# 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 December 31, 2020

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

Commission File Number: 001-13992

# RCI HOSPITALITY HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Texas** | **76-0458229** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

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

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

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

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

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

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

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

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

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

As of February 5, 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.**
**FORM 10-Q**
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## PART I FINANCIAL INFORMATION

**Item 1. Financial Statements.**

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

| | December 31, 2020 (unaudited) | September 30, 2020 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 16,967 | $ 15,605 |
| Accounts receivable, net | 5,334 | 6,767 |
| Current portion of notes receivable | 211 | 201 |
| Inventories | 2,394 | 2,372 |
| Prepaid expenses and other current assets | 5,348 | 6,488 |
| Total current assets | 30,254 | 31,433 |
| Property and equipment, net | 180,548 | 181,383 |
| Operating lease right-of-use assets, net | 25,125 | 25,546 |
| Notes receivable, net of current portion | 2,965 | 2,908 |
| Goodwill | 45,686 | 45,686 |
| Intangibles, net | 73,149 | 73,077 |
| Other assets | 882 | 900 |
| Total assets | $ 358,609 | $ 360,933 |
| | | |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Accounts payable | $ 3,601 | $ 4,799 |
| Accrued liabilities | 13,100 | 14,573 |
| Current portion of debt obligations, net | 15,685 | 16,304 |
| Current portion of operating lease liabilities | 1,658 | 1,628 |
| Total current liabilities | 34,044 | 37,304 |
| Deferred tax liability, net | 20,390 | 20,390 |
| Debt, net of current portion and debt discount and issuance costs | 119,136 | 125,131 |
| Operating lease liabilities, net of current portion | 25,017 | 25,439 |
| Other long-term liabilities | 360 | 362 |
| Total liabilities | 198,947 | 208,626 |
| | | |
| Commitments and contingencies (Note 9) | | |
| | | |
| Equity | | |
| Preferred stock, $0.10 par value per share; 1,000 shares authorized; none issued and outstanding | - | - |
| Common stock, $0.01 par value per share; 20,000 shares authorized; 9,000 and 9,075 shares issued and outstanding as of December 31, 2020 and September 30, 2020, respectively | 90 | 91 |
| Additional paid-in capital | 50,040 | 51,833 |
| Retained earnings | 110,080 | 100,797 |
| Total RCIHH stockholders' equity | 160,210 | 152,721 |
| Noncontrolling interests | (548) | (414) |
| Total equity | 159,662 | 152,307 |
| Total liabilities and equity | $ 358,609 | $ 360,933 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | For the Three Months Ended December 31, | |
|---|---|---|
| | **2020** | **2019** |
| Revenues | | |
| Sales of alcoholic beverages | $ 17,360 | $ 20,743 |
| Sales of food and merchandise | 8,609 | 7,447 |
| Service revenues | 10,060 | 17,193 |
| Other | 2,369 | 3,011 |
| Total revenues | 38,398 | 48,394 |
| Operating expenses | | |
| Cost of goods sold | | |
| Alcoholic beverages sold | 3,262 | 4,146 |
| Food and merchandise sold | 2,863 | 2,553 |
| Service and other | 79 | 77 |
| Total cost of goods sold (exclusive of items shown separately below) | 6,204 | 6,776 |
| Salaries and wages | 11,486 | 13,223 |
| Selling, general and administrative | 12,152 | 16,531 |
| Depreciation and amortization | 2,023 | 2,204 |
| Other gains, net | (50) | (26) |
| Total operating expenses | 31,815 | 38,708 |
| Income from operations | 6,583 | 9,686 |
| Other income (expenses) | | |
| Interest expense | (2,434) | (2,485) |
| Interest income | 60 | 98 |
| Non-operating gain (losses), net | 4,916 | (72) |
| Income before income taxes | 9,125 | 7,227 |
| Income tax expense (benefit) | (384) | 1,593 |
| Net income | 9,509 | 5,634 |
| Net loss attributable to noncontrolling interests | 134 | - |
| Net income attributable to RCIHH common shareholders | $ 9,643 | $ 5,634 |
| | | |
| Earnings per share | | |
| Basic and diluted | $ 1.07 | $ 0.60 |
| | | |
| Weighted average number of common shares outstanding | | |
| Basic and diluted | 9,019 | 9,322 |
| | | |
| Dividends per share | $ 0.04 | $ 0.03 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Common Stock | | Additional | | 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 | - | - | - | 9,643 | - | - | (134) | 9,509 |
| Balance at December 31, 2020 | 9,000 | $ 90 | $ 50,040 | $ 110,080 | - | $ - | $ (548) | $ 159,662 |
| | | | | | | | | |
| 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 interests | - | - | - | - | - | - | (10) | (10) |
| Net income | - | - | - | 5,634 | - | - | - | 5,634 |
| Balance at December 31, 2019 | 9,258 | $ 93 | $ 54,874 | $ 113,523 | - | $ - | $ (166) | $ 168,324 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | For the Three Months Ended December 31, 2020 | 2019 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 9,509 | $ 5,634 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,023 | 2,204 |
| Deferred income tax benefit | - | (150) |
| Gain on sale of businesses and assets | (5) | (30) |
| Unrealized loss on equity securities | 33 | 72 |
| Amortization of debt discount and issuance costs | 51 | 61 |
| Gain on debt extinguishment | (4,920) | - |
| Noncash lease expense | 421 | 329 |
| Gain on insurance | (250) | (20) |
| Doubtful accounts reversal on notes receivable | (93) | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,433 | 2,345 |
| Inventories | (22) | (141) |
| Prepaid expenses, other current and other assets | 1,125 | 1,565 |
| Accounts payable, accrued and other liabilities | (3,031) | (1,596) |
| Net cash provided by operating activities | 6,274 | 10,273 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of businesses and assets | - | 51 |
| Proceeds from insurance | 250 | 932 |
| Proceeds from notes receivable | 26 | 357 |
| Payments for property and equipment and intangible assets | (1,289) | (4,058) |
| Net cash used in investing activities | (1,013) | (2,718) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from debt obligations | - | 318 |
| Payments on debt obligations | (1,745) | (2,081) |
| Purchase of treasury stock | (1,794) | (6,441) |
| Payment of dividends | (360) | (279) |
| Distribution to noncontrolling interests | - | (10) |
| Net cash used in financing activities | (3,899) | (8,493) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,362 | (938) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 15,605 | 14,097 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 16,967 | $ 13,159 |
| | | |
| CASH PAID DURING PERIOD FOR: | | |
| Interest (net of amounts capitalized of $0 and $120, respectively) | $ 3,108 | $ 2,423 |
| Income taxes | $ - | $ 259 |
| | | |
| Noncash investing and financing transactions: | | |
| Principal of Paycheck Protection Program loans forgiven | $ 4,920 | $ - |
| Operating lease right-of-use assets established upon adoption of ASC 842 | $ - | $ 27,310 |
| Deferred rent liabilities reclassified upon adoption of ASC 842 | $ - | $ 1,241 |
| Operating lease liabilities established upon adoption of ASC 842 | $ - | $ 28,551 |
| Unpaid liabilities on capital expenditures | $ - | $ 253 |

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 months ended December 31, 2020 are not necessarily indicative of the results that may be expected for the year ending September 30, 2021.

**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**

In March 2020, former President Donald Trump declared the coronavirus disease 2019 (“COVID-19”) pandemic as a national public health emergency. 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. Since March 2020, we have temporarily closed and reopened several of our clubs and restaurants.

The temporary closure of our clubs and restaurants caused by the COVID-19 pandemic has presented operational challenges. Our strategy is to open locations in accordance with local and state guidelines and we are uncertain as to when and if they will generate positive cash flows for us. Depending on the timing and number of locations we are allowed to open, and their ability to generate positive cash flow, we may need to borrow funds to meet our obligations or consider selling certain assets. The COVID-19 pandemic is adversely affecting the availability of liquidity generally in the credit markets, and 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.

To augment an expected decline in operating cash flows caused by the COVID-19 pandemic, we instituted the following measures:

- Arranged and continue to arrange for deferment of principal and interest payment on certain of our debts;
- Furloughed employees working at our clubs and restaurants, except for a limited number of managers;
- Temporarily enacted a pay reduction for all remaining salaried and hourly employees and deferral of board of director compensation;
- Deferred or modified certain fixed monthly expenses such as insurance, rent, and taxes, among others;
- Temporarily reduced or canceled certain non-essential expenses such as advertising, cable, pest control, point-of-sale system support, and investor relations coverage, among others.

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 service entity and lounge. See Notes 6 and 8. 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 quarter ended December 31, 2020, we received ten Notices of PPP Forgiveness Payment from the Small Business Administration out of the twelve of our PPP loans granted. All of the notices received forgave 100% of each of the ten PPP loans totaling the amount of $4.9 million and included in non-operating gains (losses), net in our unaudited condensed consolidated statement of income. Subsequent to December 31, 2020, we received another forgiveness notice for one PPP loan which forgave 100% of the loan or $378,000 in principal. No assurance can be provided that the Company will in fact obtain forgiveness of the 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. Lower sales, 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, including refinancing several of our debt obligations.

We continue to adhere to state and local government mandates regarding the pandemic and, since March 2020, have closed and reopened several of our locations depending on changing government mandates. As of the release of this report, we have reopened many of our club and Bombshells locations with certain operating hour restrictions and with limited occupancy.

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

We consider the COVID-19 pandemic as 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 there is no impairment in our goodwill, indefinite-lived intangibles, and long-lived assets as of December 31, 2020.

**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 income. The Company recognizes revenue when it satisfies a performance obligation (point in time of sale) by transferring control over a product or service to a customer.

Commission revenues, such as ATM commission, are recognized when the basis for such commission has transpired. Revenues from the sale of magazines and advertising content are recognized when the issue is published and shipped. Revenues and external expenses related to the Company’s annual Expo convention are recognized upon the completion of the convention, which normally occurs during our fiscal fourth quarter. 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 12.

Revenues, as disaggregated by revenue type, timing of recognition, and reportable segment (see also Note 10), are shown below (in thousands):

| | Three Months Ended December 31, 2020 | | | | Three Months Ended December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Nightclubs | Bombshells | Other | Total | Nightclubs | Bombshells | Other | Total |
| Sales of alcoholic beverages | $ 9,634 | $ 7,726 | $ - | $ 17,360 | $ 14,684 | $ 6,059 | $ - | $ 20,743 |
| Sales of food and merchandise | 3,423 | 5,186 | - | 8,609 | 3,264 | 4,183 | - | 7,447 |
| Service revenues | 9,998 | 62 | - | 10,060 | 17,094 | 99 | - | 17,193 |
| Other revenues | 2,142 | 32 | 195 | 2,369 | 2,817 | 9 | 185 | 3,011 |
| | $ 25,197 | $ 13,006 | $ 195 | $ 38,398 | $ 37,859 | $ 10,350 | $ 185 | $ 48,394 |
| | | | | | | | | |
| Recognized at a point in time | $ 24,835 | $ 13,006 | $ 193 | $ 38,034 | $ 37,434 | $ 10,350 | $ 178 | $ 47,962 |
| Recognized over time | 362* | - | 2 | 364 | 425* | - | 7 | 432 |
| | $ 25,197 | $ 13,006 | $ 195 | $ 38,398 | $ 37,859 | $ 10,350 | $ 185 | $ 48,394 |

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

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

| | Balance at September 30, 2020 | Consideration Received | Recognized in Revenue | Balance at December 31, 2020 |
|---|---|---|---|---|
| Ad revenue | $ 92 | $ 200 | $ (159) | $ 133 |
| Expo revenue | 211 | 18 | - | 229 |
| Other | 33 | 52 | (27) | 58 |
| | $ 336 | $ 270 | $ (186) | $ 420 |

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 income.

On December 22, 2020, the Company signed a franchise development agreement with a group of private investors to open three Bombshells location 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.

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

**5. Selected Account Information**

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

| | December 31, 2020 | September 30, 2020 |
|---|---|---|
| Credit card receivables | $ 1,058 | $ 880 |
| Income tax refundable | 2,513 | 4,325 |
| Insurance receivable | - | 191 |
| ATM in-transit | 271 | 160 |
| Other (net of allowance for doubtful accounts of $357 and $261, respectively) | 1,492 | 1,211 |
| Total accounts receivable, net | $ 5,334 | $ 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 $88,000 and $182,000 as of December 31, 2020 and September 30, 2020, respectively.

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

| | December 31, 2020 | September 30, 2020 |
|---|---|---|
| Prepaid insurance | $ 3,745 | $ 4,884 |
| Prepaid legal | 733 | 735 |
| Prepaid taxes and licenses | 140 | 428 |
| Prepaid rent | 32 | 37 |
| Other | 698 | 404 |
| Total prepaid expenses and other current assets | $ 5,348 | $ 6,488 |

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

| | December 31, 2020 | September 30, 2020 |
|---|---|---|
| Insurance | $ 3,428 | $ 4,405 |
| Sales and liquor taxes | 2,118 | 2,613 |
| Payroll and related costs | 2,887 | 2,419 |
| Property taxes | 2,496 | 2,003 |
| Interest | 636 | 1,390 |
| Patron tax | 399 | 309 |
| Unearned revenues | 420 | 336 |
| Lawsuit settlement | 33 | 100 |
| Other | 683 | 998 |
| Total accrued liabilities | $ 13,100 | $ 14,573 |

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

| | For the Three Months Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Taxes and permits | $ 2,028 | $ 2,674 |
| Advertising and marketing | 1,189 | 2,410 |
| Supplies and services | 1,228 | 1,534 |
| Insurance | 1,457 | 1,483 |
| Legal | 861 | 1,186 |
| Lease | 977 | 1,030 |
| Charge card fees | 564 | 1,046 |
| Utilities | 713 | 895 |
| Security | 860 | 848 |
| Accounting and professional fees | 715 | 1,208 |
| Repairs and maintenance | 573 | 797 |
| Other | 987 | 1,420 |
| Total selling, general and administrative expenses | $ 12,152 | $ 16,531 |

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

| | For the Three Months Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Gain on debt extinguishment | $ 4,949 | $ - |

| | | |
|---|---|---|
| Unrealized loss on equity securities | (33) | (72) |
| Non-operating gains (losses), net | $ 4,916 | $ (72) |

**6. 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.

Included in the balance of debt obligations as of December 31, 2020 and September 30, 2020 are two notes borrowed from related parties (see Note 11)—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 part of a larger group of private lenders. The terms of the notes are the same as the rest of the lender group.

Future maturities of long-term debt as of December 31, 2020 are as follows: $15.9 million, $11.5 million, $8.8 million, $8.7 million, $8.4 million and $82.7 million for the twelve months ending December 31, 2021, 2022, 2023, 2024, 2025, and thereafter, respectively. Of the maturity schedule mentioned above, $6.5 million, $3.0 million, $651,000, $0, $0 and $42.2 million, respectively, relate to scheduled balloon payments. Unamortized debt discount and issuance costs amounted to $1.2 million and $1.2 million as of December 31, 2020 and September 30, 2020, respectively.

Included in the balance of debt obligations as of December 31, 2020 and September 30, 2020 are PPP loans amounting to approximately $502,000 and $5.4 million, respectively. During the quarter ended December 31, 2020, we received ten notices approving the forgiveness of 100% of ten of the PPP loans amounting to $4.9 million, which are included in non-operating gains (losses), net in our unaudited condensed consolidated statement of income. Subsequent to December 31, 2020, we received another Notice for one PPP loan which forgave 100% of the loan or $378,000 in principal. 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.

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 11.

**7. Equity**

During the quarter ended December 31, 2020, the Company purchased and retired 74,659 common shares at a cost of approximately $1.8 million. The Company paid a $0.04 per share cash dividend during the quarter totaling approximately $360,000.

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

## 8. Income Taxes

Income taxes were a benefit of $384,000 during the quarter ended December 31, 2020 compared to an expense of $1.6 million during the quarter ended December 31, 2019. The effective income tax rate was a benefit of 4.2% and an expense of 22.0% for the quarter ended December 31, 2020 and 2019, respectively. Our effective tax rate is affected by 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 Three Months Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Computed expected income tax expense | 21.0% | 21.0% |
| State income taxes, net of federal benefit | 3.3% | 4.3% |
| Permanent differences | (8.2)% | 1.0% |
| Change in valuation allowance | (14.0)% | 0.0% |
| Tax credits | (6.3)% | (4.3)% |
| Total income tax expense (benefit) | (4.2)% | 22.0% |

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 December 31, 2020 and September 30, 2020, the liability for uncertain tax positions was $0 and $0, respectively. The Company recognizes interest accrued related to uncertain tax positions in interest expense and penalties in selling, general and administrative expenses in our consolidated statements of income.

On March 27, 2020, former President Trump signed the CARES Act into law. As a result of this, additional avenues of relief may be 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 includes, 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 a Paycheck Protection Program, whereby certain small businesses are eligible for a loan to fund payroll expenses, rent, and related costs. The loan 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 quarter ended December 31, 2020, we received ten Notices of PPP Forgiveness Payment from the Small Business Administration out of the twelve of our PPP loans granted. All of the notices received forgave 100% of each of the ten PPP loans totaling the amount of $4.9 million and included in non-operating gains (losses), net in our unaudited condensed consolidated statement of income. Subsequent to December 31, 2020, we received another Notice for one PPP loan which forgave 100% of the loan or $378,000 in principal. No assurance can be provided that the Company will in fact obtain forgiveness of the remaining PPP loan in whole or in part. See Note 3.

## 9. Commitments and Contingencies

### *Legal Matters*

Texas Patron Tax

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

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

The aggregate balance of Patron Tax settlement liability, which is included in long-term debt in the consolidated balance sheets, amounted to $1.9 million and $2.2 million as of December 31, 2020 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 December 31, 2020, we have 2 unresolved claims out of the original 71 claims.

Shareholder Class and Derivative Actions

In May and June 2019, three putative securities class action complaints were filed against RCI Hospitality Holdings, Inc. and certain of its officers in the Southern District of Texas, Houston Division. The complaints allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and 10b-5 promulgated thereunder based on alleged materially false and misleading statements made in the Company's SEC filings and disclosures as they relate to various alleged transactions by the Company and management. The complaints seek unspecified damages, costs, and attorneys' fees. These lawsuits are *Hoffman v. RCI Hospitality Holdings, Inc., et al.* (filed May 21, 2019, naming the Company and Eric Langan); *Gu v. RCI Hospitality Holdings, Inc., et al.* (filed May 28, 2019, naming the Company, Eric Langan, and Phil Marshall); and *Grossman v. RCI Hospitality Holdings, Inc., et al.* (filed June 28, 2019, naming the Company, Eric Langan, and Phil Marshall). The plaintiffs in all three cases moved to consolidate the purported class actions. On January 10, 2020 an order consolidating the *Hoffman*, *Grossman*, and *Gu* cases was entered by the Court. The consolidated case is styled *In re RCI Hospitality Holdings, Inc.*, No. 4:19-cv-01841. On February 24, 2020, the plaintiffs in the consolidated case filed an Amended Class Action Complaint, continuing to allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and 10b-5 promulgated thereunder. In addition to naming the Company, Eric Langan, and Phil Marshall, the amended complaint also adds director 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. As of February 5, 2021, briefing on the motion to dismiss is complete, and we are currently waiting for the court to rule on the motion. 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 alleges that the individual officers and directors made or caused the Company to make a series of materially false and/or misleading statements and omissions regarding the Company's business, operations, prospects, and legal compliance and engaged in or caused the Company to engage in, inter alia, related party transactions, questionable uses of corporate assets, and failure to maintain internal controls. The action asserts claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, and violations of Sections 14(a), 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaint seeks injunctive relief, damages, restitution, costs, and attorneys' fees. The case, *Cecere v. Langan, et al.*, is in its early stage, and a potential loss cannot yet be estimated.

Other

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

The Company has been sued by a landlord in the 333rd Judicial District Court of Harris County, Texas for a Houston Bombshells which was under renovation in 2015. The plaintiff alleges RCI Hospitality Holdings, Inc.'s subsidiary, BMB Dining Services (Willowbrook), Inc., breached a lease agreement by constructing an outdoor patio, which allegedly interfered with the common areas of the shopping center, and by failing to provide Plaintiff with proposed plans before beginning construction. Plaintiff also asserts RCI Hospitality Holdings, Inc. is liable as guarantor of the lease. The lease was for a Bombshells restaurant to be opened in the Willowbrook Shopping Center in Houston, Texas. Both RCI Hospitality Holdings, Inc. and BMB Dining Services (Willowbrook), Inc. have denied liability and assert that Plaintiff has failed to mitigate its claimed damages. Further, BMB Dining Services (Willowbrook), Inc. asserts that Plaintiff affirmatively represented that the patio could be constructed under the lease and has filed counter claims and third-party claims against Plaintiff and Plaintiff's manager asserting that they committed fraud and that the landlord breached the applicable agreements. The case was tried to a jury in late September 2018 and an adverse judgment was entered in January 2019 in the amount totaling $1.0 million, which includes damages, attorney fees and interest. The matter is being appealed. The appeal process required that a check be deposited in the registry of the court in the amount of $690,000, which was deposited in April 2019 and included in other current assets in both consolidated balance sheets as of December 31, 2020 and September 30, 2020. Management believes that the case has no merit and is vigorously defending itself in the appeal.

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

As set forth in the risk factors as disclosed in 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 quarter ended December 31, 2020 and 2019 amount to approximately $152,000 and $24,000, respectively. As of December 31, 2020 and September 30, 2020, the Company has accrued $33,000 and $100,000 in accrued liabilities, respectively, related to settlement of lawsuits.

**10. 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 December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Revenues (from external customers) | | |
| Nightclubs | $ 25,197 | $ 37,859 |
| Bombshells | 13,006 | 10,350 |
| Other | 195 | 185 |
| | $ 38,398 | $ 48,394 |
| Income (loss) from operations | | |
| Nightclubs | $ 8,495 | $ 13,776 |
| Bombshells | 2,717 | 1,573 |
| Other | (75) | (207) |
| General corporate | (4,554) | (5,456) |
| | $ 6,583 | $ 9,686 |
| Depreciation and amortization | | |
| Nightclubs | $ 1,324 | $ 1,470 |
| Bombshells | 457 | 417 |
| Other | 36 | 104 |
| General corporate | 206 | 213 |
| | $ 2,023 | $ 2,204 |
| Capital expenditures | | |
| Nightclubs | $ 1,130 | $ 2,332 |
| Bombshells | 151 | 1,725 |
| Other | 3 | - |
| General corporate | 5 | 1 |
| | $ 1,289 | $ 4,058 |
| | December 31, 2020 | September 30, 2020 |
| Total assets | | |
| Nightclubs | $ 278,991 | $ 277,960 |
| Bombshells | 48,072 | 48,991 |
| Other | 1,311 | 1,269 |
| General corporate | 30,235 | 32,713 |
| | $ 358,609 | $ 360,933 |

Excluded from revenues in the table above are intercompany rental revenues of the Nightclubs and Corporate segments for the quarter ended December 31, 2020 amounting to $2.8 million and $110,000, respectively, and intercompany sales of Robust Energy Drink of Other segment amounting to $26,000. Excluded from revenues in the table above are intercompany rental revenues of the Nightclubs and corporate segments for the quarter ended December 31, 2019 amounting to $2.7 million and $31,000, respectively, and intercompany sales of Robust Energy Drink of Other segment amounting to $22,000. 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.

**11. Related Party Transactions**

Presently, our Chairman and President, Eric Langan, personally guarantees all of the commercial bank indebtedness of the Company. Mr. Langan receives no compensation or other direct financial benefit for any of the guarantees. The balance of our commercial bank indebtedness, net of debt discount and issuance costs, as of December 31, 2020 and September 30, 2020, was $83.5 million and $83.8 million, respectively.

Included in the $2.35 million borrowing on November 1, 2018 (included in debt obligations as of December 31, 2020 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 (formerly Sherwood Forest Creations, LLC), a furniture fabrication company that manufactures tables, chairs and other furnishings for our Bombshells locations, as well as providing ongoing maintenance. Nottingham Creations is owned by a brother of Eric Langan (as was Sherwood Forest). Amounts billed to us for goods and services provided by Nottingham Creations and Sherwood Forest were $0 and $19,144 during the three months ended December 31, 2020 and 2019, respectively. As of both December 31, 2020 and September 30, 2020, we owed Nottingham Creations and Sherwood Forest $0 in unpaid billings.

TW Mechanical LLC ("TW Mechanical") provided plumbing and HVAC services to both a third-party general contractor providing construction services to the Company, as well as directly to the Company during fiscal 2020 and 2019. A son-in-law of Eric Langan owns a noncontrolling interest in TW Mechanical. Amounts billed by TW Mechanical to the third-party general contractor were $0 and $11,827 for the three months ended December 31, 2020 and 2019, respectively. Amounts billed directly to the Company were $7,130 and $1,825 for the three months ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and September 30, 2020, the Company owed TW Mechanical $2,800 and $5,700, respectively, in unpaid direct billings.

## 12. 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 income, except for sublease income which was included in other revenue, for the three months ended December 31, 2020 and 2019 as follows (in thousands):

| | Three Months Ended December 31, 2020 | Three Months Ended December 31, 2019 |
|---|---|---|
| Operating lease expense – fixed payments | $ 829 | $ 842 |
| Variable lease expense | 64 | 65 |
| Short-term equipment and other lease expense (includes $57 and $146 recorded in advertising and marketing, and $88 and $125 recorded in repairs and maintenance for the three months ended December 31, 2020 and 2019, respectively; see Note 5) | 229 | 394 |
| Sublease income | (2) | (2) |
| Total lease expense, net | $ 1,120 | $ 1,299 |
| | | |
| Other information: | | |
| Operating cash outflows from operating leases | $ 1,091 | $ 1,255 |
| Weighted average remaining lease term | 12 years | 13 years |
| Weighted average discount rate | 6.1% | 6.1% |

Future maturities of ASC 842 lease liabilities as of December 31, 2020 are as follows (in thousands):

| | Principal Payments | Interest Payments | Total Payments |
|---|---|---|---|
| January - December 2021 | $ 1,658 | $ 1,569 | $ 3,227 |
| January - December 2022 | 1,756 | 1,465 | 3,221 |
| January - December 2023 | 1,673 | 1,361 | 3,034 |
| January - December 2024 | 1,817 | 1,256 | 3,073 |
| January - December 2025 | 2,003 | 1,142 | 3,145 |
| Thereafter | 17,768 | 5,147 | 22,915 |
| | $ 26,675 | $ 11,940 | $ 38,615 |

Included in lease expense in our unaudited condensed consolidated statements of income (see Note 5) were lease payments for a house that the Company's CEO rented to the Company for corporate housing for its out-of-town Bombshells management and trainers, of which lease expense totaled $19,500 for the three months ended December 31, 2019. This lease terminated on December 31, 2019.

**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, including RCI Management Services, Inc.

Through our subsidiaries, as of December 31, 2020, we operated a total of 48 establishments that offer live adult entertainment and/or restaurant and bar operations. We also operated a leading business communications company serving the multi-billion-dollar adult nightclubs industry. We have two principal reportable segments: Nightclubs and Bombshells. We combine other operating segments into "Other." In the context of club and restaurant/sports bar operations, the terms the "Company," "we," "our," "us" and similar terms used in this report refer to subsidiaries of RCIHH. RCIHH was incorporated in the State of Texas in 1994. Our corporate offices are located in Houston, Texas.

***Impact of COVID-19 Pandemic***

Since March 2020, our businesses have been heavily impacted by the COVID-19 pandemic through the temporary closure and reopening of several of our clubs and restaurants in adherence to federal, state and local government mandates. Because of the stay-at-home order and social distancing guidelines put into place, our total revenues for the quarter ended December 31, 2020 declined by 20.7% versus last year. Though we earned no revenues from our core businesses during the period of closures, we continue to incur expenses. To alleviate our cash flow situation, we instituted the following measures:

- Arranged and continue to arrange for deferment of principal and interest payment on certain of our debts;
- Furloughed employees working at our clubs and restaurants, except for a limited number of managers;
- Temporarily enacted a pay reduction for all remaining salaried and hourly employees and deferral of board of director compensation;
- Deferred or modified certain fixed monthly expenses such as insurance, rent, and taxes, among others;
- Temporarily reduced or canceled certain non-essential expenses such as advertising, cable, pest control, point-of-sale-system support, and investor relations coverage, 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. Lower sales, 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, including refinancing several of our debt obligations.

### *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 months ended December 31, 2020, 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 quarter ended December 31, 2020.

### *Results of Operations*

Highlights of the operating results of the Company during the three months ended December 31, 2020 are as follows:

- Total revenues were $38.4 million compared to $48.4 million during the comparable prior-year period, a 20.7% decrease (Nightclubs revenue of $25.2 million compared to $37.9 million, a 33.4% decrease; and Bombshells revenue of $13.0 million compared to $10.4 million, a 25.7% increase)

- Consolidated same-store sales decreased by 1.5% (Nightclubs decreased by 6.8% while Bombshells increased by 12.0%) (refer to the definition of same-store sales in the discussion of Revenues below)

- Gain on forgiven PPP loans amounted to $4.9 million

- Basic and diluted earnings per share ("EPS") of $1.07 compared to $0.60 (non-GAAP diluted EPS* of $0.39 compared to $0.62)

- Net cash provided by operating activities of $6.3 million compared to $10.3 million during the comparable prior-year period, a 38.9% decrease (free cash flow* of $5.7 million compared to $9.3 million, a 38.7% decrease)

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

The following table summarizes our results of operations for the three months ended December 31, 2020 and 2019 (dollars in thousands):

| | For the Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2020 | | December 31, 2019 | | Increase (Decrease) | |
| | Amount | % of Revenues | Amount | % of Revenues | Amount | % |
| Revenues | | | | | | |
| Sales of alcoholic beverages | $ 17,360 | 45.2% | $ 20,743 | 42.9% | $ (3,383) | (16.3)% |
| Sales of food and merchandise | 8,609 | 22.4% | 7,447 | 15.4% | 1,162 | 15.6% |
| Service revenues | 10,060 | 26.2% | 17,193 | 35.5% | (7,133) | (41.5)% |
| Other | 2,369 | 6.2% | 3,011 | 6.2% | (642) | (21.3)% |
| Total revenues | 38,398 | 100.0% | 48,394 | 100.0% | (9,996) | (20.7)% |
| Operating expenses | | | | | | |
| Cost of goods sold | | | | | | |
| Alcoholic beverages sold | 3,262 | 18.8% | 4,146 | 20.0% | (884) | (21.3)% |
| Food and merchandise sold | 2,863 | 33.3% | 2,553 | 34.3% | 310 | 12.1% |
| Service and other | 79 | 0.6% | 77 | 0.4% | 2 | 2.6% |
| Total cost of goods sold (exclusive of items shown separately below) | 6,204 | 16.2% | 6,776 | 14.0% | (572) | (8.4)% |
| Salaries and wages | 11,486 | 29.9% | 13,223 | 27.3% | (1,737) | (13.1)% |
| Selling, general and administrative | 12,152 | 31.6% | 16,531 | 34.2% | (4,379) | (26.5)% |
| Depreciation and amortization | 2,023 | 5.3% | 2,204 | 4.6% | (181) | (8.2)% |
| Other gains, net | (50) | (0.1)% | (26) | (0.1)% | 24 | 92.3% |
| Total operating expenses | 31,815 | 82.9% | 38,708 | 80.0% | (6,893) | (17.8)% |
| Income from operations | 6,583 | 17.1% | 9,686 | 20.0% | (3,103) | (32.0)% |
| Other income (expenses) | | | | | | |
| Interest expense | (2,434) | (6.3)% | (2,485) | (5.1)% | (51) | (2.1)% |
| Interest income | 60 | 0.2% | 98 | 0.2% | (38) | (38.8)% |
| Non-operating gains (losses), net | 4,916 | 12.8% | (72) | (0.1)% | 4,988 | 6,927.8% |
| Income before income taxes | 9,125 | 23.8% | 7,227 | 14.9% | 1,898 | 26.3% |
| Income tax expense (benefit) | (384) | (1.0)% | 1,593 | 3.3% | (1,977) | (124.1)% |
| Net income | $ 9,509 | 24.8% | $ 5,634 | 11.6% | $ 3,875 | 68.8% |

* 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 decreased by approximately $10.0 million, or 20.7%, due primarily to lost sales caused by the COVID-19 pandemic. Consolidated same-store sales decreased by 1.5%. The 20.7% decrease in consolidated revenues was primarily from a 23.1% decrease due to closures from COVID-19, a 0.9% decrease from the impact of same-store sales decline, partially offset by a 3.3% increase from new Bombshells units.

We calculate same-store sales by comparing year-over-year revenues from nightclubs and restaurants/sports bars starting in the first full quarter of operations after at least 12 full months for Nightclubs and at least 18 full months for Bombshells. We consider the first six months of operations of a Bombshells unit to be the "honeymoon period" where sales are significantly higher than normal. We exclude from a particular month's calculation units previously included in the same-store sales base that have closed temporarily for more than 15 days until its next full month of operations. We also exclude from the same-store sales base units that are being reconcepted or are closed due to renovations or remodels. Acquired units are included in the same-store sales calculation as long as they qualify based on the definition stated above. Revenues outside of our Nightclubs and Bombshells reportable segments are excluded from same-store sales calculation.

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

| | For the Three Months Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Nightclubs | $ 25,197 | $ 37,859 |
| Bombshells | 13,006 | 10,350 |
| Other | 195 | 185 |
| | $ 38,398 | $ 48,394 |

Nightclubs revenues decreased by 33.4% for the quarter ended December 31, 2020 compared to the prior-year quarter, where the prior-year first quarter was the last period that did not have government restrictions related to COVID-19. For Nightclubs that were open enough days to qualify for same-store sales (refer to the definition of same-store sales in the preceding paragraph), sales decreased by 6.8%. The remaining decline in revenues reflects lower sales in states that continue to keep locations closed such as New York, Illinois and Minnesota.

Bombshells revenues increased by 25.7%, of which 12.0% was for same-store sales increase with the remaining 13.7% increase caused by two new locations.

*Operating Expenses*

Total operating expenses, as a percent of revenues, increased to 82.9% from 80.0% from last year's first quarter, with a $6.9 million decrease, or 17.8%, which is mainly caused by fixed overhead expenses in relation to significantly lower sales. Significant contributors to the changes in operating expenses are explained below.

Cost of goods sold decreased by $572,000, or 8.4%, mainly due to lower sales from COVID-19-related closures and indoor dining occupancy restrictions. As a percent of total revenues, cost of goods sold increased to 16.2% from 14.0% mainly due to the sales mix having a decrease in lower higher-margin service revenues.

Salaries and wages decreased by $1.7 million, or 13.1%. As a percent of total revenues, salaries and wages were 29.9% from 27.3% mainly due to fixed salaries paid on lower sales due to COVID-19.

Selling, general and administrative expenses decreased by $4.4 million, or 26.5%, primarily due to decreased sales activity during the quarter partially offset by fixed overhead costs.

Depreciation and amortization decreased by $181,000, or 8.2% partly due to fully depreciated real estate and software assets.

*Income (Loss) from Operations*

For the three months ended December 31, 2020 and 2019, our consolidated operating margin was 17.1% and 20.0%, respectively. The main driver for the decrease in operating margin is the COVID-19-related closures.

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

| | For the Three Months Ended December 31, 2020 | 2019 |
|---|---|---|
| Nightclubs | $ 8,495 | $ 13,776 |
| Bombshells | 2,717 | 1,573 |
| Other | (75) | (207) |
| General corporate | (4,554) | (5,456) |
| | $ 6,583 | $ 9,686 |

Operating margin for the Nightclubs segment was 33.7% and 36.4% for the three months ended December 31, 2020 and 2019, respectively, while operating margin for Bombshells was 20.9% and 15.2%, respectively. The decrease in Nightclubs operating margin was mainly due to fixed operating costs and expenses in relation to lower sales from the pandemic. The increase in Bombshells operating margin was mainly from decrease in pre-opening expenses from several Bombshells openings in the prior-year quarter. Excluding amortization of intangibles, settlement of lawsuits, gain on insurance, and loss on disposal of assets, Nightclubs would have had non-GAAP operating margin of 33.6% and 36.6% for the three months ended December 31, 2020 and 2019, respectively. Excluding amortization of intangibles and settlement of lawsuits, Bombshells would have had non-GAAP operating margin of 21.2% and 15.2% for the three months ended December 31, 2020 and 2019.

Our total occupancy costs, defined as the sum of lease expense and interest expense, were $3.4 million and $3.5 million for the quarter ended December 31, 2020 and 2019, respectively. As a percentage of revenue, total occupancy costs were 8.9% and 7.3% during the quarter ended December 31, 2020 and 2019, respectively, primarily due to lower sales base.

*Non-Operating Items*

During the quarter ended December 31, 2020, we received notices of forgiveness for ten out of twelve of our PPP loans. All of the notices received forgave 100% of each of the ten PPP loans totaling $4.9 million.

Interest expense decreased by $51,000, or 2.1%.

*Income Taxes*

Income taxes were a benefit of $384,000 during the quarter ended December 31, 2020 compared to an expense of $1.6 million during the quarter ended December 31, 2019. The effective income tax rate was a benefit of 4.2% and an expense of 22.0% for the quarter ended December 31, 2020 and 2019, respectively. Our effective tax rate is affected by 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 Three Months Ended December 31, 2020 | 2019 |
|---|---|---|
| Computed expected income tax expense | 21.0% | 21.0% |
| State income taxes, net of federal benefit | 3.3% | 4.3% |
| Permanent differences | (8.2)% | 1.0% |
| Change in valuation allowance | (14.0)% | 0.0% |
| Tax credits | (6.3)% | (4.3)% |
| Total income tax expense (benefit) | (4.2)% | 22.0% |

***Non-GAAP Financial Measures***

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

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

*Non-GAAP Net Income and Non-GAAP Net Income per Diluted Share*. We calculate non-GAAP net income and non-GAAP net income per diluted share by excluding or including certain items to net income attributable to RCIHH common stockholders and diluted earnings per share. Adjustment items are: (a) amortization of intangibles, (b) gains or losses on sale of businesses and assets, (c) gains or losses on insurance, (d) unrealized gains or losses on equity securities, (e) settlement of lawsuits, (f) gain on debt extinguishment, and (g) 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 19.1% and 21.8% effective tax rate of the pre-tax non-GAAP income before taxes for the three months ended December 31, 2020 and 2019, 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) settlement of lawsuits, and (h) 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 months ended December 31, 2020 and 2019 (in thousands, except per share amounts and percentages):

| | For the Three Months Ended December 31, 2020 | For the Three Months Ended December 31, 2019 |
|---|---|---|
| **Reconciliation of GAAP net income to Adjusted EBITDA** | | |
| Net income attributable to RCIHH common stockholders | $ 9,643 | $ 5,634 |
| Income tax expense (benefit) | (384) | 1,593 |
| Interest expense, net | 2,374 | 2,387 |
| Settlement of lawsuits | 152 | 24 |
| Gain on sale of businesses and assets | (5) | (30) |
| Gain on debt extinguishment | (4,949) | - |
| Unrealized loss on equity securities | 33 | 72 |
| Gain on insurance | (197) | (20) |
| Depreciation and amortization | 2,023 | 2,204 |
| Adjusted EBITDA | $ 8,690 | $ 11,864 |
| | | |
| **Reconciliation of GAAP net income to non-GAAP net income** | | |
| Net income attributable to RCIHH common stockholders | $ 9,643 | $ 5,634 |
| Amortization of intangibles | 79 | 156 |
| Settlement of lawsuits | 152 | 24 |
| Gain on sale of businesses and assets | (5) | (30) |
| Gain on debt extinguishment | (4,949) | - |
| Unrealized loss on equity securities | 33 | 72 |
| Gain on insurance | (197) | (20) |
| Net income tax effect | (1,219) | (26) |
| Non-GAAP net income | $ 3,537 | $ 5,810 |
| | | |
| **Reconciliation of GAAP diluted earnings per share to non-GAAP diluted earnings per share** | | |
| Diluted shares | 9,019 | 9,322 |
| GAAP diluted earnings per share | $ 1.07 | $ 0.60 |
| Amortization of intangibles | 0.01 | 0.02 |
| Settlement of lawsuits | 0.02 | 0.00 |
| Gain on sale of businesses and assets | (0.00) | (0.00) |
| Gain on debt extinguishment | (0.55) | - |
| Unrealized loss on equity securities | 0.00 | 0.01 |
| Gain on insurance | (0.02) | (0.00) |
| Net income tax effect | (0.14) | (0.00) |
| Non-GAAP diluted earnings per share | $ 0.39 | $ 0.62 |
| | | |
| **Reconciliation of GAAP operating income to non-GAAP operating income** | | |
| Income from operations | $ 6,583 | $ 9,686 |
| Amortization of intangibles | 79 | 156 |
| Settlement of lawsuits | 152 | 24 |
| Gain on sale of businesses and assets | (5) | (30) |
| Gain on insurance | (197) | (20) |
| Non-GAAP operating income | $ 6,612 | $ 9,816 |
| | | |
| **Reconciliation of GAAP operating margin to non-GAAP operating margin** | | |
| Income from operations | 17.1% | 20.0% |
| Amortization of intangibles | 0.2% | 0.3% |
| Settlement of lawsuits | 0.4% | 0.0% |
| Gain on sale of businesses and assets | (0.0)% | (0.1)% |
| Gain on insurance | (0.5)% | (0.0)% |
| Non-GAAP operating margin | 17.2% | 20.3% |

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

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

***Liquidity and Capital Resources***

At December 31, 2020, our cash and cash equivalents were approximately $17.0 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 December 31, 2020, we had negative working capital of $3.8 million compared to a negative working capital of $5.9 million as of September 30, 2020. 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 has presented operational challenges. Our strategy is to open locations in accordance with local and state guidelines and we are uncertain as to when and if they will generate positive cash flows for us. Depending on the timing and number of locations we are allowed to open, and their ability to generate positive cash flow, we may need to borrow funds to meet our obligations or consider selling certain assets. Based upon the current state of allowed openings in Texas, revenues seem favorable. We are hopeful that we can become profitable within a relatively short period of time after a majority of our locations have reopened, assuming these results can be sustained and the other locations, once opened, follow these early results. But if the business interruptions and occupancy limitations caused by COVID-19 last longer than we expect, we may need to seek other sources of liquidity. The COVID-19 pandemic is adversely affecting the availability of liquidity generally in the credit markets, and 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.

To augment an expected decline in operating cash flows caused by the COVID-19 pandemic, we instituted the following measures:

- Arranged and continue to arrange for deferment of principal and interest payment on certain of our debts;
- Furloughed employees working at our clubs and restaurants, except for a limited number of managers;
- Temporarily enacted a pay reduction for all remaining salaried and hourly employees and deferral of board of director compensation;
- Deferred or modified certain fixed monthly expenses such as insurance, rent, and taxes, among others;
- Temporarily reduced or canceled certain non-essential expenses such as advertising, cable, pest control, point-of-sale system support, and investor relations coverage, 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 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 quarter ended December 31, 2020, we received ten Notices of PPP Forgiveness Payment ("Notice") from the Small Business Administration out of the twelve of our PPP loans granted. All of the notices received forgave 100% of each of the ten PPP loans totaling the amount of $4.9 million and included in non-operating gains (losses), net in our unaudited condensed consolidated statement of income. Subsequent to December 31, 2020, we received another Notice for one PPP loan which forgave 100% of the loan or $378,000 in principal. No assurance can be provided that the Company will in fact obtain forgiveness of the 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. Lower sales, 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, including refinancing several of our debt obligations.

We continue to adhere to state and local government mandates regarding the pandemic and, since March 2020, have closed and reopened several of our locations depending on changing government mandates. As of the release of this report, we have reopened many of our club and Bombshells locations with certain operating hour restrictions and with limited occupancy.

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 Three Months Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Operating activities | $ 6,274 | $ 10,273 |
| Investing activities | (1,013) | (2,718) |
| Financing activities | (3,899) | (8,493) |
| Net increase (decrease) in cash and cash equivalents | $ 1,362 | $ (938) |

Cash Flows from Operating Activities

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

| | For the Three Months Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Net income | $ 9,509 | $ 5,634 |
| Depreciation and amortization | 2,023 | 2,204 |
| Deferred income tax benefit | - | (150) |
| Gain on debt extinguishment | (4,920) | - |
| Net change in operating assets and liabilities | (495) | 2,173 |
| Other | 157 | 412 |
| Net cash provided by operating activities | $ 6,274 | $ 10,273 |

Net cash provided by operating activities decreased from year to year due primarily to the impact of the COVID-19 pandemic and higher interest expense paid partially offset by lower income taxes paid.

Cash Flows from Investing Activities

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

| | For the Three Months Ended December 31, 2020 | 2019 |
|---|---|---|
| Payments for property and equipment and intangible assets | $ (1,289) | $ (4,058) |
| Proceeds from sale of businesses and assets | - | 51 |
| Proceeds from insurance | 250 | 932 |
| Proceeds from note receivable | 26 | 357 |
| Net cash used in investing activities | $ (1,013) | $ (2,718) |

Following is a breakdown of our payments for property and equipment and intangible assets for the three months ended December 31, 2020 and 2019 (in thousands):

| | For the Three Months Ended December 31, 2020 | 2019 |
|---|---|---|
| New facilities, equipment and intangible assets | $ 684 | $ 3,037 |
| Maintenance capital expenditures | 605 | 1,021 |
| Total capital expenditures | $ 1,289 | $ 4,058 |

The capital expenditures during the three months ended December 31, 2020 were composed of primarily of real estate and liquor license purchases. The capital expenditures during the three months ended December 31, 2019 were composed primarily of construction and development costs for two new Bombshells locations. Maintenance capital expenditures refer mainly to capitalized replacement of productive assets in already existing locations. Variances in capital expenditures are primarily due to the number and timing of new, remodeled, or reconcepted locations under construction.

Cash Flows from Financing Activities

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

| | For the Three Months Ended December 31, 2020 | 2019 |
|---|---|---|
| Proceeds from debt obligations | $ - | $ 318 |
| Payments on debt obligations | (1,745) | (2,081) |
| Purchase of treasury stock | (1,794) | (6,441) |
| Payment of dividends | (360) | (279) |
| Distribution to noncontrolling interests | - | (10) |
| Net cash used in financing activities | $ (3,899) | $ (8,493) |

We purchased 74,659 shares of our common stock at an average price of $24.03 during the three months ended December 31, 2020, while we purchased 332,671 shares of our common stock at an average price of $19.36 during the same period last year. We paid quarterly dividends of $0.04 per share during the current first quarter compared to $0.03 per share in 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 $6.3 million and $10.3 million during the three months ended December 31, 2020 and 2019, respectively. Maintenance capital expenditures were $605,000 and $1.0 million during the three months ended December 31, 2020 and 2019, 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 Three Months Ended December 31, 2020 | 2019 |
|---|---|---|
| Net cash provided by operating activities | $ 6,274 | $ 10,273 |
| Less: Maintenance capital expenditures | 605 | 1,021 |
| Free cash flow | $ 5,669 | $ 9,252 |

Our free cash flow for the current quarter decreased by 38.7% compared to the comparable prior-year period primarily due to the impact of the COVID-19 partially offset by lower 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 three months ended December 31 (in thousands, except percentages):

| | 2020 | Increase (Decrease) | 2019 | Increase (Decrease) | 2018 |
|---|---|---|---|---|---|
| Sales of alcoholic beverages | $ 17,360 | (16.3)% | $ 20,743 | 13.3% | $ 18,310 |
| Sales of food and merchandise | 8,609 | 15.6% | 7,447 | 30.9% | 5,690 |
| Service revenues | 10,060 | (41.5)% | 17,193 | (0.8)% | 17,331 |
| Other | 2,369 | (21.3)% | 3,011 | 11.8% | 2,692 |
| Total revenues | 38,398 | (20.7)% | 48,394 | 9.9% | 44,023 |
| Net cash provided by operating activities | $ 6,274 | (38.9)% | $ 10,273 | (10.3)% | $ 11,452 |
| Adjusted EBITDA* | $ 8,690 | (26.8)% | $ 11,864 | (1.4)% | $ 12,028 |
| Free cash flow* | $ 5,669 | (38.7)% | $ 9,252 | (16.5)% | $ 11,076 |
| Debt (end of period) | $ 134,821 | (4.9)% | $ 141,826 | (7.4)% | $ 153,095 |

* 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 three months ended December 31, 2020, while we purchased 332,671 shares of our common stock at an average price of $19.36 during the same period last year. As of December 31, 2020, 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 certain markets are also affected by sporting events that cause unusual changes in sales from year to year.

***Capital Allocation Strategy***

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

Based on our current capital allocation strategy:

- We consider acquiring or developing our own clubs or restaurants that we believe have the potential to provide a minimum cash on cash return of 25%-33%, absent an otherwise strategic rationale;

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

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

- We consider paying down our most expensive debt if it makes sense on a tax adjusted basis, or there is an otherwise strategic rationale.

***Growth Strategy***

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

We believe that Bombshells can grow organically and through careful entry into markets and demographic segments with high growth potential. All ten of the existing Bombshells as of December 31, 2020 are located in Texas. Our growth strategy is to diversify our operations with these units which do not require SOB licenses, which are sometimes difficult to obtain. While we are searching for adult nightclubs to acquire, we are able to also search for restaurant/sports bar locations that are consistent with our income targets.

We are currently in the process of site selection for new Bombshells locations and have recently signed our first franchisee for Bombshells restaurants in the San Antonio, Texas area.

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

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of December 31, 2020, 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 December 31, 2020, an evaluation was performed under the supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on their evaluation, they have concluded that our disclosure controls and procedures were not effective as of December 31, 2020. 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 December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

See the "Legal Matters" section within Note 9 of the unaudited condensed consolidated financial statements within this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

### Item 1A. Risk Factors.

There were no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2020, except for such risks and uncertainties that may result from the additional disclosure in the "Legal Matters" section within Note 9 of the unaudited condensed consolidated financial statements within this Quarterly Report on Form 10-Q, which information is incorporated herein by reference, as well as such risks and uncertainties associated with 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 high-caliber 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**.

We purchased 74,659 shares of our common stock at an average price of $24.03 during the three months ended December 31, 2020.

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit)(1) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(2) | Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1-31, 2020 | 62,024 | $ 24.13 | 62,024 | $ 9,258,553 |
| November 1-30, 2020 | 12,635 | $ 23.50 | 12,635 | $ 8,961,575 |
| December 1-31, 2020 | - | | - | $ 8,961,575 |
| Total | 74,659 | $ 24.03 | 74,659 | |

(1) Prices include any commissions and transaction costs.

(2) All shares were purchased pursuant to the repurchase plans approved by the Board of Directors as disclosed in our most recent Annual report on Form 10-K.

As of February 5, 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: February 9, 2021 | By: */s/ Eric S. Langan*<br>Eric S. Langan<br>Chief Executive Officer and President |
| Date: February 9, 2021 | By: */s/ Bradley Chhay*<br>Bradley Chhay<br>Chief Financial Officer and Principal Accounting Officer |

**EXHIBIT 31.1**

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: February 9, 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: February 9, 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 December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, the Chief Executive Officer and the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on our knowledge, that:

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

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

*/s/ Eric S. Langan*
Eric S. Langan
Chief Executive Officer
February 9, 2021

*/s/ Bradley Chhay*
Bradley Chhay
Chief Financial Officer
February 9, 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.