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, 2023

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

Commission File Number: 001-13992

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. 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, 2024, 9,359,685 shares of the registrant’s common stock were outstanding.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

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

RCI HOSPITALITY HOLDINGS, INC.
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	December 31, 2023 (unaudited)	September 30, 2023
ASSETS		
Current assets		
Cash and cash equivalents	$ 21,155	$ 21,023
Accounts receivable, net	8,617	9,846
Current portion of notes receivable	253	249
Inventories	4,630	4,412
Prepaid expenses and other current assets	10,985	1,943
Total current assets	45,640	37,473
Property and equipment, net	284,398	282,705
Operating lease right-of-use assets, net	34,169	34,931
Notes receivable, net of current portion	4,362	4,443
Goodwill	70,772	70,772
Intangibles, net	178,486	179,145
Other assets	1,388	1,415
Total assets	$ 619,215	$ 610,884
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 5,254	$ 6,111
Accrued liabilities	26,564	16,051
Current portion of debt obligations, net	19,789	22,843
Current portion of operating lease liabilities	3,037	2,977
Total current liabilities	54,644	47,982
Deferred tax liability, net	29,143	29,143
Debt, net of current portion and debt discount and issuance costs	214,324	216,908
Operating lease liabilities, net of current portion	34,392	35,175
Other long-term liabilities	328	352
Total liabilities	332,831	329,560
Commitments and contingencies (Note 9)		
Equity		
Preferred stock, $0.10 par value per share; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.01 par value per share; 20,000,000 shares authorized; 9,359,685 and 9,397,639 shares issued and outstanding as of December 31, 2023 and September 30, 2023, respectively	94	94
Additional paid-in capital	78,815	80,437
Retained earnings	207,714	201,050
Total RCIHH stockholders' equity	286,623	281,581
Noncontrolling interests	(239)	(257)
Total equity	286,384	281,324
Total liabilities and equity	$ 619,215	$ 610,884

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended December 31, 2023	For the Three Months Ended December 31, 2022
Revenues		
Sales of alcoholic beverages	$ 33,316	$ 29,650
Sales of food and merchandise	10,802	10,347
Service revenues	25,119	25,563
Other	4,670	4,408
Total revenues	73,907	69,968
Operating expenses		
Cost of goods sold		
Alcoholic beverages sold	6,281	5,374
Food and merchandise sold	4,038	3,586
Service and other	40	49
Total cost of goods sold (exclusive of items shown separately below)	10,359	9,009
Salaries and wages	21,332	18,676
Selling, general and administrative	25,201	22,732
Depreciation and amortization	3,853	3,307
Other charges, net	(3)	(654)
Total operating expenses	60,742	53,070
Income from operations	13,165	16,898
Other income (expenses)		
Interest expense	(4,216)	(3,687)
Interest income	94	91
Income before income taxes	9,043	13,302
Income tax expense	1,799	3,031
Net income	7,244	10,271
Net income attributable to noncontrolling interests	(18)	(33)
Net income attributable to RCIHH common stockholders	$ 7,226	$ 10,238
Earnings per share		
Basic and diluted	$ 0.77	$ 1.11
Weighted average shares used in computing earnings per share		
Basic and diluted	9,367,151	9,230,258

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Additional		Treasury Stock			
	Number of Shares	Amount	Paid-In Capital	Retained Earnings	Number of Shares	Amount	Noncontrolling Interests	Total Equity
Balance at September 30, 2023	9,397,639	$ 94	$ 80,437	$ 201,050	—	$ —	$ (257)	$ 281,324
Purchase of treasury shares	—	—	—	—	(37,954)	(2,072)	—	(2,072)
Canceled treasury shares	(37,954)	—	(2,072)	—	37,954	2,072	—	—
Excise tax on stock repurchases	—	—	(20)	—	—	—	—	(20)
Payment of dividends ($0.06 per share)	—	—	—	(562)	—	—	—	(562)
Stock-based compensation	—	—	470	—	—	—	—	470
Net income	—	—	—	7,226	—	—	18	7,244
Balance at December 31, 2023	9,359,685	$ 94	$ 78,815	$ 207,714	—	$ —	$ (239)	$ 286,384
Balance at September 30, 2022	9,231,725	$ 92	$ 67,227	$ 173,950	—	$ —	$ 489	$ 241,758
Purchase of treasury shares	—	—	—	—	(1,500)	(98)	—	(98)
Canceled treasury shares	(1,500)	—	(98)	—	1,500	98	—	—
Payment of dividends ($0.05 per share)	—	—	—	(462)	—	—	—	(462)
Stock-based compensation	—	—	941	—	—	—	—	941
Share in return of investment by noncontrolling partner	—	—	—	—	—	—	(600)	(600)
Net income	—	—	—	10,238	—	—	33	10,271
Balance at December 31, 2022	9,230,225	$ 92	$ 68,070	$ 183,726	—	$ —	$ (78)	$ 251,810

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended December 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,244	$ 10,271
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,853	3,307
Stock-based compensation	470	941
Gain on sale of businesses and assets	(3)	(686)
Amortization of debt discount and issuance costs	163	144
Noncash lease expense	762	719
Gain on insurance	—	(64)
Doubtful accounts expense on notes receivable	22	—
Changes in operating assets and liabilities:		
Accounts receivable	1,229	1,447
Inventories	(218)	(94)
Prepaid expenses, other current and other assets	(9,029)	(7,208)
Accounts payable, accrued and other liabilities	9,140	6,118
Net cash provided by operating activities	13,633	14,895
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of businesses and assets	—	2,784
Proceeds from insurance	—	64
Proceeds from notes receivable	55	55
Payments for property and equipment and intangible assets	(5,135)	(12,553)
Acquisition of businesses, net of cash acquired	—	(4,000)
Net cash used in investing activities	(5,080)	(13,650)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt obligations	701	1,500
Payments on debt obligations	(6,352)	(3,361)
Purchase of treasury stock	(2,072)	(98)
Payment of dividends	(562)	(462)
Payment of loan origination costs	(136)	(96)
Share in return of investment by noncontrolling partner	—	(600)
Net cash used in financing activities	(8,421)	(3,117)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	132	(1,872)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	21,023	35,980
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 21,155	$ 34,108

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	For the Three Months Ended December 31,	
	2023	2022
CASH PAID DURING PERIOD FOR:		
Interest	$ 4,017	$ 3,490
Income taxes	$ —	$ —
Noncash investing and financing transactions:		
Debt incurred in connection with acquisition of businesses	$ —	$ 5,000
Debt incurred in connection with purchase of property and equipment	$ —	$ 5,584
Unpaid excise tax on stock repurchases	$ 20	$ —
Unpaid liabilities on capital expenditures	$ 1,719	$ 1,985

See accompanying notes to unaudited condensed consolidated financial statements.

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of RCI Hospitality Holdings, Inc. (the "Company," "RCIHH," "we," or "us") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP" or "U.S. GAAP") for interim financial information and with the instructions to Form 10-Q of Regulation S-X. They do not include all information and footnotes required by GAAP for complete financial statements. The September 30, 2023 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, 2023 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on December 14, 2023. 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, 2023 are not necessarily indicative of the results that may be expected for the year ending September 30, 2024.

2. Recent Accounting Standards and Pronouncements

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This ASU amends Accounting Standards Codification ("ASC") Topic 805 to require acquiring entities to apply ASC 606 to recognize and measure contract assets and contract liabilities in business combinations. The ASU is effective for public entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We adopted ASU 2021-08 on October 1, 2023. Our adoption of this ASU did not have a significant impact on our consolidated financial statements.

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

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

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

2. Recent Accounting Standards and Pronouncements - continued

In August 2023, the FASB issued ASU 2023-05, *Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*, which addresses the accounting for contributions made to a joint venture, upon formation, in a joint venture's separate financial statements. The objectives of the ASU are to (1) provide decision-useful information to investors and other allocators of capital in a joint venture's financial statements and (2) reduce diversity in practice. The FASB decided to require a joint venture to apply a new basis of accounting upon formation that will recognize and initially measure its assets and liabilities at fair value (with exceptions to fair value measurement that are consistent with the business combinations guidance). The amendments of this ASU are effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. Additionally, a joint venture that was formed before January 1, 2025 may elect to apply the amendments retrospectively if it has sufficient information. early adoptions is permitted in any interim or annual period in which financial statements have not yet been issued (or made available for issuance), either prospectively or retrospectively. We are still evaluating the impact of this ASU on our consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which aims to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In addition, the amendments in the ASU enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. The purpose of the amendments is to enable investors to better understand an entity's overall performance and assess potential future cash flows. The ASU applies to all public entities that are required to report segment information in accordance with ASC 280, and is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. We are evaluating the impact of this ASU on our consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. Under the ASU, public business entities must annually (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than five percent of the amount computed by multiplying pretax income or loss by the applicable statutory income tax rate. The amendments of the ASU are effective for public business entities for annual periods beginning after December 15, 2024. Entities are permitted to early adopt the standard for annual financial statements that have not been issued or made available for issuance. We are enhancing our income tax reporting system to be able to capture the required disclosures of this ASU.

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

3. Revenues

Revenues, as disaggregated by revenue type, timing of recognition, and reportable segment (see also Note 4), are shown below (in thousands):

	Three Months Ended December 31, 2023				Three Months Ended December 31, 2022			
	Nightclubs	Bombshells	Other	Total	Nightclubs	Bombshells	Other	Total
Sales of alcoholic beverages	$ 26,236	$ 7,080	$ —	$ 33,316	$ 22,098	$ 7,552	$ —	$ 29,650
Sales of food and merchandise	5,240	5,562	—	10,802	4,594	5,753	—	10,347
Service revenues	25,119	—	—	25,119	25,533	30	—	25,563
Other revenues	4,438	89	143	4,670	4,100	96	212	4,408
	$ 61,033	$ 12,731	$ 143	$ 73,907	$ 56,325	$ 13,431	$ 212	$ 69,968
Recognized at a point in time	$ 60,600	$ 12,730	$ 143	$ 73,473	$ 55,918	$ 13,428	$ 211	$ 69,557
Recognized over time	433 *	1	—	434	407 *	3	1	411
	$ 61,033	$ 12,731	$ 143	$ 73,907	$ 56,325	$ 13,431	$ 212	$ 69,968

* 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, 2023	Net Consideration Received (Refunded)	Recognized in Revenue	Balance at December 31, 2023
Ad revenue	$ 49	$ 142	$ (114)	$ 77
Expo revenue	1	181	—	182
Franchise fees and other	46	—	(2)	44
	$ 96	$ 323	$ (116)	$ 303

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.

4. Segment Information

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

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

	For the Three Months Ended December 31,	
	2023	2022
Revenues (from external customers)		
Nightclubs	$ 61,033	$ 56,325
Bombshells	12,731	13,431
Other	143	212
	$ 73,907	$ 69,968
Income (loss) from operations		
Nightclubs	$ 20,369	$ 22,740
Bombshells	86	1,847
Other	(196)	(185)
Corporate	(7,094)	(7,504)
	$ 13,165	$ 16,898
Depreciation and amortization		
Nightclubs	$ 2,905	$ 2,485
Bombshells	643	458
Other	2	63
Corporate	303	301
	$ 3,853	$ 3,307
Capital expenditures		
Nightclubs	$ 1,532	$ 4,144
Bombshells	1,908	8,319
Other	1,498	37
Corporate	197	53
	$ 5,135	$ 12,553

4. Segment Information - continued

	December 31, 2023	September 30, 2023
Total assets		
Nightclubs	$ 491,046	$ 483,563
Bombshells	86,730	85,215
Other	7,628	6,936
Corporate	33,811	35,170
	$ 619,215	$ 610,884

Excluded from revenues in the table above are intercompany rental revenues of the Nightclubs and Corporate segments for the three months ended December 31, 2023, amounting to $4.5 million and $227,000, respectively, and for the three months ended December 31, 2022, amounting to $3.7 million and $231,000, respectively; and intercompany sales of Robust Energy Drink included in Other segment for the three months ended December 31, 2023 and 2022 amounting to $39,000 and $37,000, respectively. These intercompany revenue amounts are eliminated upon consolidation.

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

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

5. Selected Account Information

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

	December 31, 2023	September 30, 2023
Credit card receivables	$ 4,297	$ 4,141
Income tax refundable	1,192	2,989
ATM in-transit	2,015	1,675
Other (net of allowance for doubtful accounts of $64 and $62, respectively)	1,113	1,041
Total accounts receivable, net	$ 8,617	$ 9,846

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

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

	December 31, 2023	September 30, 2023
Prepaid insurance	$ 9,297	$ 375
Prepaid legal	156	184
Prepaid taxes and licenses	265	486
Prepaid rent	215	346
Other	1,052	552
Total prepaid expenses and other current assets	$ 10,985	$ 1,943

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

5. Selected Account Information - continued

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

	December 31, 2023	September 30, 2023
Insurance	$ 9,022	$ 9
Sales and liquor taxes	2,499	2,468
Payroll and related costs	4,100	4,412
Property taxes	3,607	3,086
Interest	690	654
Patron tax	1,543	914
Unearned revenues	303	96
Lawsuit settlement	2,123	2,448
Other	2,677	1,964
Total accrued liabilities	$ 26,564	$ 16,051

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

	For the Three Months Ended December 31,	
	2023	2022
Taxes and permits	$ 4,042	$ 2,684
Advertising and marketing	3,474	2,670
Supplies and services	2,695	2,424
Insurance	3,315	2,582
Legal	733	985
Lease	1,824	1,762
Charge card fees	1,732	1,897
Utilities	1,485	1,271
Security	1,411	1,164
Stock-based compensation	470	941
Accounting and professional fees	1,186	1,518
Repairs and maintenance	1,099	1,164
Other	1,735	1,670
Total selling, general and administrative expenses	$ 25,201	$ 22,732

6. Debt

On October 25, 2023, the Company entered into a debt modification transaction under which 26 investors holding a total principal amount of $15.7 million in unsecured promissory notes agreed to extend the maturity dates of such notes, with no other changes to the terms and conditions of the original promissory notes, which original promissory notes were issued in October 2021 and had original maturity dates in October 2024. The transaction was effected by the 26 investors returning for cancellation their original promissory notes, with us issuing new amended and restated promissory notes to such investors. The original promissory notes were deemed cancelled as of the end of the day on October 31, 2023, and the new amended promissory notes will have an original issue date, and be deemed effective, as of November 1, 2023.

Other than the extension of the maturity dates, there were no other changes to the terms and conditions of the original promissory notes (except for the reduction in principal, as described below, and the corresponding reduction in monthly installments of principal and interest). The new amended notes will continue to bear interest at the rate of 12% per annum. Of the new amended promissory notes, $9.1 million are payable interest-only monthly (or quarterly) in arrears, with a final lump sum payment of principal and accrued and unpaid interest due on October 1, 2026. The remaining $6.6 million in promissory notes are payable in monthly payments of principal and interest based on a 10-year amortization period, with the balance of the entire principal amount together with all accrued and unpaid interest due and payable in full on November 1, 2027. The original promissory notes that were returned and cancelled as consideration for the issuance of the $6.6 million in new amended promissory notes had an original principal amount of $7.5 million in October 2021.

On November 17, 2023, the Company closed on a construction loan agreement with a bank lender for a total amount of $7.2 million bearing an interest rate of 8.5% per annum for the construction of a Bombshells restaurant in Rowlett, Texas. The promissory note is payable in 120 monthly payments, the first 18 months of which will be interest-only. The succeeding 101 monthly payments will be payable in equal installments of $63,022 in principal and interest, and the remaining balance in principal and accrued interest payable on the 120th month. The loan is secured by the real estate property under construction. There are certain financial covenants with which the Company is to be in compliance related to this loan.

Future maturities of long-term debt as of December 31, 2023 are as follows: $20.4 million, $24.1 million, $22.6 million, $21.9 million, $19.9 million and $128.2 million for the twelve months ending December 31, 2024, 2025, 2026, 2027, 2028, and thereafter, respectively. Of the maturity schedule mentioned above, $5.7 million, $11.1 million, $9.1 million, $7.9 million, $5.7 million and $70.6 million, respectively, relate to scheduled balloon payments. Unamortized debt discount and issuance costs amounted to $2.9 million and $2.9 million as of December 31, 2023 and September 30, 2023, respectively.

7. Stock-based Compensation

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

Stock-based compensation for the three months ended December 31, 2023 and 2022, which is included in corporate segment selling, general and administrative expenses, amounted to $470,000 and $941,000, respectively. As of December 31, 2023, we had unrecognized compensation cost amounting to $4.0 million related to stock-based compensation awards granted, which is expected to be recognized over a weighted average period of 2.1 years.

7. Stock-based Compensation - continued

The February 9, 2022 stock options vest over four years with the first 20% having vested on the approval of the 2022 Plan at the 2022 annual stockholders' meeting on August 23, 2022, and 20% vesting on February 9 of each year thereafter, provided however that the options will be subject to earlier vesting under certain events set forth in the Plan, including without limitation a change in control. All of the options will expire, if not exercised, at the end of five years. The weighted average grant-date fair value of the stock options was $31.37 per share. No stock options were exercised during the three months ended December 31, 2023. As of December 31, 2023, 120,000 stock options were vested and exercisable.

For the three months ended December 31, 2023 and 2022, we excluded 300,000 stock options from the calculation of diluted earnings per share because their effect was anti-dilutive. Aside from the outstanding stock options, there were no other potentially dilutive securities for inclusion in the calculation of diluted earnings per share.

8. Income Taxes

Income tax expense was $1.8 million and $3.0 million during the three months ended December 31, 2023 and 2022, respectively. The effective income tax expense rate was 19.9% and 22.8% for the three months ended December 31, 2023 and 2022, respectively. Our effective income tax rate is affected by state taxes, permanent differences, and tax credits, including the FICA tip credit, for both years, as presented below.

	For the Three Months Ended December 31,	
	2023	2022
Federal statutory income tax expense	21.0 %	21.0 %
State income taxes, net of federal benefit	3.4 %	4.0 %
Permanent differences	0.5 %	0.5 %
Tax credits	(5.0)%	(2.8)%
Other	— %	0.1 %
Total income tax expense	19.9 %	22.8 %

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states. Fiscal year ended September 30, 2020 and subsequent years remain open to federal tax examination. The Company ordinarily goes through various federal and state reviews and examinations for various tax matters.

9. Commitments and Contingencies

Legal Matters

Texas Patron Tax

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

9. Commitments and Contingencies - continued

Indemnity Insurance Corporation

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

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

On April 10, 2014, the Court of Chancery of the State of Delaware entered a Liquidation and Injunction Order With Bar Date ("Liquidation Order"), which ordered the liquidation of IIC and terminated all insurance policies or contracts of insurance issued by IIC. The Liquidation Order further ordered that all claims against IIC must have been filed with the Receiver before the close of business on January 16, 2015 and that all pending lawsuits involving IIC as the insurer were further stayed or abated until October 7, 2014. As a result, the Company and its subsidiaries no longer had insurance coverage under the liability policy with IIC. The Company has retained counsel to defend against and evaluate these claims and lawsuits. We are funding 100% of the costs of litigation and will seek reimbursement from the bankruptcy receiver. The Company filed the appropriate claims against IIC with the Receiver before the January 16, 2015 deadline and has provided updates as requested; however, there are no assurances of any recovery from these claims. It is unknown at this time what effect this uncertainty will have on the Company. As previously stated, since October 25, 2013, the Company has obtained general liability coverage from other insurers, which have covered and/or will cover any claims arising from actions after that date. As of December 31, 2023, we have 1 remaining unresolved claim out of the original 71 claims.

Shareholder Derivative Action

On January 21, 2022, Shiva Stein and Kevin McCarty filed a shareholder derivative action in the Southern District of Texas, Houston Division against former director Nourdean Anakar, Yura Barabash, former director Steven L. Jenkins, Eric Langan, Luke Lirot, former CFO Phillip K. Marshall, Elaine J. Martin, Allan Priaulx, and Travis Reese as defendants, as well as against RCI Hospitality Holdings, Inc. as nominal defendant. The action, styled Stein v. Anakar, et al., No. 4:22-mc-00149 (S.D. Tex.), alleges claims for breach of fiduciary duty based on alleged dissemination of inaccurate information and failure to maintain internal controls. These allegations are substantively similar to claims asserted in a prior securities class action that was settled in August of 2022 and a prior derivative action that was dismissed in June of 2021. On July 24, 2023, the parties reached an agreement in principle to resolve the action. On October 10, 2023, the parties submitted an agreement to settle the action to the Court for the Court's preliminary approval. The Company believes that payments under the settlement agreement will be covered by insurance.

Other

On June 23, 2014, Mark H. Dupray and Ashlee Dupray filed a lawsuit against Pedro Antonio Panameno and our subsidiary JAI Dining Services (Phoenix) Inc. ("JAI Phoenix") in the Superior Court of Arizona for Maricopa County. The suit alleged that Mr. Panameno injured Mr. Dupray in a traffic accident after being served alcohol at an establishment operated by JAI Phoenix. The suit alleged that JAI Phoenix was liable under theories of common law dram shop negligence and dram shop negligence per se. After a jury trial proceeded to a verdict in favor of the plaintiffs against both defendants, in April 2017 the Court entered a judgment under which JAI Phoenix's share of compensatory damages is approximately $1.4 million and its share of punitive damages is $4.0 million. In May 2017, JAI Phoenix filed a motion for judgment as a matter of law or, in the alternative, motion for new trial. The Court denied this motion in August 2017. In September 2017, JAI Phoenix filed a notice of appeal. In June 2018, the matter was heard by the Arizona Court of Appeals. On November 15, 2018 the Court of Appeals vacated the jury's verdict and remanded the case to the trial court. It is anticipated that a new trial will occur at some point in the future. JAI Phoenix will continue to vigorously defend itself.

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

9. Commitments and Contingencies - continued

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

In March 2023, the New York State Department of Labor assessed a final judgment against one of our subsidiaries in a state unemployment tax matter for the years 2009-2022. The assessment of $2.8 million, which was recorded by the Company during the quarter ended March 31, 2023, was issued in final notice by the NY DOL after several appeals were denied by the Supreme Court of the State of New York, Appellate Division, Third Department. In September 2023, the NY DOL assessed another of our subsidiaries for approximately $280,000 on the same matter for the period January 2015 through June 2022. We recorded this latter assessment during the quarter ended September 30, 2023.

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.

There were no lawsuit settlements incurred during the three months ended December 31, 2023 and 2022. As of December 31, 2023 and September 30, 2023, the Company has accrued $2.1 million and $2.4 million in accrued liabilities, respectively, related to settlement of lawsuits.

10. 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, 2023 and September 30, 2023, was $116.7 million and $119.2 million, respectively.

Included in the October 2023 debt transaction (see Note 6) are notes borrowed from related parties—one note for $500,000 (Ed Anakar, an employee of the Company and brother of our former director Nourdean Anakar) and another note for $150,000 (from a brother of Company CFO, Bradley Chhay) in which the terms of the notes are the same as the rest of the lender group.

We used the services of Nottingham Creations, and previously Sherwood Forest Creations, LLC, both furniture fabrication companies that manufacture tables, chairs and other furnishings for our Bombshells locations, as well as providing ongoing maintenance. Nottingham Creations is owned by a brother of Eric Langan (as was Sherwood Forest). Amounts billed to us for goods and services provided by Nottingham Creations and Sherwood Forest were $142,098 and $0 during the three months ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and September 30, 2023, we owed Nottingham Creations and Sherwood Forest $36,308 and $10,700, respectively, in unpaid billings.

10. Related Party Transactions - continued

TW Mechanical LLC provided plumbing and HVAC services to both a third-party general contractor providing construction services to the Company, as well as directly to the Company during fiscal 2024 and 2023. A son-in-law of Eric Langan owns a 50% interest in TW Mechanical. Amounts billed by TW Mechanical to the third-party general contractor were $0 and $0 for the three months ended December 31, 2023 and 2022, respectively. Amounts billed directly to the Company were $2,932 and $0 for the three months ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and September 30, 2023, the Company owed TW Mechanical $0 and $0, respectively, in unpaid direct billings.

11. Leases

Total lease expense included in selling, general and administrative expenses in our unaudited condensed consolidated statements of income for the three months ended December 31, 2023 and 2022 is as follows (in thousands):

	Three Months Ended December 31,	
	2023	2022
Operating lease expense – fixed payments	$ 1,292	$ 1,259
Variable lease expense	450	427
Short-term and other lease expense (includes $107 and $64 recorded in advertising and marketing for the three months ended December 31, 2023 and 2022, respectively; and $141 and $127 recorded in repairs and maintenance for the three months ended December 31, 2023 and 2022, respectively; see Note 5)	330	267
Sublease income	—	—
Total lease expense, net	$ 2,072	$ 1,953
Other information:		
Operating cash outflows from operating leases	$ 2,033	$ 1,910
Weighted average remaining lease term – operating leases	10.3 years	11.2 years
Weighted average discount rate – operating leases	5.8 %	5.6 %

Future maturities of operating lease liabilities as of December 31, 2023 are as follows (in thousands):

	Principal Payments	Interest Payments	Total Payments
January - December 2024	$ 3,037	$ 2,014	$ 5,051
January - December 2025	3,296	1,835	5,131
January - December 2026	3,594	1,640	5,234
January - December 2027	3,355	1,438	4,793
January - December 2028	2,996	1,256	4,252
Thereafter	21,151	4,333	25,484
	$ 37,429	$ 12,516	$ 49,945

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, 2023.

Overview

RCI Hospitality Holdings, Inc. is a holding company that, through its subsidiaries, engages in businesses that offer live adult entertainment and/or high-quality dining experiences to its guests. All services and management operations are conducted by subsidiaries of RCIHH, including RCI Management Services, Inc.

Through our subsidiaries, as of December 31, 2023, we operated a total of 69 establishments that offer live adult entertainment, including one food hall. We also operated a leading business communications company serving the multi-billion-dollar adult nightclubs industry. We have two principal reportable segments: Nightclubs and Bombshells. We combine operating segments not included in Nightclubs and Bombshells into "Other." In the context of club and restaurant/sports bar operations, the terms the "Company," "we," "our," "us" and similar terms used in this report refer to subsidiaries of RCIHH. RCIHH was incorporated in the State of Texas in 1994. Our corporate offices are located in Houston, Texas.

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, 2023 filed with the SEC on December 14, 2023.

During the three months ended December 31, 2023, there were no significant changes in our accounting policies and estimates.

Results of Operations

Highlights of the Company's operating results during the quarter ended December 31, 2023 are as follows:

- Total revenues were $73.9 million compared to $70.0 million during the comparable prior-year quarter, a 5.6% increase (Nightclubs revenue of $61.0 million compared to $56.3 million, an 8.4% increase; and Bombshells revenue of $12.7 million compared to $13.4 million, a 5.2% decrease)

- Consolidated same-store sales decreased by 9.8% (Nightclubs decreased by 7.2% while Bombshells decreased by 20.3%) (refer to the definition of same-store sales in the discussion of revenues below)

- Basic and diluted earnings per share ("EPS") of $0.77 compared to $1.11 (non-GAAP diluted EPS* of $0.87 compared to $1.19) during the comparable prior-year quarter

- Net cash provided by operating activities of $13.6 million compared to $14.9 million during the comparable prior-year quarter, an 8.5% decrease (free cash flow* of $12.7 million compared to $13.0 million, a 2.9% decrease)

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

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

	Three Months Ended December 31,	
	2023	2022
Revenues		
Sales of alcoholic beverages	45.1 %	42.4 %
Sales of food and merchandise	14.6 %	14.8 %
Service revenues	34.0 %	36.5 %
Other	6.3 %	6.3 %
Total revenues	100.0 %	100.0 %
Operating expenses		
Cost of goods sold		
Alcoholic beverages sold	18.9 %	18.1 %
Food and merchandise sold	37.4 %	34.7 %
Service and other	0.1 %	0.2 %
Total cost of goods sold (exclusive of items shown separately below)	14.0 %	12.9 %
Salaries and wages	28.9 %	26.7 %
Selling, general and administrative	34.1 %	32.5 %
Depreciation and amortization	5.2 %	4.7 %
Other charges, net	— %	(0.9)%
Total operating expenses	82.2 %	75.8 %
Income from operations	17.8 %	24.2 %
Other income (expenses)		
Interest expense	(5.7)%	(5.3)%
Interest income	0.1 %	0.1 %
Income before income taxes	12.2 %	19.0 %
Income tax expense	2.4 %	4.3 %
Net income	9.8 %	14.7 %

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

Revenues

Consolidated revenues for the first quarter increased by $3.9 million, or 5.6%, versus the comparable prior-year quarter due primarily to a 15.0%, or $10.5 million, increase in sales from newly acquired clubs from last year and new Bombshells openings, partially offset by the $6.7 million impact of the decrease in consolidated same-stores sales.

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

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

	Three Months Ended December 31, 2023	Mix	Three Months Ended December 31, 2022	Mix	Inc (Dec) $	Inc (Dec) %
Nightclubs						
Sales of alcoholic beverages	$ 26,236	43.0 %	$ 22,098	39.2 %	$ 4,138	18.7 %
Sales of food and merchandise	5,240	8.6 %	4,594	8.2 %	646	14.1 %
Service revenues	25,119	41.2 %	25,533	45.3 %	(414)	(1.6)%
Other revenues	4,438	7.3 %	4,100	7.3 %	338	8.2 %
	61,033	100.0 %	56,325	100.0 %	4,708	8.4 %
Bombshells						
Sales of alcoholic beverages	7,080	55.6 %	7,552	56.2 %	(472)	(6.3)%
Sales of food and merchandise	5,562	43.7 %	5,753	42.8 %	(191)	(3.3)%
Service revenues	—	0.0 %	30	0.2 %	(30)	(100.0)%
Other revenues	89	0.7 %	96	0.7 %	(7)	(7.3)%
	12,731	100.0 %	13,431	100.0 %	(700)	(5.2)%
Other						
Other revenues	143	100.0 %	212	100.0 %	(69)	(32.5)%
	$ 73,907		$ 69,968		$ 3,939	5.6 %

Nightclubs revenues increased by 8.4% during the first quarter compared to the same quarter last year primarily due to the $8.9 million contribution of newly acquired clubs, partially offset by the $4.0 million impact of the decrease in same-store sales. For Nightclubs that were open enough days to qualify for same-store sales (refer to the definition of same-store sales in the preceding paragraph), sales decreased by 7.2%. By type of revenue, alcoholic beverage sales increased by 18.7%, food, merchandise and other revenue increased by 11.3%, while service revenues decreased by 1.6%.

Bombshells revenues decreased by 5.2%, of which 20.3% was for same-store sales decrease with the offsetting increase caused by two new locations and a food hall. By type of revenue, food and merchandise sales decreased by 3.3% while alcoholic beverage sales decreased by 6.3%.

Operating Expenses

Total operating expenses, as a percent of revenues, increased to 82.2% from 75.8% from last year's first quarter, with a $7.7 million increase, or 14.5%, which was mainly caused by costs and expenses directly related to higher sales in the current-year first quarter, with the impact of fixed expenses on clubs and restaurants having decreases in their same-stores sales. Significant contributors to the changes in operating expenses are explained below.

Cost of goods sold. Cost of goods sold for the first quarter increased by $1.4 million, or 15.0%, mainly due to higher sales. As a percent of total revenues, cost of goods sold increased to 14.0% from 12.9% mainly due to the sales mix decrease in service revenue. Nightclubs cost of goods sold increased to 12.0% from 10.5%, while Bombshells cost of goods sold increased to 23.7% from 22.9%. Both increases in percent to segment revenue were caused mainly by shift in sales mix toward lower margin sales type.

Salaries and wages. Salaries and wages increased by $2.7 million, or 14.2%, for the first quarter due to increase in personnel from newly acquired clubs and new Bombshells openings, work shifts to accommodate the increase in sales, and the impact of minimum wage increases in certain states and cities. As a percent of total revenues, salaries and wages increased to 28.9% from 26.7% due to wage inflation. Nightclubs increased to 22.0% from 20.8% and Bombshells increased to 31.1% from 26.5%, while corporate increased to 5.1% from 4.7%.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by $2.5 million, or 10.9%, primarily due to increased variable expenses related to higher sales during the current-year first quarter. Dollar amounts in the tables below are in thousands, except percentages.

	For the Three Months Ended December 31, 2023		For the Three Months Ended December 31, 2022		Better (Worse)	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
Taxes and permits	$ 4,042	5.5 %	$ 2,684	3.8 %	$ (1,358)	(50.6)%
Advertising and marketing	3,474	4.7 %	2,670	3.8 %	(804)	(30.1)%
Supplies and services	2,695	3.6 %	2,424	3.5 %	(271)	(11.2)%
Insurance	3,315	4.5 %	2,582	3.7 %	(733)	(28.4)%
Legal	733	1.0 %	985	1.4 %	252	25.6 %
Lease	1,824	2.5 %	1,762	2.5 %	(62)	(3.5)%
Charge card fees	1,732	2.3 %	1,897	2.7 %	165	8.7 %
Utilities	1,485	2.0 %	1,271	1.8 %	(214)	(16.8)%
Security	1,411	1.9 %	1,164	1.7 %	(247)	(21.2)%
Stock-based compensation	470	0.6 %	941	1.3 %	471	50.1 %
Accounting and professional fees	1,186	1.6 %	1,518	2.2 %	332	21.9 %
Repairs and maintenance	1,099	1.5 %	1,164	1.7 %	65	5.6 %
Other	1,735	2.3 %	1,670	2.4 %	(65)	(3.9)%
Total selling, general and administrative expenses	$ 25,201	34.1 %	$ 22,732	32.5 %	$ (2,469)	(10.9)%

Taxes and permits mainly increased due to the increase in the Texas patron tax. Advertising and marketing increased mainly due to higher commissions and promotional expenses. Insurance expense increased due to additional clubs and restaurants.

Depreciation and amortization. Depreciation and amortization increased by $546,000, or 16.5%, during the quarter due to the higher depreciable base.

Other charges, net. Other charges, net for the quarter changed due to one sale of real estate property in the prior-year first quarter.

Income (Loss) from Operations

For the quarter ended December 31, 2023 and 2022, our consolidated operating margin was 17.8% and 24.2%, respectively. Segment contribution to income (loss) from operations is presented in the table below (in thousands):

	For the Three Months Ended December 31,	
	2023	2022
Nightclubs	$ 20,369	$ 22,740
Bombshells	86	1,847
Other	(196)	(185)
Corporate	(7,094)	(7,504)
	$ 13,165	$ 16,898

Excluding certain items, the first quarter ended December 31, 2023 and 2022 non-GAAP operating income (loss) and non-GAAP operating margin are computed in the tables below (dollars in thousands). Refer to the discussion of Non-GAAP Financial Measures on page 26.

	For the Three Months Ended December 31, 2023				
	Nightclubs	Bombshells	Other	Corporate	Total
Income (loss) from operations	$ 20,369	$ 86	$ (196)	$ (7,094)	$ 13,165
Amortization of intangibles	591	63	—	5	659
Gain on sale of businesses and assets	(1)	—	—	(2)	(3)
Stock-based compensation	—	—	—	470	470
Non-GAAP operating income (loss)	$ 20,959	$ 149	$ (196)	$ (6,621)	$ 14,291
GAAP operating margin	33.4 %	0.7 %	(137.1)%	(9.6)%	17.8 %
Non-GAAP operating margin	34.3 %	1.2 %	(137.1)%	(9.0)%	19.3 %

	For the Three Months Ended December 31, 2022				
	Nightclubs	Bombshells	Other	Corporate	Total
Income (loss) from operations	$ 22,740	$ 1,847	$ (185)	$ (7,504)	$ 16,898
Amortization of intangibles	628	2	61	4	695
Gain on sale of businesses and assets	(569)	—	—	(21)	(590)
Gain on insurance	(48)	—	—	(16)	(64)
Stock-based compensation	—	—	—	941	941
Non-GAAP operating income (loss)	$ 22,751	$ 1,849	$ (124)	$ (6,596)	$ 17,880
GAAP operating margin	40.4 %	13.8 %	(87.3)%	(10.7)%	24.2 %
Non-GAAP operating margin	40.4 %	13.8 %	(58.5)%	(9.4)%	25.6 %

Other Income/Expenses

Interest expense increased by $529,000, or 14.3%, primarily caused by a higher average debt balance mostly from seller-financed promissory notes from last years' acquisitions.

Our total occupancy costs, defined as the sum of operating lease expense and interest expense, were $6.0 million and $5.4 million for the quarters ended December 31, 2023 and 2022, respectively. As a percentage of revenue, total occupancy costs were 8.2% and 7.8% during the quarters ended December 31, 2023 and 2022, respectively, primarily due to the interest from higher average debt balance.

Income Taxes

Income tax expense was $1.8 million and $3.0 million during the three months ended December 31, 2023 and 2022, respectively. The effective income tax expense rate was 19.9% and 22.8% for the three months ended December 31, 2023 and 2022, respectively. Our effective income tax rate is affected by state taxes, permanent differences, and tax credits, including the FICA tip credit, for both years, as presented below.

	For the Three Months Ended December 31,	
	2023	2022
Federal statutory income tax expense	21.0 %	21.0 %
State income taxes, net of federal benefit	3.4 %	4.0 %
Permanent differences	0.5 %	0.5 %
Tax credit	(5.0)%	(2.8)%
Other	— %	0.1 %
Total income tax expense	19.9 %	22.8 %

Income taxes decreased in dollar amount due to the lower pretax income in the current first quarter. Effective income tax rate decreased due to the acquisition of Texas-based clubs at the end of last year's second quarter and the additional tax credits from those acquisitions.

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) stock-based compensation. We believe that excluding these items assists investors in evaluating period-over-period changes in our operating income and operating margin without the impact of items that are not a result of our day-to-day business and operations.

Non-GAAP Net Income and Non-GAAP Net Income per Diluted Share. We calculate non-GAAP net income and non-GAAP net income per diluted share by excluding or including certain items to net income attributable to RCIHH common stockholders and diluted earnings per share. Adjustment items are: (a) amortization of intangibles, (b) gains or losses on sale of businesses and assets, (c) gains or losses on insurance, (d) stock-based compensation, and (e) 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 19.9% and 22.7% effective tax rate of the pre-tax non-GAAP income before taxes for the three months ended December 31, 2023 and 2022, respectively, and the GAAP income tax expense (benefit). We believe that excluding and including such items help management and investors better understand our operating activities.

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

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

The following tables present our non-GAAP performance measures for the three months ended December 31, 2023 and 2022 (in thousands, except per share, number of shares and percentages):

	Three Months Ended December 31,	
	2023	2022
Reconciliation of GAAP net income to Adjusted EBITDA		
Net income attributable to RCIHH common stockholders	$ 7,226	$ 10,238
Income tax expense	1,799	3,031
Interest expense, net	4,122	3,596
Depreciation and amortization	3,853	3,307
Stock-based compensation	470	941
Gain on sale of businesses and assets	(3)	(590)
Gain on insurance	—	(64)
Adjusted EBITDA	$ 17,467	$ 20,459

	Three Months Ended December 31,	
	2023	2022
Reconciliation of GAAP net income to non-GAAP net income		
Net income attributable to RCIHH common stockholders	$ 7,226	$ 10,238
Amortization of intangibles	659	695
Stock-based compensation	470	941
Gain on sale of businesses and assets	(3)	(590)
Gain on insurance	—	(64)
Net income tax effect	(220)	(200)
Non-GAAP net income	$ 8,132	$ 11,020

	Three Months Ended December 31,	
	2023	2022
Reconciliation of GAAP diluted earnings per share to non-GAAP diluted earnings per share		
Diluted shares	9,367,151	9,230,258
GAAP diluted earnings per share	$ 0.77	$ 1.11
Amortization of intangibles	0.07	0.08
Stock-based compensation	0.05	0.10
Gain on sale of businesses and assets	0.00	(0.06)
Gain on insurance	0.00	(0.01)
Net income tax effect	(0.02)	(0.02)
Non-GAAP net income	$ 0.87	$ 1.19

	Three Months Ended December 31,	
	2023	2022
Reconciliation of GAAP operating income to non-GAAP operating income		
Income from operations	$ 13,165	$ 16,898
Amortization of intangibles	659	695
Stock-based compensation	470	941
Gain on sale of businesses and assets	(3)	(590)
Gain on insurance	—	(64)
Non-GAAP operating income	$ 14,291	$ 17,880

	Three Months Ended December 31,	
	2023	2022
Reconciliation of GAAP operating margin to non-GAAP operating margin		
Income from operations	17.8 %	24.2 %
Amortization of intangibles	0.9 %	1.0 %
Stock-based compensation	0.6 %	1.3 %
Gain on sale of businesses and assets	0.0 %	(0.8)%
Gain on insurance	0.0 %	(0.1)%
Non-GAAP operating income	19.3 %	25.6 %

* 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, 2023, our cash and cash equivalents were approximately $21.2 million compared to $21.0 million at September 30, 2023. Because of the large volume of cash we handle, we have very stringent cash controls. As of December 31, 2023, we had negative working capital of $9.0 million compared to negative working capital of $10.5 million as of September 30, 2023. We believe that we can borrow capital if needed but currently we do not have unused credit facilities so there can be no guarantee that additional liquidity will be readily available or available on favorable terms.

We have not recently raised capital through the issuance of equity securities although we have used equity recently in our acquisitions. Instead, we use debt financing to lower our overall cost of capital and increase our return on stockholders' equity. 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. There can be no assurance though 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,	
	2023	2022
Operating activities	$ 13,633	$ 14,895
Investing activities	(5,080)	(13,650)
Financing activities	(8,421)	(3,117)
Net increase (decrease) in cash and cash equivalents	$ 132	$ (1,872)

Cash Flows from Operating Activities

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

	For the Three Months Ended December 31,	
	2023	2022
Net income	$ 7,244	$ 10,271
Depreciation and amortization	3,853	3,307
Stock-based compensation	470	941
Net change in operating assets and liabilities	1,122	263
Other	944	113
Net cash provided by operating activities	$ 13,633	$ 14,895

Net cash provided by operating activities this current quarter decreased from last year's comparable quarter primarily due to lower income from operations and higher interest expense paid.

Cash Flows from Investing Activities

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

	For the Three Months Ended December 31,	
	2023	2022
Payments for property and equipment and intangible assets	$ (5,135)	$ (12,553)
Acquisition of businesses	—	(4,000)
Proceeds from sale of businesses and assets	—	2,784
Proceeds from insurance	—	64
Proceeds from notes receivable	55	55
Net cash used in investing activities	$ (5,080)	$ (13,650)

Following is a breakdown of our payments for property and equipment and intangible assets for the quarter ended December 31, 2023 and 2022 (in thousands):

	For the Three Months Ended December 31,	
	2023	2022
New facilities, equipment, and intangible assets	$ 4,152	$ 10,689
Maintenance capital expenditures	983	1,864
Total capital expenditures	$ 5,135	$ 12,553

The capital expenditures during the quarter ended December 31, 2023 were composed mostly of construction projects in-progress, while those during the quarter ended December 31, 2022 were composed primarily of real estate and new equipment and furniture purchases for the newly acquired clubs. Maintenance capital expenditures refer mainly to capitalized replacement of productive assets in already existing locations. Variances in capital expenditures are primarily due to the number and timing of new, remodeled, or reconcepted locations under construction.

Cash Flows from Financing Activities

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

	For the Three Months Ended December 31,	
	2023	2022
Proceeds from debt obligations	$ 701	$ 1,500
Payments on debt obligations	(6,352)	(3,361)
Purchase of treasury stock	(2,072)	(98)
Payment of dividends	(562)	(462)
Payment of loan origination costs	(136)	(96)
Share in return of investment by noncontrolling partner	—	(600)
Net cash used in financing activities	$ (8,421)	$ (3,117)

We purchased 37,954 shares of our common stock at an average price of $54.59 during the quarter ended December 31, 2023, while we purchased 1,500 shares of our common stock at an average price of $65.02 during the quarter ended December 31, 2022. As of December 31, 2023, we have approximately $14.6 million authorization remaining to purchase additional shares.

We paid $0.06 per share for dividends during the first quarter ended December 31, 2023, while we paid $0.05 per share during the first quarter ended December 31, 2022.

See Note 6 to our unaudited condensed consolidated financial statements for future maturities of our debt obligations. We have paid all our debts on time and have not defaulted nor requested forbearance on any of our debts during the three months ended December 31, 2023 and 2022.

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

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

	For the Three Months Ended December 31, 2023	2022
Net cash provided by operating activities	$ 13,633	$ 14,895
Less: Maintenance capital expenditures	983	1,864
Free cash flow	$ 12,650	$ 13,031

Our free cash flow for the quarter decreased by 2.9% compared to the comparable prior-year quarter primarily due to lower income from operations and higher interest expense paid, partially offset lower maintenance capital expenditures paid.

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

Other than the impact of uncertainties caused by near-term macro environment, including commodity and labor inflation and the lingering effect of the COVID-19 pandemic, and our contractual debt and lease obligations, we are not aware of any event or trend that would adversely impact our liquidity. In our opinion, working capital is not a true indicator of our financial status. Typically, businesses in our industry carry current liabilities in excess of current assets because businesses in our industry receive substantially immediate payment for sales, with nominal receivables, while inventories and other current liabilities normally carry longer payment terms. Vendors and purveyors often remain flexible with payment terms, providing businesses in our industry with opportunities to adjust to short-term business downturns. We consider the primary indicators of financial status to be the long-term trend of revenue growth, the mix of sales revenues, overall cash flow, profitability from operations and the level of long-term debt. We continue to monitor the macro environment and will adjust our overall approach to capital allocation as events and trends unfold.

The following table presents a summary of such indicators for the three months ended December 31 (in thousands, except percentages):

	2023	Increase (Decrease)	2022	Increase (Decrease)	2021
Sales of alcoholic beverages	$ 33,316	12.4 %	$ 29,650	12.2 %	$ 26,431
Sales of food and merchandise	10,802	4.4 %	10,347	(5.0)%	10,894
Service revenues	25,119	(1.7)%	25,563	22.5 %	20,876
Other	4,670	5.9 %	4,408	21.3 %	3,635
Total revenues	$ 73,907	5.6 %	$ 69,968	13.2 %	$ 61,836
Net income attributable to RCIHH common stockholders	$ 7,226	(29.4)%	$ 10,238	(3.2)%	$ 10,575
Net cash provided by operating activities	$ 13,633	(8.5)%	$ 14,895	(8.4)%	$ 16,264
Adjusted EBITDA*	$ 17,467	(14.6)%	$ 20,459	13.9 %	$ 17,965
Free cash flow*	$ 12,650	(2.9)%	$ 13,031	(14.6)%	$ 15,266
Debt (end of period)	$ 234,113	10.8 %	$ 211,234	30.5 %	$ 161,850

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

Impact of Inflation

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

Seasonality

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

Capital Allocation Strategy

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

Based on our current capital allocation strategy:

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

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

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

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

Growth Strategy

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

All thirteen of the existing Bombshells as of December 31, 2023 were 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 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, 2023, there were no material changes to the information provided in Item 7A of the Company's Annual Report on Form 10-K for fiscal year ended September 30, 2023.

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, 2023, an evaluation was performed under the supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on their evaluation, they have concluded that our disclosure controls and procedures were not effective as of December 31, 2023. This determination is based on the previously reported material weaknesses management previously identified in our internal control over financial reporting, as described below. We are in the process of remediating the material weaknesses in our internal control, as described below. We believe the completion of these processes should remedy our disclosure controls and procedures. We will continue to monitor these issues.

Previously Reported Material Weakness in Internal Control Over Financial Reporting

In our Annual Report for the year ended September 30, 2023, filed with the SEC on December 14, 2023, management concluded that our internal control over financial reporting was not effective as of September 30, 2023. In the evaluation, management identified material weaknesses in internal control related (1) proper design and implementation of controls over management's review of the Company's accounting for business combinations, specifically related to the identification of and accounting for intangible assets acquired in a business combination, and over the precision of management's review of certain valuation assumptions; (2) the impairment of goodwill, indefinite-lived intangibles, and long-lived assets, specifically over the precision of management's review of certain assumptions; and (3) ineffective information technology general controls ("ITGCs") in the areas of user access and program change-management over certain information technology ("IT") systems that support the Company's financial reporting processes. Our business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted. We believe that these control deficiencies were a result of inadequate IT controls over the review of user access and imprecise documentation of procedures related to program change management. Additionally, we rely upon a variety of outsourced IT service providers for key elements of the technology infrastructure impacting our financial reporting process. Certain outsourced IT service providers could not provide System and Organization Controls ("SOC") reports for periods that closely align with our fiscal year end. Given that management did not effectively assess the design and operation of these outsourced IT service providers' internal controls, some of our controls over IT systems and business processes were also deemed ineffective, but only to the extent that we rely upon information that was subject to the outsourced IT service providers' control environment. These deficiencies may have an impact on our financial statements, account balances, and disclosures. Based on our evaluation, our management, with the participation of our chief executive officer and chief financial officer, concluded that our internal control over financial reporting was not effective as of September 30, 2023.

Remediation Efforts to Address Material Weakness

Review of Accounting for Business Combinations

Management is committed to the remediation of the material weakness described above. As such, controls will be added to both increase precision of management's review of each component of business combinations, and if necessary, retain the services of a third-party consultant to assist in the valuation and accounting for intangible assets acquired in a business combination.

Review of Accounting for Impairment of Goodwill and Intangible Assets

As most of the assumptions used in the valuation models employed in impairment analyses are subjective in nature, Management will employ additional controls to validate these assumptions, including the engagement of a third-party consultant to assist developing valuation models and establishing sound and reasonable assumptions.

Information Technology General Controls

As a result of the material weakness, we have initiated and will continue to implement remediation measures to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively. The remediation actions include: (i) strengthening and enhancing the review and documentation procedures in our controls over user access review; (ii) define and communicate clear and concise program change management policy and procedures; (iii) enhancing the reporting requirements of accounting system audit logs; (vi) continuous improvement over our ITGC controls related to third party applications; and (vi) enhanced quarterly reporting on the remediation measures to the Audit Committee of the board of directors.

It is our belief that these added controls will effectively remediate the existing material weaknesses.

We believe that these actions will remediate the material weaknesses. The material weaknesses will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of these material weaknesses will be completed prior to the end of fiscal 2024.

Changes in Internal Control Over Financial Reporting

Other than as described above, there were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

See the “Legal Matters” section within Note 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, 2023, 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. The risks described in the Annual Report on Form 10-K and in this Form 10-Q are not the only risks the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company deems to be immaterial, also may have a material adverse impact on the Company’s business, financial condition or results of operations.

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

Our share repurchase activity during the three months ended December 31, 2023 was as follows:

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, 2023	32,704	$ 54.55	32,704	$ 14,857,259
November 1-30, 2023	5,250	$ 54.84	5,250	$ 14,569,372
December 1-31, 2023	—		—	$ 14,569,372
	37,954	$ 54.59	37,954	

(1) Prices include any commissions and transaction costs, but exclude a 1% excise tax.

(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.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer of RCI Hospitality Holdings, Inc. required by Rule 13a-14(1) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer of RCI Hospitality Holdings, Inc. required by Rule 13a-14(1) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer of RCI Hospitality Holdings, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.
101	The following financial information from RCI Hospitality Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2023 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Changes in Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

RCI HOSPITALITY HOLDINGS, INC.

Date: February 8, 2024	By:	*/s/ Eric S. Langan*
		Eric S. Langan Chief Executive Officer and President
Date: February 8, 2024	By:	*/s/ Bradley Chhay*
		Bradley Chhay Chief Financial Officer and Principal Accounting Officer

EXHIBIT 31.1

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: February 8, 2024

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 8, 2024

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, 2023 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 8, 2024

/s/ Bradley Chhay

Bradley Chhay
Chief Financial Officer
February 8, 2024

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.