, or 103.1%, which is mainly caused by the overall impact of last year's pandemic closures. Significant contributors to the changes in operating expenses for the quarter are explained below.

Cost of goods sold increased by $6.5 million, or 271.2%, mainly due to higher sales in the current quarter. As a percent of total revenues, cost of goods sold decreased to 15.3% from 16.2% mainly due to the sales mix shifting to higher-margin service revenues.

Salaries and wages increased by $8.4 million, or 155.9%, due to the closures last year. As a percent of total revenues, salaries and wages were lower at 24.0% from 36.8% mainly due to fixed salaries paid on lower sales during the prior-year quarter.

Selling, general and administrative expenses increased by $5.8 million, or 65.0%, primarily due to the increase in most of the variable expenses as caused by higher sales in the current year. As a percent of total revenues, selling, general and administrative expenses decreased to 25.4% from 60.5% due to last year's fixed expenses on significantly lower sales.

Our total occupancy costs, defined as the sum of lease expense and interest expense (see below), were $3.3 million and $3.5 million for the quarter ended June 30, 2021 and 2020, respectively. As a percentage of revenue, total occupancy costs were 5.7% and 23.6% during the quarter ended June 30, 2021 and 2020, respectively, primarily due to the lower sales base in last year's quarter.

Depreciation and amortization decreased by $178,000, or 8.0% partly due to fully depreciated real estate and software assets.

Other charges (gains), net was a net gain of $143,000 from a net charge of $424,000, which was primarily due to the current quarter's lower impairment charges.

Income (Loss) from Operations

For the three months ended June 30, 2021 and 2020, our consolidated operating margin was 32.0% and (31.6)%, respectively. The main driver for the increase in operating margin is the current quarter's higher sales.

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

	For the Three Months Ended June 30, 2021	2020
Nightclubs	$ 18,350	$ (3,038)
Bombshells	4,404	1,850
Other	321	(92)
General corporate	(4,568)	(3,377)
	$ 18,507	$ (4,657)

Operating margin for the Nightclubs segment was 44.7% and (50.5)% for the three months ended June 30, 2021 and 2020, respectively, while operating margin for Bombshells was 27.4% and 21.7%, respectively. The increase in Nightclubs operating margin was mainly due to last year's closures caused by the pandemic. The increase in Bombshells operating margin was mainly from higher sales and a decrease in pre-opening expenses from several Bombshells openings in prior periods.

Excluding certain items, non-GAAP operating income (loss) and non-GAAP operating margin are computed in the table below (dollars in thousands). See further discussion in the "Non-GAAP Financial Measures" section below.

	For the Three Months Ended June 30, 2021					For the Three Months Ended June 30, 2020				
	Nightclubs	Bombshells	Other	Corporate	Total	Nightclubs	Bombshells	Other	Corporate	Total
Income (loss) from operations	$ 18,350	$ 4,404	$ 321	$ (4,568)	$ 18,507	$ (3,038)	$ 1,850	$ (92)	$ (3,377)	$ (4,657)
Amortization of intangibles	47	4	-	-	51	49	3	96	-	148
Settlement of lawsuits	123	4	-	-	127	50	-	-	-	50
Impairment of assets	271	-	-	-	271	982	-	-	-	982
Loss (gain) on sale of businesses and assets	(512)	9	-	(38)	(541)	(619)	16	-	(4)	(607)
Loss (gain) on insurance	-	-	-	-	-	-	-	-	-	-
Non-GAAP operating income (loss)	$ 18,279	$ 4,421	$ 321	$ (4,606)	$ 18,415	$ (2,576)	$ 1,869	$ 4	$ (3,381)	$ (4,084)
GAAP operating margin	44.7%	27.4%	42.7%	(7.9)%	32.0%	(50.5)%	21.7%	(52.0)%	(22.9)%	(31.6)%
Non-GAAP operating margin	44.5%	27.5%	42.7%	(8.0)%	31.8%	(42.8)%	21.9%	2.3%	(23.0)%	(27.7)%

Non-Operating Items

Interest expense decreased by $178,000, or 7.2%.

Income Taxes

Income taxes were an expense of $4.0 million during the quarter ended June 30, 2021 compared to a benefit of $1.4 million during the quarter ended June 30, 2020. The effective income tax rate was an expense of 24.4% and a benefit of 20.5% for the quarter ended June 30, 2021 and 2020, respectively. Our effective tax rate is affected by the statutory federal income tax rate, state taxes, permanent differences, and tax credits, including the FICA tip credit, for both years, as presented below.

	For the Three Months Ended June 30,	
	2021	2020
Statutory federal income tax rate	21.0%	21.0%
State income taxes, net of federal benefit	4.8%	3.4%
Permanent differences	(0.1)%	(0.1)%
Tax credits	(1.2)%	(3.7)%
Effective income tax rate	24.4%	20.5%

Nine Months Ended June 30, 2021 Compared to Nine Months Ended June 30, 2020

The following table summarizes our results of operations for the nine months ended June 30, 2021 (dollars in thousands):

	For the Nine Months Ended					
	June 30, 2021		June 30, 2020		Better (Worse)	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
Revenues						
Sales of alcoholic beverages	$ 62,725	44.7%	$ 45,285	43.7%	$ 17,440	38.5%
Sales of food and merchandise	30,205	21.5%	17,378	16.8%	12,827	73.8%
Service revenues	38,442	27.4%	34,448	33.3%	3,994	11.6%
Other	8,945	6.4%	6,430	6.2%	2,515	39.1%
Total revenues	140,317	100.0%	103,541	100.0%	36,776	35.5%
Operating expenses						
Cost of goods sold						
Alcoholic beverages sold	11,613	18.5%	8,826	19.5%	(2,787)	(31.6)%
Food and merchandise sold	9,961	33.0%	5,974	34.4%	(3,987)	(66.7)%
Service and other	304	0.6%	148	0.4%	(156)	(105.4)%
Total cost of goods sold (exclusive of items shown separately below)	21,878	15.6%	14,948	14.4%	(6,930)	(46.4)%
Salaries and wages	36,556	26.1%	30,866	29.8%	(5,690)	(18.4)%
Selling, general and administrative	39,467	28.1%	39,889	38.5%	422	1.1%
Depreciation and amortization	6,197	4.4%	6,696	6.5%	499	7.5%
Other charges, net	1,288	0.9%	8,588	8.3%	7,300	85.0%
Total operating expenses	105,386	75.1%	100,987	97.5%	(4,399)	(4.4)%
Income from operations	34,931	24.9%	2,554	2.5%	32,377	1,267.7%
Other income (expenses)						
Interest expense	(7,079)	(5.0)%	(7,403)	(7.1)%	324	4.4%
Interest income	194	0.1%	263	0.3%	(69)	(26.2)%
Non-operating gains (losses), net	5,356	3.8%	(103)	(0.1)%	5,459	5,300.0%
Income (loss) before income taxes	33,402	23.8%	(4,689)	(4.5)%	38,091	812.3%
Income tax expense (benefit)	5,540	3.9%	(1,262)	(1.2)%	(6,802)	(539.0)%
Net income (loss)	$ 27,862	19.9%	$ (3,427)	(3.3)%	$ 31,289	913.0%

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

Revenues

Consolidated revenues increased by approximately $36.8 million, or 35.5%, due primarily to reopenings after the closures caused by the COVID-19 pandemic. For illustrative purposes, we are including a comparison to the corresponding quarter of fiscal 2019 in the revenue discussion below.

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

	For the Nine Months Ended June 30,		
	2021	2020	2019
Nightclubs			
Sales of alcoholic beverages	$ 38,398	$ 28,321	$ 43,547
Sales of food and merchandise	12,567	6,837	9,812
Service revenues	38,216	34,290	51,513
Other revenues	7,834	5,791	7,792
	97,015	75,239	112,664
Bombshells			
Sales of alcoholic beverages	24,327	16,964	12,819
Sales of food and merchandise	17,638	10,541	9,363
Service revenues	226	158	96
Other revenues	27	21	17
	42,218	27,684	22,295
Other			
Other revenues	1,084	618	917
	$ 140,317	$ 103,541	$ 135,876

Nightclubs revenues increased by 28.9% for the nine-month period ended June 30, 2021 compared to the comparable prior-year period mainly due to pandemic restrictions in 2020. Compared to pre-pandemic nine-month period of fiscal 2019, current year Nightclubs revenues decreased by 13.9% due to alcoholic beverages sales and service revenue decreases of 11.8% and 25.8%, respectively, caused by stricter pandemic restriction at the early part of fiscal 2021 partially offset by food and merchandise sales increase of 28.1% due to customer spending shift.

Bombshells revenues increased by 52.5% compared to last year mainly due to closures in April 2020, and increased by 89.4% compared to the 2019 nine-month period primarily due to two new locations.

Operating Expenses

Total operating expenses, as a percent of revenues, for the nine months ended June 30, 2021 decreased to 75.1% from 97.5% from the comparable period last year, with a $4.4 million increase, or 4.4%, which is mainly caused by a $6.9 million increase in cost of goods sold and a $5.7 million increase in salaries and wages, partially offset by a higher impairment in the prior year. Significant contributors to the changes in operating expenses for the year-to-date period are explained below.

Cost of goods sold increased by $6.9 million, or 46.4%, mainly due the increase in sales. As a percent of total revenues, cost of goods sold increased to 15.6% from 14.4% mainly due to the shift in sales mix.

Salaries and wages increased by $5.7 million, or 18.4%, mainly due to increased staffing for reopenings after COVID-19-related closures. As a percent of total revenues, salaries and wages were lower at 26.1% from 29.8% mainly due to fixed salaries paid on lower sales during the prior-year period.

Selling, general and administrative expenses decreased by $422,000, or 1.1%, primarily due to decreased audit and legal fees from prior year's SEC matters, and controlled advertising and marketing expenses due to uncertainty brought about by the pandemic. As a percent of total revenues, selling, general and administrative expenses decreased to 28.1% from 38.5% due to legal and accounting fees and advertising and marketing expenses.

Our total occupancy costs, defined as the sum of lease expense and interest expense (see below), were $10.0 million and $10.5 million for the nine months ended June 30, 2021 and 2020, respectively. As a percentage of revenue, total occupancy costs were 7.1% and 10.1% during the nine months ended June 30, 2021 and 2020, respectively, primarily due to lower sales base in the prior-year nine-month period.

Depreciation and amortization decreased by $499,000, or 7.5% partly due to fully depreciated real estate and software assets.

Other charges, net decreased to $1.3 million from $8.6 million, which was primarily caused by impairment charges of $1.7 million and $9.2 million during the nine months ended June 30, 2021 and 2020, respectively.

Income from Operations

For the nine months ended June 30, 2021 and 2020, our consolidated operating margin was 24.9% and 2.5%, respectively. The main drivers for the increase in operating margin are the current period's higher sales and gain on debt extinguishment, and the prior-year period's higher impairment charges.

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

	For the Nine Months Ended June 30,	
	2021	**2020**
Nightclubs	$ 37,313	$ 13,002
Bombshells	10,263	4,109
Other	107	(423)
General corporate	(12,752)	(14,134)
	$ 34,931	$ 2,554

Operating margin for the Nightclubs segment was 38.5% and 17.3% for the nine months ended June 30, 2021 and 2020, respectively, while operating margin for Bombshells was 24.3% and 14.8%, respectively. The increase in Nightclubs operating margin was mainly due to this year's higher sales and last year's impairment charges triggered by the pandemic. The increase in Bombshells operating margin was mainly from higher sales and a decrease in pre-opening expenses from several Bombshells openings in prior periods.

Excluding certain items, non-GAAP operating income (loss) and non-GAAP operating margin are computed in the table below (dollars in thousands). See further discussion in the "Non-GAAP Financial Measures" section below.

	For the Nine Months Ended June 30, 2021					For the Nine Months Ended June 30, 2020				
	Nightclubs	Bombshells	Other	Corporate	Total	Nightclubs	Bombshells	Other	Corporate	Total
Income (loss) from operations	$ 37,313	$ 10,263	$ 107	$ (12,752)	$ 34,931	$ 13,002	$ 4,109	$ (423)	$ (14,134)	$ 2,554
Amortization of intangibles	141	11	57	-	209	163	11	287	-	461
Settlement of lawsuits	237	38	5	-	280	74	-	-	-	74
Impairment of assets	1,672	-	-	-	1,672	8,947	245	-	-	9,192
Loss (gain) on sale of businesses and assets	(498)	56	-	(13)	(455)	(619)	16	-	(41)	(644)
Gain on insurance	(165)	-	-	(44)	(209)	(20)	-	-	(13)	(33)
Non-GAAP operating income (loss)	$ 38,700	$ 10,368	$ 169	$ (12,809)	$ 36,428	$ 21,547	$ 4,381	$ (136)	$ (14,188)	$ 11,604
GAAP operating margin	38.5%	24.3%	9.9%	(9.1)%	24.9%	17.3%	14.8%	(68.4)%	(13.7)%	2.5%
Non-GAAP operating margin	39.9%	24.6%	15.6%	(9.1)%	26.0%	28.6%	15.8%	(22.0)%	(13.7)%	11.2%

Non-Operating Items

During the nine months ended June 30, 2021, we received 11 notices of forgiveness for a PPP loan, which forgave 100% of the PPP loans' principal and interest amounting to $5.3 million.

Interest expense decreased by $324,000, or 4.4%.

Income Taxes

Income taxes were an expense of $5.5 million during the nine months ended June 30, 2021 compared to a benefit of $1.3 million during the nine months ended June 30, 2020. The effective income tax rate was an expense of 16.6% and a benefit of 26.9% for the nine months ended June 30, 2021 and 2020, respectively. Our effective tax rate is affected by the statutory federal income tax rate, state taxes, permanent differences, and tax credits, including the FICA tip credit, for both years, and the change in the deferred tax asset valuation allowance and the impact of the forgiveness of the PPP loans in the current period, as presented below.

	For the Nine Months Ended June 30,	
	2021	2020
Statutory federal income tax rate	21.0%	21.0%
State income taxes, net of federal benefit	4.9%	2.8%
Permanent differences	(3.7)%	(0.4)%
Change in valuation allowance	(3.8)%	-
Tax credits	(1.8)%	3.5%
Effective income tax rate	16.6%	26.9%

Non-GAAP Financial Measures

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

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

Non-GAAP Net Income and Non-GAAP Net Income per Diluted Share. We calculate non-GAAP net income and non-GAAP net income per diluted share by excluding or including certain items to net income attributable to RCIHH common stockholders and diluted earnings per share. Adjustment items are: (a) amortization of intangibles, (b) gains or losses on sale of businesses and assets, (c) gains or losses on insurance, (d) unrealized gains or losses on equity securities, (e) impairment of assets, (f) settlement of lawsuits, (g) gain on debt extinguishment, and (h) the income tax effect of the above described adjustments. Included in the income tax effect of the above adjustments is the net effect of the non-GAAP provision for income taxes, calculated at 24.3% and 26.9% effective tax rate of the pre-tax non-GAAP income before taxes for the nine months ended June 30, 2021 and 2020, respectively, and the GAAP income tax expense (benefit). We believe that excluding and including such items help management and investors better understand our operating activities.

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

We also use certain non-GAAP cash flow measures such as free cash flow. See "Liquidity and Capital Resources" section for further discussion.

The following tables present our non-GAAP performance measures for the three and nine months ended June 30, 2021 and 2020 (in thousands, except per share amounts and percentages):

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2021	2020	2021	2020
Reconciliation of GAAP net income (loss) to Adjusted EBITDA				
Net income (loss) attributable to RCIHH common stockholders	$ 12,302	$ (5,474)	$ 28,036	$ (3,292)
Income tax expense (benefit)	3,986	(1,437)	5,540	(1,262)
Interest expense, net	2,209	2,379	6,885	7,140
Settlement of lawsuits	127	50	280	74
Impairment of assets	271	982	1,672	9,192
Gain on sale of businesses and assets	(541)	(608)	(455)	(645)
Gain on debt extinguishment	-	-	(5,329)	-
Unrealized loss (gain) on equity securities	(9)	(31)	58	103
Gain on insurance	-	-	(209)	(33)
Depreciation and amortization	2,057	2,235	6,197	6,696
Adjusted EBITDA	$ 20,402	$ (1,904)	$ 42,675	$ 17,973
Reconciliation of GAAP net income (loss) to non-GAAP net income (loss)				
Net income (loss) attributable to RCIHH common stockholders	$ 12,302	$ (5,474)	$ 28,036	$ (3,292)
Amortization of intangibles	51	149	209	462
Settlement of lawsuits	127	50	280	74
Impairment of assets	271	982	1,672	9,192
Gain on sale of businesses and assets	(541)	(608)	(455)	(645)
Gain on debt extinguishment	-	-	(5,329)	-
Unrealized loss (gain) on equity securities	(9)	(31)	58	103
Gain on insurance	-	-	(209)	(33)
Net income tax effect	39	(1,840)	(1,702)	(2,499)
Non-GAAP net income (loss)	$ 12,240	$ (6,772)	$ 22,560	$ 3,362
Reconciliation of GAAP diluted earnings (loss) per share to non-GAAP diluted earnings (loss) per share				
Diluted shares	9,000	9,125	9,006	9,224
GAAP diluted earnings (loss) per share	$ 1.37	$ (0.60)	$ 3.11	$ (0.36)
Amortization of intangibles	0.01	0.02	0.02	0.05
Settlement of lawsuits	0.01	0.01	0.03	0.01
Impairment of assets	0.03	0.11	0.19	1.00
Gain on sale of businesses and assets	(0.06)	(0.07)	(0.05)	(0.07)
Gain on debt extinguishment	-	-	(0.59)	-
Unrealized loss (gain) on equity securities	(0.00)	(0.00)	0.01	0.01
Gain on insurance	-	-	(0.02)	(0.00)
Net income tax effect	0.00	(0.20)	(0.19)	(0.27)
Non-GAAP diluted earnings per share	$ 1.36	$ (0.74)	$ 2.50	$ 0.36
Reconciliation of GAAP operating income (loss) to non-GAAP operating income (loss)				
Income (loss) from operations	$ 18,507	$ (4,657)	$ 34,931	$ 2,554
Amortization of intangibles	51	149	209	462
Settlement of lawsuits	127	50	280	74
Impairment of assets	271	982	1,672	9,192
Gain on insurance	-	-	(209)	(33)
Gain on sale of businesses and assets	(541)	(608)	(455)	(645)
Non-GAAP operating income (loss)	$ 18,415	$ (4,084)	$ 36,428	$ 11,604
Reconciliation of GAAP operating margin to non-GAAP operating margin				
GAAP operating margin	32.0%	(31.6)%	24.9%	2.5%
Amortization of intangibles	0.1%	1.0%	0.1%	0.4%
Settlement of lawsuits	0.2%	0.3%	0.2%	0.1%
Impairment of assets	0.5%	6.7%	1.2%	8.9%
Gain on insurance	-	-	(0.1)%	(0.0)%

Gain on sale of businesses and assets	(0.9)%	(4.1)%	(0.3)%	(0.6)%
Non-GAAP operating margin	31.8%	(27.7)%	26.0%	11.2%

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

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

Liquidity and Capital Resources

At June 30, 2021, our cash and cash equivalents were approximately $29.1 million compared to $15.6 million at September 30, 2020. Because of the large volume of cash we handle, we have very stringent cash controls. As of June 30, 2021, we had positive working capital of $7.3 million compared to a negative working capital of $5.9 million as of September 30, 2020, excluding assets held for sale (net of associated liabilities of $1.1 million and $0, respectively) amounting to $3.8 million and $0 as of June 30, 2021 and September 30, 2020, respectively. Although we believe that our ability to generate cash from operating activities is one of our fundamental financial strengths, the temporary closure of our clubs and restaurants caused by the COVID-19 pandemic presented operational challenges. Our strategy is to open locations and operate in accordance with local and state guidelines. Revenues seem favorable now that all our locations are not under pandemic-related closure mandates. We believe that we can borrow capital if need be but currently we do not have unused credit facilities so there can be no guarantee that additional liquidity will be readily available or available on favorable terms.

To adapt to the situation, we took significant steps to augment an anticipated decline in operating cash flows, including negotiating deferment of some of our debts, reducing the number of our employees and related payroll costs where necessary, and deferring or modifying certain fixed and variable monthly expenses, among others.

On May 8, 2020, the Company received approval and funding under the Paycheck Protection Program of the CARES Act for its restaurants, shared service entity and lounge. Ten of our restaurant subsidiaries received amounts ranging from $271,000 to $579,000 for an aggregate amount of $4.2 million; our shared-services subsidiary received $1.1 million; and one of our lounges received $124,000. None of our adult nightclub and other non-core business subsidiaries received funding under the PPP. The Company believes it used the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The Company utilized all of the PPP funds and submitted its forgiveness applications. During the three and nine months ended June 30, 2021, we received 0 and 11 Notices of PPP Forgiveness Payment (“Notice”), respectively, from the Small Business Administration out of the 12 of our PPP loans granted. All of the notices received forgave 100% of each of the 11 PPP loans totaling the amount of $0 and $5.3 million in principal and interest during the three and nine months ended June 30, 2021, respectively, and were included in non-operating gains (losses), net in our unaudited condensed consolidated statement of operations. No assurance can be provided that the Company will in fact obtain forgiveness of the $124,000 remaining PPP loan in whole or in part.

As of the release of this report, we do not know the future extent and duration of the impact of COVID-19 on our businesses. Closures and operating restrictions, as caused by local, state and national guidelines, could lead to adverse financial results. However, we will continually monitor and evaluate our cash flow situation and will determine any further measures to be instituted.

We continue to adhere to state and local government mandates regarding the pandemic and, since March 2020, have closed and reopened a number of our locations depending on changing government mandates, including operating hour and limited occupancy restrictions, where applicable. Currently, all of our locations are open except two clubs that are being renovated and/or remodeled.

We have not recently raised capital through the issuance of equity securities. Instead, we use debt financing to lower our overall cost of capital and increase our return on stockholders’ equity. We have a history of borrowing funds in private transactions and from sellers in acquisition transactions and have secured traditional bank financing on our new development projects and refinancing of our existing notes payable, but with the significant global impact of the COVID-19 pandemic, there can be no assurance that any of these financing options would be presently available on favorable terms, if at all. We also have historically utilized these cash flows to invest in property and equipment, adult nightclubs, and restaurants/sports bars.

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

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

	For the Nine Months Ended June 30,	
	2021	2020
Operating activities	$ 32,217	$ 12,147
Investing activities	(7,186)	(1,024)
Financing activities	(11,568)	(10,425)
Net increase in cash and cash equivalents	$ 13,463	$ 698

<u>Cash Flows from Operating Activities</u>

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

	For the Nine Months Ended June 30,	
	2021	2020
Net income (loss)	$ 27,862	$ (3,427)
Depreciation and amortization	6,197	6,696
Deferred income tax benefit	(430)	(1,517)
Gain on debt extinguishment	(5,298)	-
Impairment of assets	1,672	9,192
Net change in operating assets and liabilities	1,656	(51)
Other	558	1,254
Net cash provided by operating activities	$ 32,217	$ 12,147

Net cash provided by operating activities increased from year to year due primarily to higher income from operations and lower income taxes paid, partially offset by higher interest expense paid.

Cash Flows from Investing Activities

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

	For the Nine Months Ended June 30,	
	2021	2020
Payments for property and equipment and intangible assets	$ (10,788)	$ (5,565)
Proceeds from sale of businesses and assets	3,213	2,041
Proceeds from insurance	294	945
Proceeds from note receivable	95	1,555
Net cash used in investing activities	$ (7,186)	$ (1,024)

Following is a breakdown of our payments for property and equipment and intangible assets for the nine months ended June 30, 2021 and 2020 (in thousands):

	For the Nine Months Ended June 30,	
	2021	2020
New facilities, equipment and intangible assets	$ 6,180	$ 3,454
Maintenance capital expenditures	4,608	2,111
Total capital expenditures	$ 10,788	$ 5,565

Capital expenditures for new facilities during the nine months ended June 30, 2021 were composed primarily of real estate and construction of one new Bombshells location, a newly renovated club that was damaged by hurricane, and a liquor license purchase. Capital expenditures for new facilities during the nine months ended June 30, 2020 were composed primarily of construction and development costs for two new Bombshells locations that opened in the first and second quarters of fiscal 2020 and the rehabilitation of a club that was damaged by fire. Maintenance capital expenditures refer mainly to capitalized replacement of productive assets in already existing locations. Variances in capital expenditures are primarily due to the number and timing of new, remodeled, or reconcepted locations under construction.

On July 23, 2021, we and certain of our subsidiaries entered into definitive agreements (the "Agreements") to acquire eleven gentlemen's clubs, nine of which are controlled by club entrepreneur Troy Lowrie of Lakewood, Colorado, six related real estate properties, and associated intellectual property for a total acquisition price of $88.0 million (the "Acquisition").The Agreements for the eleven clubs being purchased include ten Asset Purchase Agreements and one Stock Purchase Agreement. The sellers collectively own and operate adult entertainment clubs in six states, four of which we do not currently have a presence. Closing of the Acquisition is subject to transfer of all necessary permits, licenses, and other authorizations; closing on the bank financing; and other customary closing conditions. See our current report on Form 8-K filed on July 28, 2021 for more information regarding this transaction.

We have not completed our valuation analysis and related calculations in sufficient detail necessary to arrive at the fair values of the assets acquired, along with the determination of any goodwill or gain on the transaction. Since the initial accounting of the acquisition is incomplete, we also could not provide supplemental pro forma information of the combined entities as of this time.

As of the filing of this report, we are in negotiations with our bank lender to refinance most of our existing real estate debt and to partially finance the real estate purchases related to the Acquisition.

Cash Flows from Financing Activities

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

	For the Nine Months Ended June 30,	
	2021	2020
Proceeds from debt obligations	$ 2,176	$ 6,503
Payments on debt obligations	(10,845)	(7,489)
Purchase of treasury stock	(1,794)	(8,488)
Payment of dividends	(1,080)	(920)
Payment of loan origination costs	(25)	-
Distribution to noncontrolling interests	-	(31)
Net cash used in financing activities	$ (11,568)	$ (10,425)

We purchased 74,659 shares of our common stock at an average price of $24.03 during the nine months ended June 30, 2021, while we purchased 465,390 shares of our common stock at an average price of $18.24 during the same period last year. We paid quarterly dividends of $0.04 per share during the nine months ended June 30, 2021 compared to $0.03 per share in the first and third quarters and $0.04 in the second quarter of the prior year.

Management also uses certain non-GAAP cash flow measures such as free cash flow. We calculate free cash flow as net cash provided by operating activities less maintenance capital expenditures. Net cash provided by operating activities was $32.2 million and $12.1 million during the nine months ended June 30, 2021 and 2020, respectively. Maintenance capital expenditures were $4.6 million and $2.1 million during the nine months ended June 30, 2021 and 2020, respectively. We use free cash flow as the baseline for the implementation of our capital allocation strategy.

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

	For the Nine Months Ended June 30,	
	2021	2020
Net cash provided by operating activities	$ 32,217	$ 12,147
Less: Maintenance capital expenditures	4,608	2,111
Free cash flow	$ 27,609	$ 10,036

Our free cash flow for the current nine-month period increased by 175.1% compared to the comparable prior-year period primarily due to higher income from operations and lower income taxes paid, partially offset by higher interest expense paid and higher maintenance capital expenditures.

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

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

	2021	Increase (Decrease)	2020	Increase (Decrease)	2019
Sales of alcoholic beverages	$ 62,725	38.5%	$ 45,285	(19.7)%	$ 56,366
Sales of food and merchandise	30,205	73.8%	17,378	(9.4)%	19,175
Service revenues	38,442	11.6%	34,448	(33.3)%	51,609
Other	8,945	39.1%	6,430	(26.3)%	8,726
Total revenues	140,317	35.5%	103,541	(23.8)%	135,876
Net cash provided by operating activities	$ 32,217	165.2%	$ 12,147	(57.2)%	$ 28,414
Adjusted EBITDA*	$ 42,675	137.4%	$ 17,973	(50.9)%	$ 36,631
Free cash flow*	$ 27,609	175.1%	$ 10,036	(61.9)%	$ 26,342
Debt (end of period)	$ 127,603	(10.6)%	$ 142,736	(2.6)%	$ 146,579

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

Share Repurchase

We purchased 74,659 shares of our common stock at an average price of $24.03 during the nine months ended June 30, 2021, while we purchased 465,390 shares of our common stock at an average price of $18.24 during the same period last year. As of June 30, 2021, we have approximately $9.0 million remaining to purchase additional shares.

Impact of Inflation

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

Seasonality

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

Capital Allocation Strategy

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

Based on our current capital allocation strategy:

- We consider acquiring or developing our own clubs or restaurants that we believe have the potential to provide a minimum cash on cash return of 25%-33%, absent an otherwise strategic rationale;
- We consider disposing of underperforming units to free up capital for more productive use;
- We consider buying back our own stock if the after-tax yield on free cash flow is above 10%;
- We consider paying down our most expensive debt if it makes sense on a tax adjusted basis, or there is an otherwise strategic rationale.

Growth Strategy

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

Nightclubs

We believe that our nightclub operations can continue to grow organically and through careful entry into markets and demographic segments with high growth potential.

We continue to evaluate opportunities to acquire new nightclubs and anticipate acquiring new locations that fit our business model as we have done in the past. The acquisition of additional clubs may require us to take on additional debt or issue our common stock, or both. There can be no assurance that we will be able to obtain additional financing on reasonable terms in the future, if at all, should the need arise. An inability to obtain such additional financing could have an adverse effect on our growth strategy.

Bombshells

We believe that Bombshells can grow organically and through careful entry into markets and demographic segments with high growth potential. All ten of the existing Bombshells as of June 30, 2021 are located in Texas. Part of our growth strategy is to continue to appeal to men, women, families, friends, singles, couples, and millennials through better quality of food, service and experience that is more upscale than a traditional sports bar.

We continue to search for suitable markets where we can open new Bombshells and are currently in the process of development in several of these locations. We have also increased our efforts on Bombshells franchising and signed our first franchisee for Bombshells restaurants in the San Antonio, Texas area in December 2020.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of June 30, 2021, 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, 2020.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of this Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, an evaluation was performed under the supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on their evaluation, they have concluded that our disclosure controls and procedures were not effective as of June 30, 2021. This determination is based on the previously reported material weakness management previously identified in our internal control over financial reporting, as described below. We are in the process of remediating the material weakness in our internal control, as described below. We believe the completion of these processes should remedy our disclosure controls and procedures. We will continue to monitor these issues.

Previously Reported Material Weakness in Internal Control Over Financial Reporting

In our Annual Report for the year ended September 30, 2020, filed with the SEC on December 14, 2020, management concluded that our internal control over financial reporting was not effective as of September 30, 2020. In the evaluation, management identified a material weakness in internal control related to the proper design and implementation of controls over our income tax provision, specifically over management's review of the income tax provision.

Remediation Efforts to Address Material Weakness

Management is committed to the remediation of the material weakness described above, as well as the continued improvement of the Company's internal control over financial reporting. Management has been implementing, and continues to implement, measures designed to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively.

Management will enhance our risk assessment process over the design and implementation of internal controls over the income tax provision, including enhanced review controls to be performed by senior accounting management. In addition, management has retained the services of a new third-party income tax consultant to assist in the preparation and review of the income tax provision.

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

Changes in Internal Control Over Financial Reporting

Other than as described above, no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There were no material changes to the risk factors disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2020, except for such risks and uncertainties that may result from the additional disclosure in the “Legal Matters” section within Note 10 of the unaudited condensed consolidated financial statements within this Quarterly Report on Form 10-Q, which information is incorporated herein by reference, as well as such risks and uncertainties associated with franchising operations, as disclosed below. The risks described in the Annual Report on Form 10-K and in this Form 10-Q are not the only risks the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company deems to be immaterial, also may have a material adverse impact on the Company’s business, financial condition or results of operations.

We face a variety of risks associated with doing business with franchisees and licensees.

We have started franchising Bombshells. We believe that we have selected highly competent operating partners and franchisees with significant experience in restaurant operations, and we are providing them training and support on the Bombshells brand. However, the probability of opening, ultimate success and quality of any franchise or licensed restaurant rests principally with the franchisee. If the franchisee does not successfully open and operate its restaurants in a manner consistent with our standards, or if guests have negative experiences due to issues with food quality or operational execution, our brand values could suffer, which could have an adverse impact on our business.

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

During the three months ended June 30, 2021, we did not repurchase any shares of our common stock. As of August 4, 2021, we have approximately $9.0 million remaining to purchase additional shares.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer of RCI Hospitality Holdings, Inc. required by Rule 13a-14(1) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer of RCI Hospitality Holdings, Inc. required by Rule 13a-14(1) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer of RCI Hospitality Holdings, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

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

	RCI HOSPITALITY HOLDINGS, INC.
Date: August 5, 2021	By: */s/ Eric S. Langan*
	Eric S. Langan Chief Executive Officer and President
Date: August 5, 2021	By: */s/ Bradley Chhay*
	Bradley Chhay Chief Financial Officer and Principal Accounting Officer

EXHIBIT 31.1

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 5, 2021

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

EXHIBIT 31.2

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

I, Bradley Chhay, Chief Financial Officer of RCI Hospitality Holdings, Inc., certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 5, 2021

By: */s/ Bradley Chhay*
Bradley Chhay
Chief Financial Officer and Principal Accounting Officer

Exhibit 32

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

In connection with the Quarterly Report of RCI Hospitality Holdings, Inc. (the “Company”) on Form 10-Q for the fiscal period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, the Chief Executive Officer and the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on our knowledge, that:

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

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

/s/ Eric S. Langan
Eric S. Langan
Chief Executive Officer
August 5, 2021

/s/ Bradley Chhay
Bradley Chhay
Chief Financial Officer
August 5, 2021

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.