

RCI HOSPITALITY HOLDINGS, INC.
Form 10-K
December 14, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2015

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 001-13992

RCI HOSPITALITY HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Texas

State or other jurisdiction of (I.R.S. Employer incorporation or organization Identification No.)

10959 Cutten Road, Houston, Texas 77066

(Address of principal executive offices)

(281) 397-6730

Registrant's telephone number, including area code

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

Common Stock, \$.01 Par Value

(Title of class)

NASDAQ Stock Market LLC

Name of each exchange on which registered

Securities registered pursuant to section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

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

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer " Accelerated filer x Non-accelerated filer " Smaller reporting company "

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was \$92,038,213.

As of December 1, 2015, there were approximately 10,192,935 shares of common stock outstanding.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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: Item 1 “Business,” Item 1A “Risk Factors,” and Item 7 “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,” “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 Annual Report on Form 10-K, and in particular, the risks discussed under the caption “Risk Factors” in Item 1A 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 related to our future operational and financial results, competitive factors, the timing of the openings of other units, the availability of acceptable financing to fund corporate expansion efforts, our dependence on key personnel, the ability to manage operations and the future operational strength of management, and the laws governing the operation of adult entertainment businesses. We undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

TABLE OF CONTENTS

	Page No.
<u>PART I</u>	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	8
Item 1B. <u>Unresolved Staff Comments</u>	12
Item 2. <u>Properties</u>	12
Item 3. <u>Legal Proceedings</u>	12
Item 4. <u>Mine Safety Disclosures</u>	12
<u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases Of Equity Securities</u>	13
Item 6. <u>Selected Financial Data</u>	15
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	26
Item 8. <u>Financial Statements and Supplementary Data</u>	26
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</u>	60
Item 9A. <u>Controls and Procedures</u>	60
Item 9B. <u>Other Information</u>	60
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	60
Item 11. <u>Executive Compensation</u>	62
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	67

Item 13. Certain Relationships and Related Transactions, and Director Independence 68

Item 14. Principal Accounting Fees and Services 68

PART IV

Item 15. Exhibits and Financial Statement Schedules 69

Signatures 70

PART I**Item 1. Business.****INTRODUCTION**

At the Company's Annual Meeting of Stockholders on August 6, 2014, its name was officially changed from Rick's Cabaret International, Inc. to RCI Hospitality Holdings, Inc. RCI Hospitality Holdings, Inc. (sometimes referred to as RCIHH herein) was incorporated in the State of Texas in 1994. Through our subsidiaries, as of November 30, 2015, we operate a total of forty-three establishments that offer live adult entertainment, and/or restaurant and bar operations. We have two reportable segments; nightclubs and Bombshells Restaurants and Bars. RCI Hospitality Holdings, Inc. is a holding company and operates through its subsidiaries including its management company, RCI Management Services, Inc. All services and management operations are conducted by subsidiaries of RCI Hospitality Holdings, Inc. In the context of club and bar/restaurant operations, the terms the "Company," "we," "our," "us" and similar terms used in this Form 10-K refer to subsidiaries of RCI Hospitality Holdings, Inc. Excepting executive officers of RCI Hospitality Holdings, Inc., any employment referenced in this document is not with RCI Hospitality Holdings, Inc. but solely with one of its subsidiaries.

SCHEDULE OF UNITS

Name of Establishment	Date Acquired/Opened
Club Onyx, Houston, TX	1995
Rick's Cabaret, Minneapolis, MN	1998
XTC Cabaret, Austin, TX	1998
XTC Cabaret, San Antonio, TX	1998
XTC Cabaret, Houston, TX	2004
Rick's Cabaret, New York City, NY	2005
Club Onyx, Charlotte, NC	2005
Rick's Cabaret, San Antonio, TX	2006
XTC Cabaret, South Houston, TX	2006
Rick's Cabaret, Fort Worth, TX	2007
Tootsie's Cabaret, Miami Gardens, FL	2008
XTC Cabaret, Dallas, TX	2008
Club Onyx, Dallas, TX	2008
Club Onyx, Philadelphia, PA	2008
Rick's Cabaret, Round Rock, TX	2009

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Cabaret North, Fort Worth, TX	2009
Cabaret East, Fort Worth, TX	2010
Rick's Cabaret DFW, Fort Worth, TX	2011
Downtown Cabaret, Minneapolis, MN	2011
Rick's Cabaret, Indianapolis, IN	2011
Temptations, Aledo, TX	2011
Silver City Cabaret, Dallas, TX	2012
Jaguars Club, Odessa, TX	2012
Jaguars Club, Phoenix, AZ	2012
Jaguars Club, Lubbock, TX	2012
Jaguars Club, Longview, TX	2012
Jaguars Club, Tye, TX	2012
Jaguars Club, Edinburg, TX	2012
Jaguars Club, El Paso, TX	2012
Jaguars Club, Harlingen, TX	2012
Vee Lounge, Fort Worth, TX	2013
Bombshells, Dallas, TX	2013
Temptations, Sulphur, LA	2013
Temptations, Beaumont, TX	2013
Bombshells, Webster, TX	2013
The Black Orchid, Dallas, TX	2013
Vivid Cabaret, New York, NY	2014
Bombshells, Austin, TX	2014
Rick's Cabaret, Odessa, TX	2014
Bombshells, Spring TX	2014
Bombshells, Houston, TX	2014
Down in Texas Saloon, Austin TX	2015
The Seville, Minneapolis MN	2015

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

BUSINESS ACTIVITIES—NIGHTCLUBS

Prior to the opening of the first Rick's Cabaret in 1983 in Houston, Texas, the adult entertainment nightclub business was characterized by small establishments generally managed by their owner. Operating policies of these establishments were often lax, the sites were generally dimly lit, standards for performers' personal appearance and personality were not maintained and it was customary for performers to alternate between dancing and waiting tables. The quantity and quality of bar service was low and food was not frequently offered. Music was usually "hard" rock and roll, played at a loud level by a disc jockey. Usually, only cash was accepted. Many businessmen felt uncomfortable in such environments. Recognizing a void in the market for a first-class adult nightclub, we designed Rick's Cabaret to target the more affluent customer by providing a unique quality entertainment environment. In addition we have continued to develop additional brands targeting specific markets and demographics to maximize the business opportunities at these locations. The following summarizes our areas of operation that distinguish us:

Female Entertainers . Our policy is to maintain high standards for both personal appearance and personality for the entertainers and waitresses. Of equal importance is a performer's ability to present herself attractively and to engage in conversation with customers. We prefer that performers who work at our clubs be experienced entertainers. We make a determination as to whether a particular entertainer is suitable based on such factors of appearance, attitude, dress, communication skills and demeanor. At all clubs, except for our Rick's Minnesota location, the entertainers are independent contractors. We do not schedule their work hours.

Management . We often recruit staff from inside the adult entertainment industry, as well as from large restaurant and club chains, in the belief that management with experience in the sector adds to our ability to grow and attract quality entertainers as well as clientele. Management with experience is able to train new recruits from outside the industry.

Compliance Policies/Employees .. We have a policy of ensuring that our businesses are operated in conformity with local, state and federal laws. We continually monitor the behavior of employees and customers to ensure that proper standards of behavior are observed.

Compliance Policies/Credit Cards . We have in place policies requiring that certain credit card charges must be approved, in writing, by management before any charges are accepted. Management is trained to review credit card charges to ensure that the only charges approved for payment are for food, drink, merchandise and entertainment.

Food and Drink . We believe that a key to the success of our branded adult nightclubs is a quality, first-class bar and restaurant operation to complement our adult entertainment. We employ service managers who recruit and train professional wait staff and ensure that each customer receives prompt and courteous service. We employ chefs with restaurant experience. Our bar managers order inventory and schedule bar staff. We believe that the operation of a first class restaurant is a necessary component to the operation of a premiere adult cabaret, as is the provision of premium wine, liquor and beer in order to ensure that the customer perceives and obtains good value. At most locations, our restaurant operations provide business lunch buffets and full lunch and dinner menu service with hot and cold appetizers, salads, seafood, steak, and lobster. An extensive selection of quality wines is available at most locations.

Controls . Operational and accounting controls are essential to the successful operation of a cash intensive nightclub and bar business. At each location, we have designed and implemented internal procedures and controls to ensure the integrity of our operational and accounting records. Wherever practicable, we separate management personnel from all cash handling so that management is isolated from and does not handle any cash. We use a combination of accounting and physical inventory control mechanisms to maintain a high level of integrity in our accounting practices. Information technology plays a significant role in capturing and analyzing a variety of information to provide management with the information necessary to efficiently manage and control each nightclub. Deposits of cash and credit card receipts are reconciled each day to a daily income report. In addition, we review on a daily basis (i) cash and credit card summaries which tie together all cash and credit card transactions occurring at the front door, the bars in the club and the cashier station, (ii) a summary of the daily bartenders' check-out reports, and (iii) a daily cash requirements analysis which reconciles the previous day's cash on hand to the requirements for the next day's operations. These daily computer reports alert local management of any variances from expected financial results based on historical norms. We conduct a monthly overview of our financial condition and operating results.

Atmosphere . We maintain a high design standard in our facilities and decor. The furniture and furnishings in the nightclubs create the feeling of an upscale restaurant. The sound system provides quality sound at levels at which conversations can still take place. The environment is carefully monitored for music selection, entertainer and waitress appearance and all aspects of customer service on a continuous basis.

VIP Room . In keeping with our emphasis on serving the upper-end of the businessmen's market, some of our nightclubs include a VIP room, which provides a higher level of service and luxury.

Advertising and Promotion .. Our consumer marketing strategy is to position our brands as premiere entertainment facilities that provide exceptional adult entertainment in a fun, yet discreet, environment. We use a variety of highly targeted methods to reach our customers including hotel publications, local radio, cable television, newspapers, billboards, taxi-cab reader boards, and the Internet, as well as a variety of promotional campaigns. These campaigns ensure that our brand names are kept before the public.

RCI Hospitality Holdings, Inc. has received a significant amount of media exposure over the years in national magazines such as *Playboy*, *Penthouse*, *Glamour Magazine*, *The Ladies Home Journal*, *Time Magazine*, *Time Out New York*, and *Texas Monthly Magazine*. Segments about RCIHH have aired on national and local television programs such as "20/20", "Extra" and "Inside Edition", and we have provided entertainers for pay-per-view features as well. Business stories about RCI Hospitality Holdings, Inc. have appeared in *Forbes*, *Newsweek*, *The Wall Street Journal*, *The New York Times*, *The New York Post*, *Los Angeles Times*, *Houston Business Journal*, and numerous other national and regional publications. RCI Hospitality Holdings, Inc. has been profiled in *The Wall Street Journal*, *Fortune*, *MarketWatch* , *Corporate Board Member*, *Smart Money*, *USA Today*, *The New York Daily News* and other publications.

NIGHTCLUB LOCATIONS

We currently operate units under the name "Rick's Cabaret" in San Antonio, Austin, Odessa and Fort Worth, Texas (2); Minneapolis, Minnesota; New York, New York; and Indianapolis, Indiana. We also operate a similar nightclub under the name "Tootsie's Cabaret" in Miami Gardens, Florida. We operate a total of four nightclubs (one in Houston, one in Dallas, one in Charlotte, North Carolina and one in Philadelphia, Pennsylvania), as "Club Onyx", upscale venues that welcome all customers but cater especially to urban professionals, businessmen and professional athletes. Additionally, we own five nightclubs that operate as "XTC Cabaret" in San Antonio, Austin, Dallas, Houston and South Houston, Texas, one that operates as "Cabaret East" in Fort Worth, one that operates as "Cabaret North" in Fort Worth, one that operates as Silver City in Dallas and one that operates as "Downtown Cabaret" in Minneapolis. We operate "Temptations" clubs in Sulphur, Louisiana, Beaumont, Texas and Fort Worth, Texas. We operate eight clubs as "Jaguars" in Texas and one in Phoenix, Arizona. We operate The Black Orchid in Dallas, Texas. We operate the "Seville" in Minneapolis, Minnesota. We also operate the "Down in Texas Saloon" in Austin, Texas. We sold our New Orleans, Louisiana nightclub in March 1999, but it continues to use the name "Rick's Cabaret" under a licensing agreement.

RECENT TRANSACTIONS

See Note M, Acquisitions, of Notes to Consolidated Financial Statements for acquisitions during fiscal years ended September 30, 2015, 2014 and 2013.

BUSINESS ACTIVITIES – SPORTS BARS/RESTAURANTS

We also operate five sports bar/restaurants as “Bombshells” in Dallas, Austin and Houston, Texas. Our subsidiary, BMB Franchising Services, Inc. recently announced that it is beginning a nationwide franchising program for Bombshells. The restaurant sets itself apart with décor that pays homage to all branches of the U.S. military, live music by popular local bands, large outdoor patios, and more than 75 state of the art flat screen TVs for watching your favorite sports. All food and drink menu items have military names. Bombshell Girls, with their military-inspired uniforms, are a key attraction. Their mission, in addition to waitressing, is to interact with guests and generate a fun atmosphere. The first Bombshells opened March 2013 in Dallas, quickly becoming one of the most popular restaurant destinations in the area. Within a year, four more opened in Austin and Houston. Of the five, three are freestanding pad sites and two are inline locations. In addition, we currently operate a bar in Fort Worth, Texas as Vee Lounge.

BUSINESS ACTIVITIES – MEDIA GROUP

The Media Group, made up of wholly owned subsidiaries, is the leading business communications company serving the multi-billion-dollar adult nightclubs industry. It owns a national industry convention and tradeshow; two national industry trade publications; two national industry awards shows; and more than 25 industry websites. Included in the Media Group is ED Publications, publishers of the bimonthly ED Club Bulletin, the only national business magazine serving the 3,500-plus adult nightclubs in North America, which have annual revenues in excess of \$5 billion, according to the Association of Club Executives. ED Publications, founded in 1991, also publishes the Annual VIP Guide of adult nightclubs, touring entertainers and industry vendors; produces the Annual Gentlemen’s Club Owners EXPO, a national convention and tradeshow which marked its 20-Year Anniversary in 2012; and offers the exclusive ED VIP Club Card, honored at more than 850 adult nightclubs. Also in the Media Group is Storerotica, founded in 2004, which publishes the bimonthly Storerotica Magazine, the industry trade publication for the multi-billion-dollar erotic apparel and adult novelty retail sales industries. The Media Group produces two nationally recognized industry awards show for the readers of both ED Club Bulletin and Storerotica magazines, and maintains a number of B-to-B and consumer websites for both industries.

BUSINESS ACTIVITIES – ENERGY DRINKS

In October 2014, we formed a new subsidiary with exclusive distribution rights to Robust brand energy drinks in North America. Robust is a fast growing brand targeting the on premises bar and mixer market in eight states. The new subsidiary, of which RCIHH owns 51%, acquired certain assets and liabilities of Robust Energy LLC of Dallas. RCI paid \$200,000 in cash and issued 200,000 shares of common stock to Robust Energy’s two founders. The new subsidiary’s exclusive rights are for 10 years, with rights to renew, with Sun Mark Limited of the UK, which has been manufacturing and distributing the drink under the Bullet brand there since 2008. Robust comes in standard 8.4 ounce

energy drink cans and in four flavors: regular, sugar free, cranberry and lemon mint, which mixes particularly well with whiskey and tequila.

COMPETITION

The adult entertainment and the restaurant/bar businesses are highly competitive with respect to price, service and location. All of our nightclubs compete with a number of locally owned adult clubs, some of whose names may have name recognition that equals that of ours. While there may be restrictions on the location of a so-called "sexually oriented business"(SOB), there are low barriers to entry into the adult cabaret entertainment market. The names "Rick's" and "Rick's Cabaret", "Tootsie's Cabaret", "XTC Cabaret", "Silver City", "Club Onyx", "Downtown Cabaret", "Temptations," "The Black Orchid," "The Seville," "Jaguars," and "Down in Texas" are proprietary. In the restaurant/bar business, "Bombshells" is also proprietary. We believe that the combination of our existing brand name recognition and the distinctive entertainment environment that we have created will allow us to compete effectively in the industry and within the cities where we operate. Although we believe that we are well positioned to compete successfully, there can be no assurance that we will be able to maintain our high level of name recognition and prestige within the marketplace.

GOVERNMENTAL REGULATIONS

We are subject to various federal, state and local laws affecting our business activities. In particular, in Texas the authority to issue a permit to sell alcoholic beverages is governed by the Texas Alcoholic Beverage Commission ("TABC"), which has the authority, in its discretion, to issue the appropriate permits. We presently hold a Mixed Beverage Permit and a Late Hour Permit at numerous Texas locations. Minnesota, North Carolina, Indiana, Louisiana, Arizona, Pennsylvania, Florida, and New York have similar laws that may limit the availability of a permit to sell alcoholic beverages or that may provide for suspension or revocation of a permit to sell alcoholic beverages in certain circumstances. It is our policy, prior to expanding into any new market, to take steps to ensure compliance with all licensing and regulatory requirements for the sale of alcoholic beverages as well as the sale of food.

In addition to various regulatory requirements affecting the sale of alcoholic beverages, in many cities where we operate, the location of an adult entertainment cabaret is subject to restriction by city ordinance. The prohibitions deal generally with distance from schools, churches, and other sexually oriented businesses and contain restrictions based on the percentage of residences within the immediate vicinity of the sexually oriented business. The granting of a Sexually Oriented Business Permit is not subject to discretion; the Business Permit must be granted if the proposed operation satisfies the requirements of the Ordinance. In all states where we operate, management believes we are in compliance with applicable city, county, state or other local laws governing the sale of alcohol and sexually oriented businesses.

TRADEMARKS

Our rights to the tradenames "RCI Hospitality Holdings, Inc.", "Rick's", "Rick's Cabaret", "Tootsie's Cabaret", "Club Onyx," "XTC Cabaret," "Temptations," "Jaguars," "Downtown Cabaret," "Cabaret East," Cabaret North," Bombshells," "Vee Lounge" "The Black Orchid" are established under common law, based upon our substantial and continuous use of these tradenames in interstate commerce, some of which have been in use at least as early as 1987. We have registered our service mark, "RICK'S AND STARS DESIGN", with the United States Patent and Trademark Office. We have also obtained service mark registrations from the Patent and Trademark Office for the "RCI HOSPITALITY HOLDINGS, INC.", "RICK'S", "RICK'S CABARET", "CLUB ONYX", "XTC CABARET", "SILVER CITY CABARET", "THE BLACK ORCHID", "BOMBSHELLS" and "EXOTIC DANCER" service marks. As of this date we have pending registration applications for the names "THE SEVILLE" and "DOWN IN TEXAS SALOON". "We also own the rights to numerous tradenames associated with our media division. There can be no assurance that the steps we have taken to protect our service marks will be adequate to deter misappropriation.

EMPLOYEES AND INDEPENDENT CONTRACTORS

As of September 30, 2015, we and our subsidiaries had approximately 2,150 employees, of which approximately 150 are in management positions, including corporate and administrative operations and approximately 2,000 are engaged in entertainment, food and beverage service, including bartenders, waitresses, and certain entertainers. None of our employees are represented by a union. We consider our employee relations to be good. Additionally, as of September 30, 2015, we had independent contractor relationships with certain entertainers, who are self-employed and conduct business at our locations on a non-exclusive basis as independent contractors. Our entertainers at Rick's Cabaret in Minneapolis, Minnesota act as commissioned employees. We believe that the adult entertainment industry standard of treating entertainers as independent contractors provides us with safe harbor protection to preclude payroll tax assessment for prior years. We have prepared plans that we believe will protect our profitability in the event that the sexually oriented business industry is required in all states to convert entertainers who are now independent contractors into employees.

SHARE REPURCHASES

On September 29, 2008, our Board of Directors authorized us to repurchase up to \$5 million worth of our common stock in the open market. As of April 2013, we completed the repurchase of all \$5 million in stock authorized under this plan. On April 25, 2013, our Board of Directors authorized us to repurchase up to an additional \$3 million worth of our common stock in the open market or in privately negotiated transactions. During May 2014, our Board of Directors increased the repurchase authorization to \$10 million. During the fiscal year ended September 30, 2015, we purchased 225,280 shares of common stock in the open market at prices ranging from \$9.24 to \$11.95, and during the fiscal year ended September 30, 2014, we purchased 101,330 shares of common stock in the open market at prices ranging from \$10.45 to \$12.00 and under the Board's authority, we have \$6.6 million remaining to purchase additional shares as of September 30, 2015.

Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below before deciding to purchase shares of our common stock. If any of the events, contingencies, circumstances or conditions described in the risks below actually occurs, our business, financial condition or results of operations could be seriously harmed. The trading price of our common stock could, in turn, decline and you could lose all or part of your investment.

Our Business Operations are Subject to Regulatory Uncertainties Which May Affect Our Ability to Continue Operations of Existing Nightclubs, Acquire Additional Nightclubs or Be Profitable

Adult entertainment nightclubs are subject to local, state and federal regulations. Our business is regulated by local zoning, local and state liquor licensing, local ordinances and state and federal time place and manner restrictions. The adult entertainment provided by our nightclubs has elements of speech and expression and, therefore, enjoys some protection under the First Amendment to the United States Constitution. However, the protection is limited to the expression, and not the conduct of an entertainer. While our nightclubs are generally well established in their respective markets, there can be no assurance that local, state and/or federal licensing and other regulations will permit our nightclubs to remain in operation or profitable in the future.

Our Business has been, and may Continue to be, Adversely Affected by Conditions in the U.S. Financial Markets and Economic Conditions Generally

Our nightclubs are often acquired with a purchase price based on historical EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). This results in certain nightclubs carrying a substantial amount of intangible value, mostly allocated to licenses and goodwill. Generally accepted accounting principles require an annual impairment review of these indefinite lived assets. If difficult market and economic conditions continue over the next year and/or we experience a decrease in revenue at one or more nightclubs, we could incur a decline in fair value of one or more of our nightclubs. This could result in future impairment charges of up to the total value of the indefinite lived intangible assets.

We May Need Additional Financing or Our Business Expansion Plans May Be Significantly Limited

If cash generated from our operations is insufficient to satisfy our working capital and capital expenditure requirements, we will need to raise additional funds through the public or private sale of our equity or debt securities. The timing and amount of our capital requirements will depend on a number of factors, including cash flow and cash requirements for nightclub acquisitions. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our then-existing shareholders will be reduced. We cannot assure you that additional financing will be available on terms favorable to us, if at all. Any future equity financing, if available, may result in dilution to existing shareholders, and debt financing, if available, may include restrictive covenants. Any failure by us to procure timely additional financing will have material adverse consequences on our business operations.

There is Substantial Competition in the Nightclub Entertainment Industry, Which May Affect Our Ability to Operate Profitably or Acquire Additional Clubs

Our nightclubs face competition. Some of these competitors may have greater financial and management resources than we do. Additionally, the industry is subject to unpredictable competitive trends and competition for general entertainment dollars. There can be no assurance that we will be able to remain profitable in this competitive industry.

Risk of Adult Nightclubs Operations

Historically, the adult entertainment, restaurant and bar industry has been an extremely volatile industry. The industry tends to be extremely sensitive to the general local economy, in that when economic conditions are prosperous, entertainment industry revenues increase, and when economic conditions are unfavorable, entertainment industry revenues decline. Coupled with this economic sensitivity are the trendy personal preferences of the customers who frequent adult cabarets. We continuously monitor trends in our customers' tastes and entertainment preferences so that, if necessary, we can make appropriate changes which will allow us to remain one of the premiere adult cabarets. However, any significant decline in general corporate conditions or uncertainties regarding future economic prospects that affect consumer spending could have a material adverse effect on our business. In addition, we have historically catered to a clientele base from the upper end of the market. Accordingly, further reductions in the amounts of entertainment expenses allowed as deductions from income under the Internal Revenue Code of 1954, as amended, could adversely affect sales to customers dependent upon corporate expense accounts.

Permits Relating to the Sale of Alcohol

We derive a significant portion of our revenues from the sale of alcoholic beverages. States in which we operate may have laws which may limit the availability of a permit to sell alcoholic beverages or which may provide for suspension or revocation of a permit to sell alcoholic beverages in certain circumstances. The temporary or permanent suspension or revocations of any such permits would have a material adverse effect on our revenues, financial condition and results of operations. In all states where we operate, management believes we are in compliance with applicable city, county, state or other local laws governing the sale of alcohol.

Activities or Conduct at Our Nightclubs May Cause Us to Lose Necessary Business Licenses, Expose Us to Liability, or Result in Adverse Publicity, Which May Increase Our Costs and Divert Management's Attention from Our Business

We are subject to risks associated with activities or conduct at our nightclubs that are illegal or violate the terms of necessary business licenses. Some of our nightclubs operate under licenses for sexually oriented businesses and are afforded some protection under the First Amendment to the U.S. Constitution. While we believe that the activities at our nightclubs comply with the terms of such licenses, and that the element of our business that constitutes an expression of free speech under the First Amendment to the U.S. Constitution is protected, activities and conduct at our nightclubs may be found to violate the terms of such licenses or be unprotected under the U.S. Constitution. This protection is limited to the expression and not the conduct of an entertainer. An issuing authority may suspend or terminate a license for a nightclub found to have violated the license terms. Illegal activities or conduct at any of our nightclubs may result in negative publicity or litigation. Such consequences may increase our cost of doing business, divert management's attention from our business and make an investment in our securities unattractive to current and potential investors, thereby lowering our profitability and our stock price.

We have developed comprehensive policies aimed at ensuring that the operation of each nightclub is conducted in conformance with local, state and federal laws. We have a "no tolerance" policy on illegal drug use in or around the facilities. We continually monitor the actions of entertainers, waitresses and customers to ensure that proper behavior standards are met. However, such policies, no matter how well designed and enforced, can provide only reasonable, not absolute, assurance that the policies' objectives are being achieved. Because of the inherent limitations in all control systems and policies, there can be no assurance that our policies will prevent deliberate acts by persons attempting to violate or circumvent them. Notwithstanding the foregoing limitations, management believes that our policies are reasonably effective in achieving their purposes.

Our Acquisitions May Result in Disruptions in Our Business and Diversion of Management's Attention

We have made and may continue to make acquisitions of complementary nightclubs, restaurants or related operations. Any acquisitions will require the integration of the operations, products and personnel of the acquired businesses and the training and motivation of these individuals. Such acquisitions may disrupt our operations and divert management's attention from day-to-day operations, which could impair our relationships with current employees, customers and partners. We may also incur debt or issue equity securities to pay for any future acquisitions. These issuances could be substantially dilutive to our stockholders. In addition, our profitability may suffer because of acquisition-related costs or amortization, or impairment costs for acquired goodwill and other intangible assets. If management is unable to fully integrate acquired business, products or persons with existing operations, we may not receive the benefits of the acquisitions, and our revenues and stock trading price may decrease.

We Must Continue to Meet NASDAQ Global Market Continued Listing Requirements or We Risk Delisting

Our securities are currently listed for trading on the NASDAQ Global Market. We must continue to satisfy NASDAQ's continued listing requirements or risk delisting which would have an adverse effect on our business. If our securities are ever de-listed from NASDAQ, they may trade on the over-the-counter market, which may be a less liquid market. In such case, our shareholders' ability to trade or obtain quotations of the market value of shares of our common stock would be severely limited because of lower trading volumes and transaction delays. These factors could contribute to lower prices and larger spreads in the bid and ask prices for our securities. There is no assurance that we will be able to maintain compliance with the NASDAQ continued listing requirements.

We Incur Significant Costs as a Result of Operating as a Public Company, and Our Management Devotes Substantial Time to New Compliance Initiatives

We will incur significant legal, accounting and other expenses that our competition does not incur. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), as well as new rules subsequently implemented by the SEC, have imposed various requirements on public companies, including requiring certain corporate governance practices. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, we have been required to perform system and process evaluation and testing on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Then, beginning in fiscal 2010, our independent registered public accounting firm has reported on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. In the future, our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management efforts. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could

decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

Uninsured Risks

We maintain insurance in amounts we consider adequate for personal injury and property damage to which the business of the Company may be subject. However, there can be no assurance that uninsured liabilities in excess of the coverage provided by insurance, which liabilities may be imposed pursuant to the Texas "Dram Shop" statute or similar "Dram Shop" statutes or common law theories of liability in other states where we operate or expand. For example, the Texas "Dram Shop" statute provides a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to such person if it was apparent to the server that the individual being sold, served or provided with an alcoholic beverage was obviously intoxicated to the extent that he presented a clear danger to himself and others. An employer is not liable for the actions of its employee who over-serves if (i) the employer requires its employees to attend a server training program approved by the TABC; (ii) the employee has actually attended such a training program; and (iii) the employer has not directly or indirectly encouraged the employee to violate the law. It is our policy to require that all servers of alcohol working at our clubs in Texas be certified as servers under a training program approved by the TABC, which certification gives statutory immunity to the sellers of alcohol from damage caused to third parties by those who have consumed alcoholic beverages at such establishment pursuant to the Texas Alcoholic Beverage Code. There can be no assurance, however, that uninsured liabilities may not arise in the markets in which we operate which could have a material adverse effect on the Company.

Our Previous Liability Insurer May Be Unable to Provide Coverage to Us and Our Subsidiaries

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. Since the expiration of the order the lawsuits have resumed. We are funding 100% of the costs of litigation and will seek reimbursement from the bankruptcy receiver.

On April 10, 2014, the Court of Chancery of the State of Delaware entered a Liquidation and Injunction Order With Bar Date ("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 be filed with the Receiver before the close of business on January 16, 2015 and that all pending lawsuits involving IIC as the insurer

are further stayed or abated until October 7, 2014. As a result, the Company and its subsidiaries no longer have insurance coverage under the liability policy with IIC. Currently, there are multiple civil lawsuits pending or threatened against the Company and its subsidiaries; and other potential lawsuits for incidents that occurred before October 25, 2013 could still be filed. The Company has retained counsel to defend against and evaluate these claims and lawsuits. The Company filed the appropriate claims against IIC with the Receiver before the January 16, 2015 deadline; 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, the Company has obtained general liability coverage from another insurer, effective October 25, 2013, which will cover any claims arising from actions after that date.

Limitations on Protection of Service Marks

Our rights to the tradenames "RCI Hospitality Holdings, Inc.," "Rick's", "Rick's Cabaret", "Tootsie's Cabaret", "Club Onyx," "XTC Cabaret," "Temptations," "Jaguars," "Downtown Cabaret," "Cabaret East," "Cabaret North," "Bombshells," "Vee Lounge," "The Black Orchid" are established under common law, based upon our substantial and continuous use of these tradenames in interstate commerce, some of which have been in use at least as early as 1987. "RICK'S AND STARS DESIGN" logo, "RCI HOSPITALITY HOLDINGS, INC.," "RICKS," "RICK'S CABARET", "CLUB ONYX", "XTC CABARET," "SILVER CITY CABARET", "THE BLACK ORCHID", "BOMBSHELLS" and "EXOTIC DANCER" are registered through service mark registrations issued by the United States Patent and Trademark Office. As of this date we have pending registration applications for the names "THE SEVILLE" and "DOWN IN TEXAS SALOON". We also own the rights to numerous tradenames associated with our media division. There can be no assurance that these steps we have taken to protect our Service Marks will be adequate to deter misappropriation of our protected intellectual property rights. Litigation may be necessary in the future to protect our rights from infringement, which may be costly and time consuming. The loss of the intellectual property rights owned or claimed by us could have a material adverse affect on our business.

Anti-takeover Effects of Issuance of Preferred Stock

The Board of Directors has the authority to issue up to 1,000,000 shares of Preferred Stock in one or more series, to fix the number of shares constituting any such series, and to fix the rights and preferences of the shares constituting any series, without any further vote or action by the stockholders. The issuance of Preferred Stock by the Board of Directors could adversely affect the rights of the holders of common stock. For example, such issuance could result in a class of securities outstanding that would have preferences with respect to voting rights and dividends and in liquidation over the common stock, and could (upon conversion or otherwise) enjoy all of the rights appurtenant to common stock. The Board's authority to issue Preferred Stock could discourage potential takeover attempts and could delay or prevent a change in control of the Company through merger, tender offer, proxy contest or otherwise by making such attempts more difficult to achieve or more costly. There are no issued and outstanding shares of Preferred Stock; there are no agreements or understandings for the issuance of Preferred Stock, and the Board of Directors has no present intention to issue Preferred Stock.

We Have Not Paid Dividends on Common Shares in the Past

Since our inception we have not paid any dividends on our common stock.

Future Sales of Our Common Stock May Depress Our Stock Price

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market, or as a result of the perception that these sales could occur. In addition, these factors could make it more difficult for us to raise funds through future offerings of common stock.

Our Stock Price Has Been Volatile and May Fluctuate in the Future

The trading price of our securities may fluctuate significantly. This price may be influenced by many factors, including:

- our performance and prospects;
- the depth and liquidity of the market for our securities;

sales by selling shareholders of shares issued or issuable in connection with certain convertible notes;
investor perception of us and the industry in which we operate;
changes in earnings estimates or buy/sell recommendations by analysts;
general financial and other market conditions; and
domestic economic conditions.

Public stock markets have experienced, and may experience, extreme price and trading volume volatility. These broad market fluctuations may adversely affect the market price of our securities.

We are Dependent on Key Personnel

Our future success is dependent, in a large part, on retaining the services of Mr. Eric Langan, our President and Chief Executive Officer. Mr. Langan possesses a unique and comprehensive knowledge of our industry. While Mr. Langan has no present plans to leave or retire in the near future, his loss could have a negative effect on our operating, marketing and financial performance if we are unable to find an adequate replacement with similar knowledge and experience within our industry. We maintain key-man life insurance with respect to Mr. Langan. Although Mr. Langan is under an employment agreement (as described herein), there can be no assurance that Mr. Langan will continue to be employed by us. The loss of Mr. Langan could have a negative effect on our operating, marketing, and financing performance.

Cumulative Voting is Not Available to Stockholders

Cumulative voting in the election of Directors is expressly denied in our Articles of Incorporation. Accordingly, the holder or holders of a majority of the outstanding shares of our common stock may elect all of our Directors.

Our Directors and Officers Have Limited Liability and Have Rights to Indemnification

Our Articles of Incorporation and Bylaws provide, as permitted by governing Texas law, that our Directors and officers shall not be personally liable to us or any of our stockholders for monetary damages for breach of fiduciary duty as a Director or officer, with certain exceptions. The Articles further provide that we will indemnify our Directors and officers against expenses and liabilities they incur to defend, settle, or satisfy any civil litigation or criminal action brought against them on account of their being or having been its Directors or officers unless, in such action, they are adjudged to have acted with gross negligence or willful misconduct.

The inclusion of these provisions in the Articles may have the effect of reducing the likelihood of derivative litigation against Directors and officers, and may discourage or deter stockholders or management from bringing a lawsuit

against Directors and officers for breach of their duty of care, even though such an action, if successful, might otherwise have benefited us and our stockholders.

The Articles provide for the indemnification of our officers and Directors, and the advancement to them of expenses in connection with any proceedings and claims, to the fullest extent permitted by Texas law. The Articles include related provisions meant to facilitate the indemnitee's receipt of such benefits. These provisions cover, among other things: (i) specification of the method of determining entitlement to indemnification and the selection of independent counsel that will in some cases make such determination, (ii) specification of certain time periods by which certain payments or determinations must be made and actions must be taken, and (iii) the establishment of certain presumptions in favor of an indemnitee.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

A failure to maintain food safety throughout the supply chain and food-borne illness concerns may have an adverse effect on our business.

Food safety is a top priority, and we dedicate substantial resources to ensuring that our guests enjoy safe, quality food products. However, food safety issues could be caused at the point of source or by food suppliers or distributors and, as a result, be out of our control. In addition, regardless of the source or cause, any report of food-borne illnesses such as E. coli, hepatitis A, trichinosis or salmonella, and other food safety issues including food tampering or contamination, at one of our restaurants could adversely affect the reputation of our brands and have a negative impact on our sales. Even instances of food-borne illness, food tampering or food contamination occurring solely at restaurants of our competitors could result in negative publicity about the food service industry generally and adversely impact our sales. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, resulting in higher costs and lower margins.

We may experience higher-than-anticipated costs associated with the opening of new establishments which may adversely affect our results of operations.

Our sales and expenses can be impacted significantly by the number and timing of the opening of new nightclub and bar/restaurant establishments. We incur substantial pre-opening expenses each time we open a new establishment. The expenses of opening new locations may be higher than anticipated. An increase in such expenses could have an adverse effect on our results of operations.

Other Risk Factors May Adversely Affect Our Financial Performance

Other risk factors that could cause our actual results to differ materially from those indicated in the forward-looking statements by affecting, among many things, pricing, consumer spending and consumer confidence, include, without limitation, changes in economic conditions and financial and credit markets, credit availability, increased fuel costs and availability for our employees, customers and suppliers, health epidemics or pandemics or the prospects of these events (such as reports on avian flu), consumer perceptions of food safety, changes in consumer tastes and behaviors, governmental monetary policies, changes in demographic trends, terrorist acts, energy shortages and rolling blackouts, and weather (including, major hurricanes and regional snow storms) and other acts of God.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties .

Our principal corporate office is located at 10959 Cutten Road, Houston, Texas 77066, and consists of a 9,000 square feet office/warehouse building. This corporate office is no longer adequate to meet our needs. We have recently begun construction on a nearby tract of land where we are building a new corporate office facility.

Our nightclubs and their locations are summarized in the “Schedule of Clubs” in Item 1, which is incorporated herein by reference. Of these clubs, we own the real estate for 32 and lease the other 11. We also own four other properties, two of which are presently leased to third parties and two which we are seeking tenants. The leases for the properties we lease are typically for a fixed rental rate without revenue percentage rentals. The lease terms generally have initial terms of ten to twenty years with renewal terms of five to twenty years. At September 30, 2015, certain of our owned properties were collateral for mortgage debt amounting to approximately \$57.6 million. Also see more information in the following Notes to Consolidated Financial Statements: D. - Property and Equipment, F. - Long-Term Debt and J. - Commitments and Contingencies.

Item 3. Legal Proceedings.

See the “Legal Matters” section within Note J, Commitments and Contingencies, of Notes to Consolidated Financial Statements within this Annual Report on Form 10-K for the requirements of this Item, which section is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is quoted on the NASDAQ Global Market under the symbol "RICK". The following table sets forth the quarterly high and low of sales prices per share for the common stock for the last two fiscal years.

COMMON STOCK PRICE RANGE

Fiscal Year Ended September 30, 2015

First Quarter	\$ 12.25	\$ 9.13
Second Quarter	\$ 11.04	\$ 9.57
Third Quarter	\$ 12.50	\$ 10.30
Fourth Quarter	\$ 12.14	\$ 10.25

Fiscal Year Ended September 30, 2014

First Quarter	\$ 12.75	\$ 10.05
Second Quarter	\$ 12.10	\$ 10.51
Third Quarter	\$ 11.74	\$ 9.88
Fourth Quarter	\$ 12.05	\$ 10.22

On December 8, 2015, the last sales price for the common stock as reported by NASDAQ was \$10.15. On December 1, 2015, there were approximately 177 stockholders of record of our common stock (excluding shares held by shareholders in street name).

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, NY 11219.

DIVIDEND POLICY

We have not paid cash dividends on our common stock. Our current policy is to retain all earnings, if any, to provide funds for operation and expansion of our business. The declaration of dividends, if any, will be subject to the discretion of the Board of Directors, which may consider such factors as our results of operation, financial condition, capital needs and acquisition strategy, among others.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER

On September 29, 2008, our Board of Directors authorized us to repurchase up to \$5 million worth of our common stock in the open market. As of April 2013, we completed the repurchase of all \$5 million in stock authorized under this plan. On April 25, 2013, our Board of Directors authorized us to repurchase up to an additional \$3 million worth of our common stock in the open market or in privately negotiated transactions. During May 2014, our Board of Directors increased the repurchase authorization to \$10 million. During the fiscal year ended September 30, 2015, we purchased 225,280 shares of common stock in the open market at prices ranging from \$9.24 to \$11.95, and during the fiscal year ended September 30, 2014, we purchased 101,330 shares of common stock in the open market at prices ranging from \$10.45 to \$12.00 and under the Board's authority, we have \$6.6 million remaining to purchase additional shares as of September 30, 2015.

We purchased no Company shares during the fourth quarter of 2015.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth all equity compensation plans as of September 30, 2015:

(in thousands, except per share data)

			Number of securities remaining available for future issuance under equity compensation plans
	Number of securities to be issued upon exercise of	Weighted-average exercise price of	

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Plan category	outstanding options, warrants and rights	outstanding options, warrants and rights	(excluding securities reflected in column (a))
Equity compensation plans approved by security holders	-	\$ N/A	429

We have no options outstanding under equity compensation plans as of September 30, 2015.

EMPLOYEE STOCK OPTION PLANS

While we have been successful in attracting and retaining qualified personnel, we believe that our future success will depend in part on our continued ability to attract and retain highly qualified personnel. We pay wages and salaries that we believe are competitive. We also believe that equity ownership is an important factor in our ability to attract and retain skilled personnel. We have adopted stock option plans (the “Plans”) for employees and directors. The purpose of the Plans is to further our interests, our subsidiaries and our stockholders by providing incentives in the form of stock options to key employees and directors who contribute materially to our success and profitability. The grants recognize and reward outstanding individual performances and contributions and will give such persons a proprietary interest in us, thus enhancing their personal interest in our continued success and progress. The Plans also assist us and our subsidiaries in attracting and retaining key employees and directors. The Plans are administered by the Board of Directors. The Board of Directors has the exclusive power to select the participants in the Plans, 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 Plans.

In August 1999, we adopted the 1999 Stock Option Plan (the “1999 Plan”) with 500,000 shares authorized to be granted and sold under the 1999 Plan. In August 2004, shareholders approved an Amendment to the 1999 Plan (the “Amendment”) which increased the total number of shares authorized to 1 million. In July 2007, shareholders approved an Amendment to the 1999 Plan (the “Amendment”), which increased the total number of shares authorized to 1.5 million. The 1999 Plan was terminated by law in July 2009. Our Board of Directors approved the 2010 Stock Option Plan (“the 2010 Plan”) on September 30, 2010. The 2010 Plan was approved by the shareholders of the Company for adoption at the 2011 Annual Meeting of Stockholders. At the 2012 Annual Meeting of Stockholders, shareholders approved amending the 2010 Plan to increase the maximum aggregate number of shares of common stock that may be optioned and sold from 500,000 to 800,000. As of September 30, 2015, there are no stock options outstanding.

STOCK PERFORMANCE GRAPH

The following chart compares the 5-year cumulative total stock performance of our common stock, the NASDAQ Composite Index and a peer group consisting of: BJ’s Restaurant Group, Cheesecake Factory, Ark Restaurants and Buffalo Wild Wings. The graph assumes that \$100 was invested at inception in our common stock and in each of the indices and that all dividends were reinvested. The measurement points utilized in the graph consist of the last trading day as of September 30 each year, representing the last day of our fiscal year. The historical stock performance presented below is not intended to and may not be indicative of future stock performance.

Item 6. Selected Financial Data.

The following table sets forth certain of the Company's historical financial data. The selected historical consolidated financial data as of September 30, 2015 and 2014 and for the years ended September 30, 2015, 2014 and 2013 have been derived from the Company's audited consolidated financial statements and the related notes included elsewhere herein. The selected historical consolidated financial data as of September 30, 2013, 2012 and 2011 and for the years ended September 30, 2012 and 2011 have been derived from the Company's audited financial statements for such years, which are not included in this Annual Report on Form 10-K. The selected historical consolidated financial data set forth are not necessarily indicative of the results of future operations and should be read in conjunction with the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the historical consolidated financial statements and accompanying notes included herein. The historical results are not necessarily indicative of the results to be expected in any future period.

Please read the following selected consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes appearing elsewhere in this Annual Report on Form 10-K for a discussion of information that will enhance understanding of this data.

(in thousands, except per share data)

Year Ended September 30,	2015	2014	2013	2012	2011
Revenue	\$144,667	\$129,174	\$112,208	\$95,220	\$83,491
Net income attributable to RCIHH	\$9,312	\$11,240	\$9,191	\$7,578	\$7,846
Fully diluted net income per common share	\$0.90	\$1.13	\$0.96	\$0.78	\$0.79
Total assets	\$270,812	\$237,380	\$223,100	\$192,393	\$153,377
Total RCIHH stockholders' equity	\$122,623	\$110,750	\$93,781	\$84,306	\$76,913
Total Long-term debt	\$94,920	\$70,352	\$78,592	\$63,528	\$35,554

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**OVERVIEW**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand RCI Hospitality Holdings, Inc., our operations and our present business environment. MD&A is provided as a supplement to — and should be read in conjunction with — our consolidated financial statements and the accompanying notes thereto contained in "Item 8. Financial Statements and

Supplementary Data" of this report. This overview summarizes the MD&A, which includes the following sections:

Our Business — a general description of our business and the adult nightclub industry, our objective, our strategic priorities, our core capabilities, and challenges and risks of our business.

Critical Accounting Policies and Estimates — a discussion of accounting policies that require critical judgments and estimates.

Operations Review — an analysis of our Company's consolidated results of operations for the three years presented in our consolidated financial statements.

Liquidity and Capital Resources — an analysis of cash flows; aggregate contractual obligations and an overview of financial position.

OUR BUSINESS

Operations:

Nightclubs. Our wholly owned subsidiaries own and/or operate upscale adult nightclubs serving primarily businessmen and professionals. These nightclubs are in Houston, Austin, San Antonio, Dallas, Fort Worth, Beaumont, Longview, Harlingen, Edinburg, Abilene, Lubbock, El Paso and Odessa, Texas; Charlotte, North Carolina; Minneapolis, Minnesota; New York, New York; Miami Gardens, Florida; Philadelphia, Pennsylvania, Phoenix, Arizona and Indianapolis, Indiana. No sexual contact is permitted at any of these locations.

Media Group Our wholly owned subsidiaries own a media division, including the leading trade magazine serving the multi-billion dollar adult nightclubs industry. We also own an industry trade show, one other industry trade publications and more than 15 industry websites.

Sports Bars and Restaurants Our wholly owned subsidiaries own and operate non-adult nightclubs, sports bars, and restaurants in Houston, Dallas, Austin, Webster, Spring, and Fort Worth, Texas under the brand names Bombshells and Vee Lounge.

In October 2014, we formed a new subsidiary with exclusive distribution rights to Robust brand energy drinks in North America. Robust is a fast growing brand targeting the on premises bar and mixer market in eight states. The new subsidiary, of which RCIHH owns 51%, acquired certain assets and liabilities of Robust Energy LLC of Dallas. RCI paid \$200,000 in cash and issued 200,000 shares of common stock to Robust Energy's two founders. The new subsidiary's exclusive rights are for 10 years, with rights to renew, with Sun Mark Limited of the UK, which has been manufacturing and distributing the drink under the Bullet brand there since 2008. Robust comes in standard 8.4 ounce energy drink cans and in four flavors: regular, sugar free, cranberry and lemon mint, which mixes particularly well with whiskey and tequila.

Our revenues are derived from the sale of liquor, beer, wine, food, merchandise, cover charges, membership fees, independent contractors' fees, commissions from vending and ATM machines, valet parking and other products and services. Media revenues include the sale of advertising content and revenues from an annual Expo convention. Our fiscal year end is September 30.

Our goal is to use our Company's assets — our brands, financial strength and the talent and strong commitment of our management and associates — to become more competitive and to accelerate growth in a manner that creates value for our shareholders.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). US GAAP consists of a set of standards issued by the FASB and other authoritative bodies in the form of FASB Statements, Interpretations, FASB Staff Positions, Emerging Issues Task Force consensus and American Institute of Certified Public Accountants Statements of Position, among others. The FASB recognized the complexity of its standard-setting process and embarked on a revised process in 2004 that culminated in the release on July 1, 2009 of the Accounting Standards Codification ("ASC"). The ASC does not change how Company accounts for its transactions or the nature of related disclosures made. Rather, the ASC results in changes to how the Company references accounting standards within its reports. This change was made effective by the FASB for periods ending on or after September 15, 2009. The Company has updated references to US GAAP in this Annual Report on Form 10-K to reflect the guidance in the ASC. The preparation of these consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate these estimates, including investment impairment. These estimates are based on management's historical industry experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Property and Equipment

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

Goodwill and Intangible Assets

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

Impairment of Long-Lived Assets

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

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

For goodwill, the impairment determination is made at the reporting unit level. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The Company's annual evaluation for goodwill and indefinite-lived intangible assets was performed as of September 30, 2015. The Company recognized intangible asset impairments in the years ended September 30, 2015 and 2014 related to specific reporting units. See Note O, Impairment of Assets. The Company did not recognize impairment for the year ended September 30, 2013. All of the Company's goodwill and intangible assets relate to the nightclubs, except for \$567,000 related to the acquisition of the media division and \$9,805,000 in Drink Robust. Definite lived intangible assets are amortized on a straight-line basis over their estimated lives. Fully amortized assets are written-off against accumulated amortization.

Revenue Recognition

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

Revenues from the sale of magazines and advertising content are recognized when the issue is published and shipped. Revenues and external expenses related to the Company's annual Expo convention are recognized upon the completion of the convention in August. Revenues from sale of energy drinks are recongnized when shipped.

Income Taxes

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

US GAAP creates a single model to address accounting for uncertainty in tax positions by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. There are no unrecognized tax benefits to be recorded or disclosed in the notes to the consolidated financial statements.

Stock-Based Compensation

The Company recognizes all employee stock-based compensation as a cost in the consolidated financial statements. Equity-classified awards are measured at the grant date fair value of the award. The Company estimates grant date fair value using the Black-Scholes option-pricing model. The critical estimates are volatility, expected life and risk-free rate.

The compensation cost recognized for the years ended September 30, 2015, 2014 and 2013 was \$480,048 from restricted stock, \$282,305 (\$159,370 from options and \$122,935 from restricted stock) and \$847,183 (from options), respectively. There were 10,000, 369,665 and zero stock options exercises for the years ended September 30, 2015 and 2014 and 2013, respectively.

OPERATIONS REVIEW

Results of Operations for the Fiscal Year Ended September 30, 2015 as Compared to the Fiscal Year Ended September 30, 2014

For the fiscal year ended September 30, 2015, we had consolidated total revenues of \$144.7 million, compared to consolidated total revenues of \$129.2 million for the year ended September 30, 2014. This was an increase of \$15.5 million or 12.0%. The increase in total revenues was primarily due to revenues generated in our new units opened or acquired in 2015, a full year of revenues from units opened or purchased in 2014 and increases in revenues from certain of our existing units, especially from our Temptations Beaumont, Onyx Houston and Bombshells Dallas locations. Revenues from nightclub operations for same-location same-period decreased by 0.6%.

Our operating margin (income from operations divided by total revenues) was 14.4% for the year ended September 30, 2015 compared to 14.6% for the prior year.

Our income from operations for our nightclub operations for the same-location-same-period decreased by 7.7%. This is principally due to the New York lawsuit settlement, offset by the gain on settlement of the patron tax issue.

Our net income was \$9.3 million for the fiscal year ended September 30, 2015 compared to \$11.2 million for the previous year. The decrease in our net income is explained in the following paragraphs.

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Following is a comparison of the Company's income statement for the years ended September 30, 2015 and 2014 with percentages compared to total revenue:

(in thousands)	2015	%	2014	%
Sales of alcoholic beverages	\$60,782	42.0 %	\$51,763	40.1 %
Sales of food and merchandise	20,241	14.0 %	15,847	12.3 %
Service Revenues	55,751	38.5 %	54,666	42.3 %
Other	7,893	5.5 %	6,898	5.3 %
Total Revenues	144,667	100.0 %	129,174	100.0 %
Cost of Goods Sold	20,317	14.0 %	16,426	12.7 %
Salaries & Wages	32,559	22.5 %	28,183	21.8 %
Stock-based Compensation	480	0.3 %	282	0.2 %
Taxes and permits	21,942	15.2 %	20,056	15.5 %
Charge card fees	2,176	1.5 %	1,790	1.4 %
Rent	4,526	3.1 %	4,804	3.7 %
Legal & professional	4,581	3.2 %	3,416	2.6 %
Advertising and marketing	5,610	3.9 %	5,578	4.3 %
Depreciation and amortization	6,894	4.8 %	6,316	4.9 %
Insurance	3,364	2.3 %	3,994	3.1 %
Utilities	2,999	2.1 %	2,684	2.1 %
Loss on sale of assets and other	808	0.6 %	279	0.2 %
Impairment of assets	1,705	1.2 %	2,294	1.8 %
Settlements of lawsuits and other one-time costs	11,684	8.1 %	3,696	2.9 %
Gain on settlement of patron tax	(8,167)	-5.6 %	-	0.0 %
Other	12,311	8.5 %	10,501	8.1 %
Total operating expenses	123,789	85.6 %	110,299	85.4 %
Income from operations	20,878	14.4 %	18,875	14.6 %
Interest income	15	0.0 %	148	0.1 %
Interest expense	(6,679)	-4.6 %	(7,357)	-5.7 %
Interest expense - loan origination costs	(290)	-0.2 %	(395)	-0.3 %
Gain from acquisition of controlling interest in subsidiary	229	0.2 %	-	0.0 %
Contractual debt reduction	-	0.0 %	5,642	4.4 %
Income before income taxes	\$14,153	9.8 %	\$16,913	13.1 %

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

Other revenues include ATM commissions earned, video games and other vending and certain promotion fees charged to our entertainers. The Company recognizes revenue from other revenues and services at the point-of-sale upon

receipt of cash, check, or credit card charge.

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding and media. The cost of goods sold percentage increase is due to the increase in revenues of the restaurant/bar segment which has higher cost of goods sold than the nightclub segment. Our cost of goods sold for the nightclub operations for the year ended September 30, 2015 was 12.0% of our total revenues from club operations compared to 11.9% for the year ended September 30, 2014. Cost of goods sold for same-location-same-period was 12.4% for the year ended September 30, 2015 compared to 12.2% for the year ended September 30, 2014. We continued our efforts to achieve reductions in cost of goods sold of the club operations through improved inventory management. We are continuing a program to improve margins from liquor and food sales and food service efficiency.

The increase in payroll and related costs, stated as "Salaries & Wages" above, was primarily due to the addition of the new units in 2015 and 2014. Payroll for same-location-same-period of club operations increased to \$20.1 million for the year ended September 30, 2015 from \$19.5 million for the previous year. Management currently believes that its labor and management staff levels are appropriate.

The increase in stock-based compensation in 2015 results from the issuance of restricted shares to two employees in July 2014. These shares are vesting over a two-year period and, thus, the cost of these shares were being expensed in the 2015 fiscal year over the vesting period.

Taxes and permits consists principally of payroll taxes, property taxes, sales and alcohol taxes, licenses and permits and the patron tax in our nightclubs in Texas. The increase in 2015 results principally from the new units acquired. Patron taxes amounted to \$3.0 million and \$3.1 million for the years ended September 30, 2015 and 2014, respectively.

The decrease in the percentage of rent expense to revenues is principally due to the sale/closure of certain clubs in 2014.

Legal and professional expenses increased principally due to increased activity in the New York labor lawsuit.

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

Depreciation and amortization increased approximately \$0.6 million from the year ended September 30, 2014, due to the new units purchased and opened during 2015 and 2014, as well as amortization of definite lived intangibles acquired in 2015.

Utilities increased principally due to new units.

See Note O, Impairment of Assets, of Notes to Consolidated Financial Statements for an explanation of the impairment of assets.

Settlement of lawsuits and other one-time costs in 2015 consists principally of settlement of suits relating to the New York based federal wage and hour class and collective action, as explained in Note J, Commitments and Contingencies of Notes to Consolidated Financial Statements.

See Note J, Commitments and Contingencies of Notes to Consolidated Financial Statements for an explanation of the gain on settlement of patron tax issue.

Other expenses increased due to the new units acquired and opened.

See Note P, Gain on Contractual Debt Reduction, of Notes to Consolidated Financial Statements, for an explanation of the \$5.6 million contractual debt reduction item.

Interest expense decreased due to the significant paydown and refinance of high-interest debt during the last two years. We are now able to finance property acquisition with bank debt which is at significantly lower rates than the debt we previously had. We added more debt from acquisitions while we paid off debt as we amortize the loans. As of September 30, 2015, the balance of long-term debt was \$94.9 million compared to \$70.4 million a year earlier.

SEGMENT INFORMATION

The Company is engaged in two significant segments, 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. The other category below consists of our media and energy drink businesses that are not significant to the consolidated financial statements.

The following table sets forth certain information about each segment's financial information for the years ended September 30:

(in thousands)	2015	2014	2013
Business segment revenues:			
Nightclubs	\$123,280	\$121,454	\$108,723
Bombshells	19,091	6,213	1,869
Other	2,296	1,507	1,616
	\$144,667	\$129,174	\$112,208
Business segment operating income (loss):			
Nightclubs	\$30,444	\$25,970	\$28,400
Bombshells	1,773	(315)	(25)
Other	(1,921)	(246)	(206)
General corporate	(9,418)	(6,534)	(6,286)
	\$20,878	\$18,875	\$21,883
Business segment capital expenditures:			
Nightclubs	\$16,578	\$11,834	\$8,510
Bombshells	1,448	8,195	354
Other	973	8	-
General corporate	260	1,322	811
	\$19,259	\$21,359	\$9,675
Business segment depreciation and amortization:			
Nightclubs	\$4,630	\$4,904	\$4,800
Bombshells	727	429	21
Other	627	20	16

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

General corporate	910	963	500
	\$6,894	\$6,316	\$5,337
Business segment assets:			
Nightclubs	\$230,104	200,516	\$200,310
Bombshells	9,875	9,074	610
Other	9,721	996	1,034
General corporate	21,112	29,271	21,146
	\$270,812	\$239,857	\$223,100

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.

Non-GAAP Financial Measures

In addition to our financial information presented in accordance with GAAP, management uses certain “non-GAAP financial measures” within the meaning of the SEC Regulation G, to clarify and enhance understanding of past performance and prospects for the future. Generally, a non-GAAP financial measure is a numerical measure of a company’s operating performance, financial position or cash flows that excludes or includes amounts that are included in or excluded from the most directly comparable measure calculated and presented in accordance with GAAP. We monitor non-GAAP financial measures because it describes the operating performance of the company and helps management and investors gauge our ability to generate cash flow, excluding some non-recurring charges that are included in the most directly comparable measures calculated and presented in accordance with GAAP. Relative to each of the non-GAAP financial measures, we further set forth our rationale as follows:

Non-GAAP Operating Income and Non-GAAP Operating Margin. We exclude from non-GAAP operating income and non-GAAP operating margin amortization of intangibles, gain on settlement of patron tax case, pre-opening costs, gains and losses from asset sales, gain on settlement of patron tax issue, impairment of assets, pre-opening costs, stock-based compensation charges, litigation and other one-time legal settlements and acquisition costs. We believe that excluding these items assists investors in evaluating period-over-period changes in our operating income and operating margin without the impact of items that are not a result of our day-to-day business and operations. While we were in litigation in the patron tax case, we also included patron taxes as an exclusion, but after settlement of the case, we no longer exclude patron taxes from operating income.

Non-GAAP Net Income and Non-GAAP Net Income per Basic Share and per Diluted Share. We exclude from non-GAAP net income and non-GAAP net income per diluted share and per basic share amortization of intangibles, gain on settlement of patron tax case, pre-opening costs, income tax expense, impairment charges, gains and losses from asset sales, stock-based compensation, litigation and other one-time legal settlements, gain on contractual debt reduction and acquisition costs, and include the Non-GAAP provision for income taxes, calculated as the tax-effect at 35% effective tax rate of the pre-tax non-GAAP income before taxes less stock-based compensation, because we believe that excluding such measures helps management and investors better understand our operating activities. While we were in litigation in the patron tax case, we also included patron taxes as an exclusion, but after settlement of the case, we no longer exclude patron taxes from net income.

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

The following tables present our non-GAAP measures for the periods indicated (in thousands, except per share amounts):

(in thousands)	For the Year Ended September 30,		
	2015	2014	2013
Reconciliation of GAAP net income to Adjusted EBITDA			
GAAP net income	\$9,312	\$11,240	\$9,191
Income tax expense	5,164	5,916	5,414
Interest expense and income	6,954	7,604	7,067
Litigation and other one-time settlements	11,684	3,696	707
Gain on settlement of patron tax case	(8,167)	-	-
Impairment of assets	1,705	2,294	-
Pre-opening costs	158	800	660
Acquisition costs	105	124	166
Loss on sale of property and other	808	279	18
Depreciation and amortization	6,894	6,316	5,337
Gain on contractual debt reduction	-	(5,642)	-
Adjusted EBITDA	\$34,617	\$32,627	\$28,560
Reconciliation of GAAP net income to non-GAAP net income			
GAAP net income	\$9,312	\$11,240	\$9,191
Amortization of intangibles	737	336	409
Stock-based compensation	480	282	847
Litigation and other one-time settlements	11,684	3,696	707
Gain on settlement of patron tax case	(8,167)	-	-
Impairment of assets	1,705	2,294	-
Income tax expense	5,164	5,916	5,414
Pre-opening costs	158	800	660
Acquisition costs	105	124	166
Loss on sale of property and other	808	279	18

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Gain on contractual debt reduction	-	(5,642)	-
Non-GAAP provision for income taxes	(7,695)	(6,708)	(5,798)
Non-GAAP net income	\$ 14,291	\$ 12,617	\$ 11,614

Reconciliation of GAAP diluted net income per share to non-GAAP diluted net income per share

Fully diluted shares	10,406	10,637	9,615
GAAP net income	\$0.90	\$1.13	\$0.96
Amortization of intangibles	0.07	0.03	0.04
Stock-based compensation	0.05	0.03	0.09
Litigation and other one-time settlements	1.12	0.35	0.07
Gain on settlement of patron tax case	(0.78)	-	-
Impairment of assets	0.16	0.22	-
Income tax expense	0.50	0.56	0.56
Pre-opening costs	0.02	0.08	0.07
Acquisition costs	0.01	0.01	0.02
Loss on sale of property and other	0.08	0.03	0.00
Gain on contractual debt reduction	-	(0.53)	-
Non-GAAP provision for income taxes	(0.73)	(0.62)	(0.60)
Non-GAAP diluted net income per share	\$ 1.39	\$ 1.26	\$ 1.21

Reconciliation of GAAP operating income to non-GAAP operating income

GAAP operating income	\$20,878	\$18,875	\$21,883
Amortization of intangibles	737	336	409
Stock-based compensation	480	282	847
Litigation and other one-time settlements	11,684	3,696	707
Gain on settlement of patron tax case	(8,167)	-	-
Impairment of assets	1,705	2,294	-
Loss on sale of property and other	808	279	18
Pre-opening costs	158	800	660
Acquisition costs	105	124	166
Non-GAAP operating income	\$28,388	\$26,686	\$24,690

Reconciliation of GAAP operating margin to non-GAAP operating margin

GAAP operating income	14.4 %	14.6 %	19.5 %
Amortization of intangibles	0.5 %	0.3 %	0.4 %
Stock-based compensation	0.3 %	0.2 %	0.8 %
Litigation and other one-time settlements	8.1 %	2.9 %	0.6 %
Gain on settlement of patron tax case	-5.6 %	0.0 %	0.0 %
Impairment of assets	1.2 %	1.8 %	0.0 %
Loss on sale of property and other	0.6 %	0.2 %	0.0 %
Pre-opening costs	0.1 %	0.6 %	0.6 %
Acquisition costs	0.1 %	0.1 %	0.1 %
Non-GAAP operating margin	19.6 %	20.7 %	22.0 %

Results of Operations for the Fiscal Year Ended September 30, 2014 as Compared to the Fiscal Year Ended September 30, 2013

For the fiscal year ended September 30, 2014, we had consolidated total revenues of \$129.2 million, compared to consolidated total revenues of \$112.2 million for the year ended September 30, 2013. This was an increase of \$17.0 million or 15.1%. The increase in total revenues was primarily due to revenues generated in our new units acquired in 2014, a full year of revenues from units purchased in 2013 and increases in revenues from certain of our existing units, especially from our Jaguars Odessa, XTC Austin and Dallas and Rick's New York, San Antonio and Minnesota locations. Revenues from nightclub operations for same-location same-period increased by 4.5%.

Our operating margin, (income from operations divided by total revenues) was 14.6% for the year ended September 30, 2014 compared to 19.5% for the prior year. The decrease is principally due to the settlements of lawsuits and other one-time costs in 2014.

Our income from operations for our nightclub operations for the same-location-same-period increased by 7.0%.

Our net income was \$11.2 million for the fiscal year ended September 30, 2014 compared to \$9.2 million for the previous year. The increase in our net income is explained in the following paragraphs.

Following is a comparison of the Company's income statement for the years ended September 30, 2014 and 2013 with percentages compared to total revenue:

(in thousands)	2014	%	2013	%
Sales of alcoholic beverages	\$51,763	40.1 %	\$43,189	38.5 %
Sales of food and merchandise	15,847	12.3 %	12,249	10.9 %
Service Revenues	54,666	42.3 %	49,974	44.5 %
Other	6,898	5.3 %	6,796	6.1 %
Total Revenues	129,174	100.0 %	112,208	100.0 %
Cost of Goods Sold	16,426	12.7 %	14,152	12.6 %
Salaries & Wages	28,183	21.8 %	25,145	22.4 %
Stock-based Compensation	282	0.2 %	847	0.8 %
Taxes and permits	20,056	15.5 %	17,613	15.7 %
Charge card fees	1,790	1.4 %	1,482	1.3 %

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Rent	4,804	3.7	%	3,642	3.2	%
Legal & professional	3,416	2.6	%	2,599	2.3	%
Advertising and marketing	5,578	4.3	%	4,611	4.1	%
Depreciation and amortization	6,316	4.9	%	5,337	4.8	%
Insurance	3,994	3.1	%	2,208	2.0	%
Utilities	2,684	2.1	%	2,241	2.0	%
(Gain) loss on sale of assets and other	279	0.2	%	18	0.0	%
Impairment of assets	2,294	1.8	%	-	0.0	%
Settlements of lawsuits and other one-time costs	3,696	2.9	%	707	0.6	%
Other	10,501	8.1	%	9,723	8.7	%
Total operating expenses	110,299	85.4	%	90,325	80.5	%
Income from operations	18,875	14.6	%	21,883	19.5	%
Interest income	148	0.1	%	10	0.0	%
Interest expense	(7,357)	-5.8	%	(6,538)	-5.8	%
Interest expense - loan origination costs	(395)	-0.2	%	(539)	-0.5	%
Gain on contractual debt reduction	5,642	4.4	%	-	0.0	%
Income before income taxes	\$16,913	13.1	%	\$14,816	13.2	%

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

Other revenues include ATM commissions earned, video games and other vending and certain promotion fees charged to our entertainers. The Company recognizes revenue from other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding and media. Our cost of goods sold for the nightclub operations for the year ended September 30, 2014 was 12.7% of our total revenues from club operations compared to 12.6% for the year ended September 30, 2013. Cost of goods sold for same-location-same-period decreased to 12.1% for the year ended September 30, 2014 compared to 12.3% for the year ended September 30, 2013. We continued our efforts to achieve reductions in cost of goods sold of the club operations through improved inventory management. We are continuing a program to improve margins from liquor and food sales and food service efficiency.

The increase in payroll and related costs, stated as "Salaries & Wages" above, was primarily due to the addition of the new units in 2014 and 2013. Payroll for same-location-same-period of club operations decreased to \$19.5 million for the year ended September 30, 2014 from \$19.9 million for the previous year. Management currently believes that its labor and management staff levels are appropriate.

The decrease in stock-based compensation in 2014 results from the issuance of options in June and July 2012 to employees and Board of Directors. These options vested after one year and, thus, the cost of these options were principally expensed in the 2013 fiscal year.

Taxes and permits consists principally of payroll taxes, property taxes, sales and alcohol taxes, licenses and permits and the patron tax in our nightclubs in Texas. The increase in 2014 results principally from the new units acquired. Patron taxes amounted to \$3.1 million and \$3.2 million for the years ended September 30, 2014 and 2013, respectively.

Rent increased principally due to increased rents in both of our New York clubs, our Los Angeles club and our restaurants opening in leased locations.

Legal and professional expenses increased principally due to increased activity in the New York labor lawsuit.

Insurance expense increased due to the new units but also due to a general increase in the insurance for our industry and due to our loss history for general liability insurance. Also see Note J, Commitments and Contingencies, of Notes to Consolidated Financial Statements for more information regarding our former general liability insurer.

Depreciation and amortization increased approximately \$1.0 million from the year ended September 30, 2013, due to the new units purchased and opened during 2014 and 2013.

Utilities increased principally due to new units.

See Note O, Impairment of Assets, of Notes to Consolidated Financial Statements for an explanation of the impairment of assets.

Settlement of lawsuits and other on-time costs in 2014 consists principally of settlement of suits relating to the bankruptcy of our general liability insurance carrier, as explained in Note J, Commitments and Contingencies of Notes to Consolidated Financial Statements.

Other expenses increased due to the new units acquired.

See Note P, Gain on Contractual Debt Reduction, of Notes to Consolidated Financial Statements, for an explanation of the \$5.6 million contractual debt reduction item.

We added more debt from acquisitions while we paid off debt as we amortize the loans. As of September 30, 2014, the balance of long-term debt was \$70.4 million compared to \$78.6 million a year earlier.

LIQUIDITY AND CAPITAL RESOURCES

We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. Refer to the heading "Cash Flows from Operating Activities" below. The near-term outlook for our business remains strong, and we expect to generate substantial cash flows from operations in fiscal 2016. As a result of our expected cash flows from operations, we have significant flexibility to meet our financial commitments. The Company has not recently raised capital through the issuance of equity securities. Instead, we use debt financing to lower our overall cost of capital and increase our return on shareowners' equity. Refer to the heading "Cash Flows from Financing Activities" below. We have a history of borrowing funds in private transactions and from sellers in acquisition transactions and continue to have the ability to borrow funds at reasonable interest rates in that manner. We have historically utilized these cash flows to invest in property and equipment, adult nightclubs and sports bars and restaurants. Refer to the heading "Cash Flows from Investing Activities" below.

As of September 30, 2015, we had a working capital deficit of \$2.2 million compared to a working capital deficit of \$15.8 million as of September 30, 2014. The decrease in deficit is principally due the following items:

·	Decrease in liabilities due to the settlement of the patron tax issue and reclassification of a portion of the settlement to long-term debt.
·	Operating cash flow for the year.
·	Increase in liabilities due to the settlement of the New York lawsuit.
·	Decrease in current portion of long-term debt

We anticipate that some of the convertible debt will be redeemed with common shares. Because of the large volume of cash we handle, stringent cash controls have been implemented. At September 30, 2015, our cash and cash equivalents were \$8.0 million compared to \$10.0 million at September 30, 2014.

Our depreciation for the year ended September 30, 2015 was \$6.2 million compared to \$6.0 million for the year ended September 30, 2014. Our amortization for the year ended September 30, 2015 was \$737,000 compared to \$336,000

for the year ended September 30, 2014.

Sources and Use of Funds

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

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

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

Cash Flows from Operating Activities

Following are our summarized cash flows from operating activities:

(in thousands)	Year Ended September 30,		
	2015	2014	2013
Net income	\$8,989	\$10,997	\$9,402
Depreciation and amortization	6,894	6,316	5,337
Deferred taxes	3,935	937	261
Stock compensation expense	480	282	847
Contractual debt reduction	-	(5,642)	-
Gain on settlement of patron tax	(8,167)	-	-
Impairment of assets	1,705	2,294	-
Change in operating assets and liabilities	1,951	4,900	2,231
Other	577	351	282
	\$16,364	\$20,435	\$18,360

Cash Flows from Investing Activities

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Following are our summarized cash flows from investing activities:

(in thousands)	Year Ended September 30,		
	2015	2014	2013
Net activities in marketable securities and other assets	\$-	\$438	\$40
Acquisition of development rights in New York Building	-	(5,325)	-
Additions to property and equipment	(19,259)	(16,034)	(9,675)
Additions of businesses, net of cash acquired	(2,328)	(500)	(1,790)
	\$(21,587)	\$(21,421)	\$(11,425)

Following is a reconciliation of our additions to property and equipment for the years ended September 30, 2015, 2014 and 2013:

(in thousands)	Year Ended September 30,		
	2015	2014	2013
Acquisition of real estate	\$23,843	\$3,348	\$16,911
Capital expenditures funded by debt	(7,978)	(4,879)	(14,880)
New capital expenditure in new clubs and purchase of aircraft	1,919	15,864	6,437
Maintenance capital expenditures	1,475	1,701	1,207
Total capital expenditures in consolidated statement of cash flows	\$19,259	\$16,034	\$9,675

Cash Flows from Financing Activities

Following are our summarized cash flows from financing activities:

(in thousands)	Year Ended September 30,		
	2015	2014	2013
Proceeds from long-term debt	\$18,283	\$7,025	\$9,498
Purchase of put options and payments on derivative	-	-	(138)
Payments on long-term debt	(12,579)	(8,473)	(9,341)
Purchase of treasury stock	(2,296)	(1,150)	(1,623)
Exercise of stock options and warrants	87	3,126	-
Distribution of minority interests	(216)	(216)	(216)
	\$3,279	\$312	\$(1,820)

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

(in thousands)	Year Ended September 30,		
	2015	2014	2013
Operating activities	\$16,364	\$20,435	\$18,360
Investing activities	(21,587)	(21,421)	(11,425)
Financing activities	3,279	312	(1,820)
Net increase (decrease) in cash	\$(1,944)	\$(674)	\$5,115

We require capital principally for the acquisition of new units, renovation of older units and investments in technology. We may also utilize capital to repurchase our common stock as part of our share repurchase program.

Debt Financing:

See Note F, Long-term Debt, of Notes to Consolidated Financial Statements for detail regarding our long-term debt activity.

Contractual obligations and commitments :

We have long term contractual obligations primarily in the form of operating leases and debt obligations. The following table summarizes our contractual obligations and their aggregate maturities as well as future minimum rent payments. Future interest payments related to variable interest rate debt were estimated using the interest rate in effect at September 30, 2015.

(in thousands)	Payments Due by Period						
	Total	2016	2017	2018	2019	2020	Thereafter
Long-term debt	\$94,920	\$9,700	\$17,057	\$16,051	\$9,737	\$17,129	\$ 25,246
Interest payments	24,745	7,255	6,118	4,577	3,364	2,351	1,080
Operating leases	21,141	3,019	2,765	2,373	1,130	1,143	10,711

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

The following table presents a summary of such indicators:

	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
Sales of alcoholic beverages	\$60,782	17.4	% \$51,763	19.9	% \$43,189
Sales of food and merchandise	20,241	27.7	% 15,847	29.4	% 12,249
Service Revenues	55,751	2.0	% 54,666	9.4	% 49,974
Other	7,893	14.4	% 6,898	1.5	% 6,796
Total Revenues	144,667	12.0	% 129,174	15.1	% 112,208
Net cash provided by operating activities	\$16,364	-19.9	% \$20,435	11.3	% \$18,360
Adjusted EBITDA	\$34,617	6.1	% \$32,627	14.2	% \$28,560
Long-term debt	\$94,920	34.9	% \$70,352	-10.5	% \$78,592

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

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

Share repurchase

On September 29, 2008, our Board of Directors authorized us to repurchase up to \$5 million worth of our common stock in the open market. As of April 2013, we completed the repurchase of all \$5 million in stock authorized under this plan. On April 25, 2013, our Board of Directors authorized us to repurchase up to an additional \$3 million worth of our common stock in the open market or in privately negotiated transactions. During May 2014, our Board of Directors increased the repurchase authorization to \$10 million. During the fiscal year ended September 30, 2015, we purchased 225,280 shares of common stock in the open market at prices ranging from \$9.24 to \$11.95, and during the fiscal year ended September 30, 2014, we purchased 101,330 shares of common stock in the open market at prices ranging from \$10.45 to \$12.00 and under the Board's authority, we have \$6.6 million remaining to purchase additional shares as of September 30, 2015.

IMPACT OF INFLATION

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

SEASONALITY

Our nightclub operations are affected by seasonal factors. Historically, we have experienced reduced revenues from April through September with the strongest operating results occurring during October through March.

GROWTH STRATEGY

We believe that our nightclub operations can continue to grow organically and through careful entry into markets and demographic segments with high growth potential. Our growth strategy is: (a) to open new units after market analysis,

(b) to acquire existing units in locations that are consistent with our growth and income targets and which appear receptive to the upscale club formula we have developed, (c) to form joint ventures or partnerships to reduce start-up and operating costs, with us contributing equity in the form of our brand name and management expertise, (d) to develop new club concepts that are consistent with our management and marketing skills, and/or (e) to acquire real estate in connection with club operations, although some units may be in leased premises.

Additionally, we believe that our bar/restaurants can also grow organically and through careful entry into markets and demographic segments with high growth potential. 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 bar/restaurant locations that are consistent with our income targets.

During fiscal 2013, in addition to the real estate acquired for the Jaguars purchase in fiscal 2012, we have acquired an existing licensed location for \$3,000,000 (\$1.5 million in cash and the balance in promissory notes). This location was being remodeled and opened in 2013. We also acquired the remaining 50% of an unopened club for \$863,000 of common stock in May 2013. We also acquired another club for \$300,000 in cash. We previously had acquired the real estate for this location. We also opened two bar/restaurants in 2013.

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

During fiscal 2015, we acquired up to 51% of an energy drink company for \$3.6 million (\$200,000 in cash and 200,000 shares of restricted common stock). We previously acquired 15% for an investment of \$750,000. We also acquired an adult nightclub in Austin, Texas for \$6.8 million, including the building in which it operates (\$1.0 million in cash and the balance in debt). We also acquired another adult nightclub in Minneapolis, Minnesota for \$8.5 million, including the building in which it operates (\$1.1 million in cash and the balance in debt).

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The items in our financial statements subject to market risk are debt instruments with variable interest rates, aggregating \$6.4 million at September 30, 2015. The notes bear interest at 2% above prime with a floor of 7.5%.

Thus, the floor rate for our debt is 2.25% in excess of the applicable “floating rate”. If the prime rate were to rise, the effect on our statement of income would be \$64,000, before taxes, for each 1% rise above a prime rate of 5.5%.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item begins on Page 31.

RCI HOSPITALITY HOLDINGS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

<u>Reports of Independent Registered Public Accounting Firm</u>	28
Consolidated Financial Statements:	
<u>Consolidated Balance Sheets at September 30, 2015 and 2014</u>	30
<u>Consolidated Statements of Income for the years ended September 30, 2015, 2014 and 2013</u>	31
<u>Consolidated Statements of Comprehensive Income for the years ended September 30, 2015, 2014 and 2013</u>	32
<u>Consolidated Statements of Changes in Stockholders' Equity for the years ended September 30, 2015, 2014 and 2013</u>	33
<u>Consolidated Statements of Cash Flows for the years ended September 30, 2015, 2014 and 2013</u>	34
<u>Notes to Consolidated Financial Statements</u>	36

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

RCI Hospitality Holdings, Inc.

We have audited the accompanying consolidated balance sheets of RCI Hospitality Holdings, Inc. and subsidiaries (the “Company”), as of September 30, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended September 30, 2015. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RCI Hospitality Holdings, Inc. and subsidiaries, as of September 30, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of September 30, 2015, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated December 14, 2015, expressed an unqualified opinion.

/s/ Whitley Penn LLP

Dallas, Texas

December 14, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

RCI Hospitality Holdings, Inc.

We have audited RCI Hospitality Holdings, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of September 30, 2015, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2015, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows of the Company, and our report dated December 14, 2015, expressed an unqualified opinion on those consolidated financial statements.

/s/ Whitley Penn LLP

Dallas, Texas

December 14, 2015

RCI HOSPITALITY HOLDINGS, INC.**CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share data)	September 30,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$8,020	\$9,964
Accounts receivable:		
Trade, net	1,578	1,060
Other, net	576	685
Marketable securities	614	596
Inventories	2,368	1,879
Deferred tax asset	3,442	5,378
Prepaid expenses and other current assets	4,010	3,789
Total current assets	20,608	23,351
Property and equipment, net	134,150	113,962
Other assets:		
Goodwill	52,641	43,374
Indefinite lived intangibles, net	55,828	53,968
Definite lived intangibles, net	5,169	675
Other	2,416	3,812
Total other assets	116,054	101,829
Total assets	\$270,812	\$239,142
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$2,164	\$2,198
Accrued liabilities	9,626	9,195
Texas patron tax liability	1,364	15,486
Current portion of long-term debt	9,700	12,315
Total current liabilities	22,854	39,194
Deferred tax liability	31,529	27,688
Other long-term liabilities	2,723	924
Long-term debt	85,220	58,037
Total liabilities	142,326	125,843

Commitments and contingencies

STOCKHOLDERS' EQUITY:

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Preferred stock, \$.10 par, 1,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.01 par, 20,000 shares authorized; 10,285 and 10,067 shares issued and outstanding, respectively	103	101
Additional paid-in capital	69,729	66,727
Accumulated other comprehensive income	109	91
Retained earnings	52,682	43,370
Total RCIHH stockholders' equity	122,623	110,289
Noncontrolling interests	5,863	3,010
Total stockholders' equity	128,486	113,299
Total liabilities and stockholders' equity	\$270,812	\$239,142

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.**CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)	Year Ended September 30,		
	2015	2014	2013
Revenues:			
Sales of alcoholic beverages	\$60,782	\$51,763	\$43,189
Sales of food and merchandise	20,241	15,847	12,249
Service revenues	55,751	54,666	49,974
Other	7,893	6,898	6,796
Total revenues	144,667	129,174	112,208
Operating expenses:			
Cost of goods sold	20,317	16,426	14,152
Salaries and wages	32,559	28,183	25,145
Stock-based compensation	480	282	847
Other general and administrative:			
Taxes and permits	21,942	20,056	17,613
Charge card fees	2,176	1,790	1,482
Rent	4,526	4,804	3,642
Legal and professional	4,581	3,416	2,599
Advertising and marketing	5,610	5,578	4,611
Depreciation and amortization	6,894	6,316	5,337
Insurance	3,364	3,994	2,208
Utilities	2,999	2,684	2,241
Loss on sale of property and other	808	279	18
Impairment of assets	1,705	2,294	-
Settlement of lawsuits and other one-time costs	11,684	3,696	707
Gain on settlement of patron tax	(8,167)	-	-
Other	12,311	10,501	9,723
Total operating expenses	123,789	110,299	90,325
Income from operations	20,878	18,875	21,883
Other income (expense):			
Interest income	15	148	10
Interest expense	(6,679)	(7,357)	(6,538)
Interest expense – loan origination costs	(290)	(395)	(539)
Gain from acquisition of controlling interest in subsidiary	229	-	-
Gain on contractual debt reduction	-	5,642	-
Income before income taxes	14,153	16,913	14,816
Income taxes	5,164	5,916	5,414
Net income	8,989	10,997	9,402
Net (income) loss attributable to noncontrolling interests	323	243	(211)

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Net income attributable to RCI Hospitality Holdings, Inc.	\$9,312	\$11,240	\$9,191
Basic earnings per share attributable to RCIHH shareholders:			
Net income	\$0.90	\$1.15	\$0.97
Diluted earnings per share attributable to RCIHH shareholders:			
Net income	\$0.90	\$1.13	\$0.96
Weighted average number of common shares outstanding:			
Basic	10,359	9,816	9,518
Diluted	10,406	10,637	9,615

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands, except per share data)	Year Ended September 30,		
	2015	2014	2013
Net income	\$8,989	\$10,997	\$9,402
Other comprehensive income:			
Unrealized holding gain (loss) on securities available for sale	18	41	(9)
Comprehensive income	9,007	11,038	9,393
Less net (income) loss attributable to noncontrolling interests	323	243	(211)
Comprehensive income to common stockholders	\$9,330	\$11,281	\$9,182

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended September 30, 2015, 2014 and 2013

(in thousands)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock Number of Shares	Treasury Stock Amount	Noncontrolling Interests	Total Stockholders' Equity
Balance at September 30, 2012	9,584	96	61,212	59	22,939	-	-	3,339	87,645
Change in temporary equity	-	-	73	-	-	-	-	-	73
Purchase of treasury shares	-	-	-	-	-	192	(1,623)	-	(1,623)
Cancelled treasury shares	(180)	(2)	(1,621)	-	-	(192)	1,623	-	-
Stock-based compensation	-	-	847	-	-	-	-	-	847
Stock issued in business combination	100	1	862	-	-	-	-	-	863
Beneficial debt conversion feature	-	-	33	-	-	-	-	-	33
Issuance of warrants	-	-	100	-	-	-	-	-	100
Payments to noncontrolling interests	-	-	-	-	-	-	-	(216)	(216)
Change in marketable securities	-	-	-	(9)	-	-	-	-	(9)
Net income	-	-	-	-	9,191	-	-	211	9,402
Balance at September 30, 2013	9,504	95	61,506	50	32,130	-	-	3,334	97,115
Purchase of treasury shares	-	-	-	-	-	101	(1,150)	-	(1,150)
Cancelled treasury shares	(101)	(1)	(1,149)	-	-	(101)	1,150	-	-
Stock options exercised	370	4	3,122	-	-	-	-	-	3,126
	294	3	2,966	-	-	-	-	-	2,969

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Common stock issued for debt and interest									
Stock-based compensation and issuance of warrants for services	-	-	282	-	-	-	-	-	282
Payments to noncontrolling interests	-	-	-	-	-	-	-	(216)	(216)
Noncontrolling interests at acquisition of business	-	-	-	-	-	-	-	135	135
Change in marketable securities	-	-	-	41	-	-	-	-	41
Net income (loss)	-	-	-	-	11,240	-	-	(243)	10,997
Balance at September 30, 2014	10,067	\$ 101	\$ 66,727	\$ 91	\$ 43,370	-	\$-	\$ 3,010	\$ 113,299
Purchase of treasury shares	-	-	-	-	-	225	(2,296)	-	(2,296)
Cancelled treasury shares	(225)	(2)	(2,294)	-	-	(225)	2,296	-	-
Stock options exercised	10	-	87	-	-	-	-	-	87
Common stock issued for acquisition	200	2	2,373	-	-	-	-	-	2,375
Common stock issued for debt and interest	233	2	2,356	-	-	-	-	-	2,358
Stock-based compensation	-	-	480	-	-	-	-	-	480
Payments to noncontrolling interests	-	-	-	-	-	-	-	(216)	(216)
Noncontrolling interests at acquisition of business	-	-	-	-	-	-	-	3,392	3,392
Change in marketable securities	-	-	-	18	-	-	-	-	18
Net income (loss)	-	-	-	-	9,312	-	-	(323)	8,989
Balance at September 30, 2015	10,285	\$ 103	\$ 69,729	\$ 109	\$ 52,682	-	\$-	5,863	128,486

See accompanying notes to consolidated financial statements.

RCI HOSPITALITY HOLDINGS, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)	Years Ended September 30,		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$8,989	10,997	9,402
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,894	6,316	5,337
Deferred taxes	3,935	937	261
Loss on sale of property and other	808	279	18
Gain on contractual debt reduction	-	(5,642)	-
Impairment of assets	1,705	2,294	-
Amortization of note discount and beneficial conversion	36	87	158
Gain from acquisition of controlling interest in subsidiary	(229)	-	-
Gain on settlement of patron tax	(8,167)	-	-
Deferred rents	(38)	(15)	106
Stock compensation expense	480	282	847
Changes in operating assets and liabilities:			
Accounts receivable	(339)	(36)	331
Inventories	54	(407)	(195)
Prepaid expenses and other assets	852	(2,256)	(1,945)
Accounts payable and accrued liabilities	1,384	7,599	4,040
Net cash provided by operating activities	16,364	20,435	18,360
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property	-	438	140
Purchase of investments	-	-	(600)
Proceeds from sale marketable securities	-	-	500
Acquisition of development rights in New York building	-	(5,325)	-
Additions to property and equipment	(19,259)	(16,034)	(9,675)
Acquisition of businesses, net of cash acquired	(2,328)	(500)	(1,790)
Net cash used in investing activities	(21,587)	(21,421)	(11,425)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	18,283	7,025	9,498
Purchase of put options and payments on derivative instrument	-	-	(138)
Exercise of stock options	87	3,126	-
Payments on long-term debt	(12,579)	(8,473)	(9,341)
Purchase of treasury stock	(2,296)	(1,150)	(1,623)
Distribution to noncontrolling interests	(216)	(216)	(216)
Cash provided by (used in) financing activities of continuing operations	3,279	312	(1,820)

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,944)	(674)	5,115
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,964	10,638	5,523
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$8,020	9,964	10,638
CASH PAID DURING PERIOD FOR:			
Interest	\$6,540	7,315	6,559
Income taxes	\$3,776	3,953	4,933

Non-cash transactions:

(in thousands)	Years Ended September 30,		
	2015	2014	2013
Issue of shares of common stock for debt and interest			
Number of shares	233	294	-
Value of shares	\$2,358	\$2,969	\$-
Value of warrants	\$-	\$-	\$100
Debt incurred in connection with seller in connection with acquisition of businesses and property and equipment	\$3,379	\$4,879	\$14,880
Reduction of debt in sale of aircraft and property	\$-	\$3,128	\$-
Accrued liabilities due settled with debt	\$7,234	-	-
Unrealized gain (loss) on marketable securities	\$18	\$41	\$(9)
Beneficial debt conversion feature on convertible debt	\$-	\$-	\$33
Issue of shares of common stock for acquiring a business			
Number of shares	200	-	100
Value of shares	\$2,375	\$-	\$863

See accompanying notes to consolidated financial statements.

A. Nature of Business

RCI Hospitality Holdings, Inc. (the “Company”) is a Texas corporation incorporated in 1994. Through its subsidiaries, the Company currently owns and operates establishments that offer live adult entertainment, restaurant, and/or bar operations. These establishments are located in Houston, Austin, San Antonio, Dallas, Fort Worth, Odessa, Lubbock, Longview, Tye, Edinburg, El Paso, Harlingen, Lubbock and Beaumont Texas, as well as Minneapolis, Minnesota, Philadelphia, Pennsylvania, Charlotte, North Carolina, New York, New York, Miami Gardens, Florida, Phoenix, Arizona, Sulphur, Louisiana and Indianapolis, Indiana. The Company also owns and operates a media division. The Company’s corporate offices are located in Houston, Texas.

B. Summary of Significant Accounting Policies

Basis of Accounting

The accounts are maintained and the consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries in which a controlling interest is owned. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts in the consolidated financial statements and accompanying notes. Estimates and assumptions are based on historical experience, forecasted future events and various other assumptions that we believe to be reasonable under the circumstances. Estimates and assumptions may vary under different assumptions or conditions. We evaluate our estimates and assumptions on an ongoing basis. We believe the accounting policies below are critical in the portrayal of our financial condition and results of operations.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains deposits in several financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Company has not experienced any losses related to amounts in excess of FDIC limits.

Accounts and Notes Receivable

Trade accounts receivable for the nightclub operation is primarily comprised of credit card charges, which are generally converted to cash in two to five days after a purchase is made. The media division's accounts receivable is primarily comprised of receivables for advertising sales and Expo registration. The Company's accounts receivable, other is comprised of employee advances and other miscellaneous receivables. The long-term portion of notes receivable are included in other assets in the accompanying consolidated balance sheets. The Company recognizes interest income on notes receivable based on the terms of the agreement and based upon management's evaluation that the notes receivable and interest income will be collected. The Company recognizes allowances for doubtful accounts or notes when, based on management judgment, circumstances indicate that accounts or notes receivable will not be collected.

Inventories

Inventories include alcoholic beverages, energy drinks, food, and Company merchandise. Inventories are carried at the lower of cost (on a first-in, first-out ("FIFO") basis), or market.

B. Summary of Significant Accounting Policies - continued

Property and Equipment

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

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized, but reviewed on an annual basis for impairment. Definite lived intangible assets are amortized on a straight-line basis over their estimated lives. Fully amortized assets are written-off against accumulated amortization.

Impairment of Long-Lived Assets

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

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

For goodwill, the impairment determination is made at the reporting unit level. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The Company's annual evaluation for goodwill and indefinite-lived intangible assets was performed as of September 30, 2015. The Company recognized intangible asset impairments in the year ended September 30, 2015 and 2014 related to specific reporting units. See Note O, Impairment of Assets. The Company did not recognize impairment for the year ended September 30, 2013. All of the Company's goodwill and intangible assets relate to the nightclubs, except for \$567,000 related to the acquisition of the media division and \$9.8 million in the energy drink business. Definite lived intangible assets are amortized on a straight-line basis over their estimated lives. Fully amortized assets are written-off against accumulated amortization.

Fair Value of Financial Instruments

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

B. Summary of Significant Accounting Policies - continued

Comprehensive Income

The Company reports comprehensive income (loss) in accordance with the provisions of FASB ASC 220, *Reporting Comprehensive Income*. Comprehensive income is the total of (1) net income plus (2) all other changes in net assets arising from non-owner sources, which are referred to as items of other comprehensive income. An analysis of changes in components of accumulated other comprehensive income is presented in the statement of comprehensive income.

Revenue Recognition

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

Revenues from the sale of magazines and advertising content are recognized when the issue is published and shipped. Revenues and external expenses related to the Company's annual Expo convention are recognized upon the completion of the convention.

Sales and Liquor Taxes

The Company recognizes sales and liquor taxes paid as revenues and an equal amount in taxes and permits expense in accordance with FASB ASC 605, *Revenue Recognition*. Total sales and liquor taxes aggregated \$11.3 million, \$10.3 million and \$8.5 million for the years ended September 30, 2015, 2014 and 2013, respectively.

Advertising and Marketing

Advertising and marketing expenses are primarily comprised of costs related to public advertisements and giveaways, which are used for promotional purposes. Advertising and marketing expenses are expensed as incurred and are included in operating expenses in the accompanying consolidated statements of Income.

B. Summary of Significant Accounting Policies - continued

Income Taxes

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

US GAAP creates a single model to address accounting for uncertainty in tax positions by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. There are no unrecognized tax benefits to disclose in the notes to the consolidated financial statements.

Accounting for Investments

Investments in companies in which the company has a 20% to 50% interest are accounted for using the equity method and carried at cost and are adjusted for the Company's proportionate share of their undistributed earnings or losses. Investments in Companies in which the Company owns less than a 20% interest are accounted for at cost and reviewed for any impairment. The 40% investment in one company at September 30, 2012 was recorded in other assets and was a nominal amount. The 40% was sold during the year ended September 30, 2013. During the year ended September 30, 2012, the Company also acquired a 50% investment in a nightclub for \$ 600,000, which was not yet open at September 30, 2012. This investment was also recorded in other assets at September 30, 2012. During the year ended September 30, 2013, the Company acquired the remaining 50% of this operation and became consolidated – see Note M, Acquisitions. This company was sold during the year ended September 30, 2015. Also during the year ended September 30, 2013, the Company acquired approximately 12% of another entity for \$600,000. This investment was increased to 15% during the year ended September 30, 2014 and to 51% in October 2014, at which time the subsidiary became part of the consolidated group (see Note M, Acquisitions).

Earnings Per Common Share

Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of the Company. Potential common stock shares consist of shares that may arise from outstanding dilutive common stock options and warrants (the number of which is computed using the “treasury stock method”) and from outstanding convertible debentures (the number of which is computed using the “if converted method”). Diluted earnings per share (“EPS”) considers the potential dilution that could occur if the Company’s outstanding common stock options, warrants and convertible debentures were converted into common stock that then shared in the Company’s earnings (loss) (as adjusted for interest expense, that would no longer occur if the debentures were converted).

B. Summary of Significant Accounting Policies – continued**Earnings Per Common Share - continued**

Net earnings applicable to common stock and the weighted average number of shares used for basic and diluted earnings (loss) per share computations are summarized in the table that follows:

(in thousands, except per share data)	FOR THE YEAR ENDED SEPTEMBER 30,		
	2015	2014	2013
Basic earnings per share:			
Net income attributable to RCIHH shareholders	\$9,312	\$11,240	\$9,191
Average number of common shares outstanding	10,359	9,816	9,518
Basic earnings (loss) per share	\$0.90	\$1.15	\$0.97
Diluted earnings per share:			
Net income attributable to RCIHH shareholders	\$9,312	\$11,240	\$9,191
Adjustment to net earnings from assumed conversion of debentures (1)	29	821	57
Adjusted net income attributable to RCIHH shareholders	9,341	12,061	9,248
Average number of common shares outstanding:			
Common shares outstanding	10,359	9,816	9,518
Potential dilutive shares resulting from exercise of warrants and options (2)	-	9	4
Potential dilutive shares resulting from conversion of debentures (1)	47	812	93
Total average number of common shares outstanding used for dilution	10,406	10,637	9,615
Diluted earnings (loss) per share:			
Net income (loss) attributable to Rick's shareholders	\$0.90	\$1.13	\$0.96

*EPS may not foot due to rounding.

Additional shares for options, warrants and debentures amounting to 353,400, 234,189 and 821,440 for the year ended September 30, 2015, 2014 and 2013 were not considered since they would be antidilutive.

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

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

Convertible debentures (principal and accrued interest) outstanding at September 30, 2015, 2014 and 2013 totaling \$4,554,703, \$9,276,733 and \$7,789,818, respectively, were convertible into common stock at prices ranging from \$10.00 to \$12.50 in each year. Convertible debentures amounting to \$483,953, \$9,276,733 and \$1,455,075 were dilutive in 2015, 2014 and 2013, respectively.

Stock Options

At September 30, 2015, the Company has no stock options outstanding. The Company recognizes all employee stock-based compensation as a cost in the consolidated financial statements. Equity-classified awards are measured at the grant date fair value of the award. The Company estimates grant date fair value using the Black-Scholes option-pricing model. The critical estimates are volatility, expected life and risk-free rate. The compensation cost recognized for the year ended September 30, 2015, 2014 and 2013 was zero, \$159,370 and \$847,183, respectively. There were 10,000, 369,665 and zero stock option exercises for the years ended September 30, 2015, 2014 and 2013, respectively.

B. Summary of Significant Accounting Policies - continued**Fair Value Accounting**

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels.

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

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

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

We classify our marketable securities as available-for-sale, which are reported at fair value. Unrealized holding gains and losses, net of the related income tax effect, if any, on available-for-sale securities are excluded from income and are reported as accumulated other comprehensive income in stockholders' equity. Realized gains and losses from securities classified as available for-sale are included in comprehensive income. We measure the fair value of our marketable securities based on quoted prices for identical securities in active markets, or Level 1 inputs. As of September 30, 2015, available-for-sale securities consisted of the following:

(in thousands)	Cost Basis	Gross	
		Unrealized Gains	Fair Value
Available for Sale	\$ 505	\$ 109	\$ 614
Tax-Advantaged Bond Fund			

In accordance with US GAAP, we review our marketable securities to determine whether a decline in fair value of a security below the cost basis is other than temporary. Should the decline be considered other than temporary, we write

down the cost basis of the security and include the loss in current earnings as opposed to an unrealized holding loss. No losses for other than temporary impairments in our marketable securities portfolio were recognized during the year ended September 30, 2015.

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

(in thousands)	Carrying Amount	Level 1	Level 2	Level 3
September 30, 2015				
Marketable securities	\$ 614	\$ 614	\$ -	\$ -

(in thousands)	Carrying Amount	Level 1	Level 2	Level 3
September 30, 2014				
Marketable securities	\$ 596	\$ 596	\$ -	\$ -

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to tangible fixed assets, goodwill and other intangible assets, which are remeasured when the derived fair value is below carrying value in the Consolidated Balance Sheets. For these assets, the Company does not periodically adjust carrying value to fair value except in the event of impairment. If it is determined that impairment has occurred, the carrying value of the asset is reduced to fair value and the difference is recorded within income before interest, other income (expense) and income taxes in the consolidated statement of income.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis – continued

(in thousands)	September 30	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description	2015			
Goodwill	\$ 52,641	\$ -	\$ -	\$ 52,641
Property and equipment, net	134,150	-	-	134,150

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Indefinite lived intangibles	55,828	-	-	55,828
Definite lived intangibles, net	5,169	-	-	5,169

(in thousands)	September 30	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description	2014			
Goodwill	\$ 43,374	\$ -	\$ -	\$ 43,374
Property and equipment, net	113,962	-	-	113,962
Indefinite lived intangibles	53,968	-	-	53,968
Definite lived intangibles, net	675	-	-	675

(in thousands)	Total Gains (Losses)		
	Years Ended September 30,		
Description	2015	2014	2013
Goodwill	\$ -	\$ (613)	\$ -
Property and equipment, net	-	-	-
Indefinite lived intangibles	-	-	-
Definite lived intangibles, net	(1,654)	(1,263)	-

B. Summary of Significant Accounting Policies - continued

Impact of Recently Issued Accounting Standards

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

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements — Going Concern (Subtopic 205-40)*. The purpose of this ASU is to incorporate into U.S. GAAP management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable), and to provide related footnote disclosures. This update is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this guidance will not have a material impact on the Company’s consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)*. This ASU clarifies that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This ASU is effective for annual periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. This ASU may be applied either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of this guidance will not have a material impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which amends FASB ASU Subtopic 835-30, *Interest - Imputation of Interest*. The new standard requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. The standard is effective for interim and annual periods beginning after December 31, 2015 and is required to be applied on a retrospective basis. Early adoption is permitted. The Company expects that the adoption of this new guidance will result in a reclassification of debt issuance costs on its consolidated balance sheets.

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This ASU is part of the FASB's initiative to reduce complexity in accounting standards. This ASU eliminates from U.S. GAAP the concept of extraordinary items, which were previously required to be segregated from the results of ordinary operations and shown separately in the income statement, net of tax, after income from continuing operations. Entities were also required to disclose applicable income taxes for the extraordinary item and either present or disclose earnings-per-share data applicable to the extraordinary item. Items which are considered both unusual and infrequent will now be presented separately within income from continuing operations in the income statement or disclosed in notes to the financial statements. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Companies may apply the ASU prospectively, or may also apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, which amends FASB ASU Topic 810, *Consolidations*. This ASU amends the current consolidation guidance, including introducing a separate consolidation analysis specific to limited partnerships and other similar entities. This ASU requires that limited partnerships and similar legal entities provide partners with either substantive kick-out rights or substantive participating rights over the general partner in order to be considered a voting interest entity. The specialized consolidation model and guidance for limited partnerships and similar legal entities have been eliminated. There is no longer a presumption that a general partner should consolidate a limited partnership. For limited partnerships and similar legal entities that qualify as voting interest entities, a limited partner with a controlling financial interest should consolidate a limited partnership. A controlling financial interest may be achieved through holding a limited partner interest that provides substantive kick-out rights. The standard is effective for annual periods beginning after December 15, 2015. The Company is currently evaluating the standard, but does not, at this time, anticipate a material impact to the financial statements and footnote disclosures once implemented.

B. Summary of Significant Accounting Policies - continued

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This ASU does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. This ASU eliminates from U.S. GAAP the requirement to measure inventory at the lower of cost or market. Market under the previous requirement could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Entities within scope of this update will now be required to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory using LIFO or the retail inventory method. The amendments in this update are effective for fiscal years beginning after December 15, 2016, with early adoption permitted, and should be applied prospectively. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. The ASU requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Acquirers must recognize, in the same reporting period, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This ASU is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. The ASU requires entities to classify deferred tax liabilities and assets as noncurrent in a classified statement of financial position. This ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

C. Reclassifications

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

D. Property and Equipment

Property and equipment consisted of the following:

	September 30,	
	2015	2014
Buildings and land	\$108,967	\$87,818
Leasehold improvements	28,273	25,428
Furniture	7,596	7,277
Equipment	26,239	24,113
Total property and equipment	171,075	144,636
Less accumulated depreciation	(36,925)	(30,674)
Property and equipment, net	\$134,150	\$113,962

E. Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

(in thousands)

	September 30,	
	2015	2014
Indefinite useful lives:		
Goodwill	\$52,641	\$43,374
Licenses	55,828	53,968

	Amortization Period		
	Definite useful lives:		
Distribution agreement	10 years	2,688	-
Trademarks	10 years	1,791	-
Discounted leases	18 & 6 years	148	158
Unamortized non-compete agreements	5 years	542	517
		5,169	675
Total goodwill and intangible assets		\$113,638	\$98,017

(in thousands)	2015			2014		
	Definite- Lived Intangibles	Licenses	Goodwill	Definite- Lived Intangibles	Licenses	Goodwill
Beginning balance	\$675	\$53,968	\$43,374	\$1,065	\$54,966	\$43,987
Intangibles acquired	5,231	3,565	9,267	-	265	-
Impairment	-	(1,654)	-	-	(1,263)	(613)
Amortization and other	(737)	(51)	-	(390)	-	-

Ending balance	\$5,169	\$55,828	\$52,641	\$675	\$53,968	\$43,374
----------------	---------	----------	----------	-------	----------	----------

Future amortization expense related to definite lived intangible assets subject to amortization at September 30, 2015 is (in thousands): 2016 - \$724; 2017 - \$659; 2018 - \$568; 2019 - \$555; 2020 - \$543; thereafter - \$2,120.

Indefinite lived intangible assets consist of sexually oriented business licenses, which were obtained as part of the acquisitions. These licenses are the result of zoning ordinances, thus are valid indefinitely, subject to filing annual renewal applications, which are done at minimal costs to the Company. The discounted cash flow method of income approach was used in calculating the value of these licenses in a business combination. The Company impaired two reporting units during the year ended September 30, 2015 in the aggregate amount of \$1,705,000 for indefinite lived intangible and zero for goodwill. The Company impaired two reporting units during the year ended September 30, 2014 in the aggregate amount of \$1,263,000, for indefinite lived intangible and 613,000 for goodwill (Note O, Impairment of Assets). There was no impairment for the year ended September 30, 2013.

F. Long-term Debt

Long-term debt consisted of:

(in thousands)	September 30,		
	2015	2014	
Notes payable at 10-11%, mature August 2022 and December 2024	*	\$2,938	\$2,193
Notes payable at 9.6%, mature December 2014	*	-	2,140
Note payable at 7%, matures December 2019	*	169	201
Note payable at 7.25%, matures May 2016	*	218	564
Notes payable at 14%, mature September 30, 2020, collateralized by stocks of Miami Gardens Square One, Inc. and Stellar Management, Inc.	**	-	1,910
Note payable at the greater of 2% above prime or 7.5%, (7.5% at September 30, 2015), matures April 2017	*	2,891	3,021
Note payable at the greater of 2% above prime or 7.5%, (7.5% at September 30, 2015), matures June 2017	*	3,482	3,633
Note payable at 8%, matures January 2022	*	2,292	2,605
Notes payable at 5.5%, matures January 2023		1,315	1,388
Notes payable at 5.5%, matures January 2023 and January 2022	*	5,698	6,013
Note payable refinanced at 6.25%, matures July 2018	*	1,328	1,423
Note payable at 6.3%, matures June 2030, collateralized by aircraft		440	457
Notes payable at 4.75%-7.25%	*	-	492
10% convertible debentures matures August 2016		1,000	2,647
Note payable at 9.5%, matures August 2024	**	12,607	14,093
Notes payable at 9.5%, mature September 2024	*	7,601	8,762
6% convertible debentures, mature March 2023	**	482	1,328
Notes payable at 13%, matures October 2016 and 2017	**	4,000	4,000
Notes payable at 5-7%, mature from 2018 to 2028	*	2,043	2,730
Note payable at 11%, matures June 2018	*	2,500	2,500
Convertible note payable from a related party at 10%, matures October, 2017		750	750
9% convertible debentures matures October 2016		2,270	4,001
7.45% note payable collateralized by aircraft, matures 2019		3,265	3,501
Notes payable to a lender at 12%, mature December 2017 and September 2018		4,000	-
Non interest-bearing debt to State of Texas, matures May 2022, interest imputed at 9.6%		6,988	-
Note payable to a bank at 6.5%, matures January 2020	*	4,748	-
Note payable to an individual at 6%, matures January 2019	*	1,189	-
Notes payable to a bank at 5.5%, matures May 2020	*	5,656	-
Note payable to an individual at 6%, matures May 2020	*	1,714	-
Note payable to a bank at 5.3%, matures December 2024	*	1,901	-
Note payable to a bank at 5.45%, matures July 2020	*	11,273	-
Other notes		162	-
Total debt		94,920	70,352
Less current portion		9,700	12,315

Total long-term debt \$85,220 \$58,037

* Collateralized by real estate

** Collateralized by stock in subsidiary

Following is a summary of long-term debt at September 30:

(in thousands)

	2015	2014
Secured by real estate	\$57,641	\$36,277
Secured by stock in subsidiary	17,089	21,331
Secured by other assets	3,705	3,958
Unsecured	16,485	8,786
	\$94,920	\$70,352

F. Long-term Debt – continued

On April 29, 2009, the Company entered into a modification to two secured promissory notes whereby the due date for the \$ 5 million of principal due and payable by the Company under each note was extended by two years from November 2010 to November 2012. All other terms and conditions of the promissory notes remain the same. The Company paid a total of \$150,000 to the holders of the notes as consideration for their agreement to extend the notes for two years through November 2012. The \$150,000 paid will be amortized as an adjustment of interest expense over the remaining life of the notes.

On September 30, 2010, the two secured promissory notes were modified again. Under the modified terms the promissory notes become 10 year amortized facilities that provides for equal monthly payments of \$77,633 each and will be fully paid on September 30, 2020, rather than a balloon payment for the entire amount that would have been due on November 30, 2012. Interest on the modified note remains at 14 percent. The Company paid each holder \$50,000 as consideration for entering into the extension. The \$100,000 paid will be amortized as an adjustment of interest expense over the remaining life of the notes. These notes have been paid in 2015.

As part of the acquisition of the Platinum Club II in Dallas, the Company acquired the Real Property from Wire Way, LLC, a Texas limited liability company (“Wire Way”). Pursuant to a Real Estate Purchase and Sale Agreement (the “Real Estate Agreement”) dated May 10, 2008, the Company paid total consideration of \$ 6 million, which was paid \$1.6 million in cash and \$ 4.4 million through the issuance of a promissory note (the “Promissory Note”). The Promissory Note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), which is guaranteed by the Company and by Eric Langan, the Company’s Chief Executive Officer, individually . The note is payable in monthly installments of \$ 34,999 until June 2017.

In connection with the acquisition of Joy Club of Austin (now Rick’s Cabaret) in December 2009, the Company assumed and entered into certain notes payable aggregating \$2.5 million. These notes bear interest at rates ranging from 4.75% to 7.25% and are payable in monthly installments aggregating \$42,461, including interest. The notes mature in December 2014 and September 2019. These notes have been paid in 2015.

In April 2010, the Company acquired the real estate for the club in Austin, Texas formerly known as Rick’s Cabaret. In connection with the purchase, the Company executed a note to the seller amounting to \$ 2.2 million. The note was collateralized by the real estate and was payable in monthly installments through April 2025 of \$19,774, including principal and interest at the prime rate plus 4.5% with a minimum rate of 7%. The Company refinanced this debt in 2013 with a note of \$1.5 million, payable in monthly installments of \$15,090 through July 2018, including principal and interest at 6.25%.

In June 2010, the Company borrowed \$518,192 from a lender. The funds were used to purchase an aircraft. The debt bears interest at 6.30% with monthly principal and interest payments of \$3,803 beginning July 2010. The note matures in June 2030.

On June 25, 2010, the Company completed the sale of an aggregate of approximately \$ 9.2 million in 10% Convertible Debentures (the "2010 Debentures") to certain accredited investors (the "2010 Holders"). The 2010 Debentures bore interest at the rate of 10% per annum and matured and were paid on June 25, 2013. The 2010 Debenture were payable with one initial payment of interest only due December 26, 2010, and, thereafter in ten equal quarterly principal payments of \$920,000 plus accrued interest thereon. At the option of the 2010 Holders, the principal amount of the 2010 Debentures and the accrued but unpaid interest thereon could be converted into shares of the Company's common stock at \$10.25 per share. The 2010 Debentures were redeemable by the Company at any time if the closing price of its common stock for 20 consecutive trading days is at least \$13.47 per share. Considering the cost of the associated warrants and issue costs explained below, the effective interest rate on the 2010 Debentures was 13.1%.

In connection with the sale of the 2010 Debentures in June 2010, the Company also issued an aggregate of 179,513 warrants (the "Warrants") to the 2010 Holders, on a pro-rata basis. The Company issued each Holder a number of Warrants equal to 20% of the number of shares of common stock into which each Holder's 2010 Debenture is convertible. The Warrants had an exercise price of \$10.25 and expired on June 25, 2013. The Warrants provided that the Company had the right to require exercise of the Warrants if the closing price of the Company's common stock for 20 consecutive trading days was at least \$14.35.

The conversion price for the 2010 Debentures was determined by negotiation with the creditors. The \$ 10.25 conversion price was in excess of the market price at date of issuance of \$ 8.73. The beneficial conversion was calculated by comparing the "effective conversion price" of the debenture to the actual stock price at the transaction date. The "effective conversion price" was calculated by dividing the fair value of the debt, after deducting the fair value of the debt discount due to the issuance of warrants with the debt in the amount of \$462,724, by the convertible shares. The resulting \$9.74 was above the stock price at the transaction date; therefore, there was no beneficial conversion feature.

F. Long-term Debt – continued

The fair value of the warrants was estimated to be \$ 434,571 using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	68	%
Expected life	1.5	years
Expected dividend yield	-	
Risk free rate	1.18	%

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

The proceeds from the sale of the 2010 Debentures and Warrants in June 2010 were intended to be utilized to make future acquisitions, and could be utilized for working capital and general corporate purposes.

An adviser to the Company received compensation in the amount of \$460,000, which was capitalized as loan origination cost and was amortized over the life of the debt, in connection with advising the Company regarding the June 2010 sale of the 2010 Debentures and Warrants.

In August 2011, the Company borrowed \$750,000 from an employee. The note bears interest at the rate of 10% per annum and matured on August 1, 2014. The note was payable with one initial payment of interest only due January 1, 2012, and, thereafter in ten interest-only quarterly payments. The principal was payable on August 1, 2014. The note was extended in 2014 under the same terms until maturity in October 2017. At the option of the holder, the principal amount of the note and the accrued but unpaid interest thereon may be converted into shares of the Company's common stock at \$ 10.00 per share. The note is redeemable by the Company after six months at any time if the closing price of its common stock for 20 consecutive trading days is at least \$13.00 per share.

On December 2, 2011, RCI Holdings entered into a Real Estate Sales Agreement with Bryan S. Foster, providing for RCI Holdings to purchase from Mr. Foster the real properties located at 12325 Calloway Cemetery Road, Fort Worth, Texas and 2151 Manana Drive, Dallas, Texas, for the aggregate purchase price of \$5,500,000, including \$ 2,000,000 cash and \$ 3,500,000 in the form of an 8 % promissory note that is payable over 10 years at \$ 42,465 per month including interest. The Fort Worth property represents the land for Cabaret East, one of our clubs, and the Dallas property represents the land at another gentlemen's club. This transaction closed on January 13, 2012.

In connection with the acquisition of Silver City in January 2012, the Company executed notes to the seller in the amount of \$ 1.5 million. The notes are payable over eleven years at \$12,256 per month including interest and have an adjustable interest rate of 5.5%. The rate adjusts to prime plus 2.5% in the 61 st month, not to exceed 9%. In the same transaction, the Company also acquired the related real estate and executed notes to the seller for \$ 6.5 million. The notes are also payable over eleven years at \$53,110 per month including interest and have the same adjustable interest rate of 5.5%.

In February 2012, the Company borrowed \$ 2.7 million from a lender. The funds were used to purchase an aircraft. The debt bore interest at 8.15 % with monthly principal and interest payments of \$ 26,386 beginning March 2012. The aircraft was sold and the debt retired in July 2014.

As consideration for the purchase of the Foster Clubs, a subsidiary paid to the sellers at closing \$ 3,500,000 cash and \$ 22,000,000 pursuant to a secured promissory note (the "Club Note"). The Club Note bears interest at the rate of 9.5% per annum, is payable in 144 equal monthly installments of \$ 256,602 per month and is secured by the assets purchased from the Companies.

In connection with the acquisition of the Foster Clubs, as explained above, the Company's wholly owned subsidiary, Jaguars Holdings, Inc. ("JHI"), entered into a Commercial Contract (the "Real Estate Agreement"), which agreement provided for JHI to purchase the real estate where the Foster Clubs are located. The transactions contemplated by the Real Estate Agreement closed on October 16, 2012. The purchase price of the real estate was \$ 10.1 million (discounted to \$9.6 million as explained below) and was paid with \$350,000 in cash, \$9.1 million in mortgage notes, and an agreement to make a one-time payment of \$650,000 in twelve years that bears no interest. The note bears interest at the rate of 9.5 %, is payable in 143 equal monthly installments and is secured by the real estate properties. The Company has recorded a debt discount of \$431,252 related to the one-time payment of \$650,000.

The Club Note from the Jaguars acquisition also provides that in the event any regulatory or administrative authority seeks to enforce or attempts to collect any tax or obligation or liability that may be due pursuant to the Texas Patron Tax (sometimes referred to as the "Pole Tax") or related legislation, then the then outstanding principal amount of the Club Note, as of the date the tax is enforced, will immediately be reduced by an amount calculated by multiplying 1,200,000 by the dollar amount of the per-person tax implemented (the "Reduction Amount"). The Reduction Amount cannot exceed \$6,000,000. By way of example, if exactly two years after closing, a \$2.00 per person tax is implemented and enforced, the Reduction Amount would be \$ 2,400,000 and the then principal amount of the Club Note would be reduced \$2,400,000. The Texas Patron Tax is currently enacted to be \$5 per person which equates to a \$6,000,000 Reduction Amount. The State of Texas has demanded payment (see Note J) and this provision was invoked in July 2014 and the Company recorded a gain of \$6 million, less related debt discount.

The Company acquired a second adult business in midtown Manhattan in March 2013. The Company paid \$3 million for the business, with \$1.5 million paid in cash and the remaining \$1.5 million in six percent promissory notes convertible into shares of RCIHH common stock at a conversion price of \$ 10.25. The notes were payable over ten

years at \$16,653 per month, including principal and interest and had a 6% interest rate. One of the noteholders with a note aggregating approximately \$790,000 converted his note into shares of common stock during 2015.

F. Long-term Debt – continued

On January 24, 2013, we sold to an investor (i) a 10% Convertible Debenture with a principal amount of \$3,000,000 (the “Debenture”), under the terms and conditions set forth in the Debenture, and (ii) a warrant to purchase a total of 60,000 shares of our common stock (the “Warrant”), under the terms and conditions set forth in the Warrant. The Debenture has a term of two years, is convertible into shares of our common stock at a conversion price of \$10.00 per share (subject to adjustment), and has an annual interest rate of 10%, with one initial payment of interest only due July 24, 2013, and thereafter, the principal amount is payable in six equal quarterly principal payments of \$500,000 plus accrued and unpaid interest. Six months after the issue date of the Debenture, we have the right to redeem the Debenture if our common stock has a closing price of \$13.00 (subject to adjustment) for 20 consecutive trading days. The Warrant has an exercise price of \$10.00 per share (subject to adjustment) and expires on January 24, 2015. In the event there is an effective registration statement registering the shares of common stock underlying the Warrant, we have the right to require exercise of the Warrant if our common stock has a closing price of \$13.00 (subject to adjustment) for 20 consecutive trading days. We sold the Debenture and Warrant to the investor in a private transaction and received consideration of \$3,000,000. Brean Capital, LLC acted as exclusive placement agent for the transaction and received a placement fee of 6% of the gross proceeds raised.

The fair value of the warrants was estimated to be \$38,256 in accordance with FASB ASC 820, *Fair Value Measurements*, using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	35	%
Expected life	1.0	year
Expected dividend yield	-	
Risk free rate	0.23	%

The cost of the warrants has been recognized as a discount on the related debt and will be amortized to interest expense over the life of the debt.

The proceeds from the sale of the Debenture and Warrants in January 2013 are intended to be utilized to make future acquisitions, and may be utilized for working capital and general corporate purposes.

An adviser to the Company received compensation in the amount of \$165,000, which was capitalized as loan origination cost and will be amortized over the life of the debt, in connection with advising the Company regarding the debt.

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

In March 2013 the Company borrowed \$1,500,000 from an individual. The note is collateralized by a second lien on the Company's Miami nightclub, bears interest at 13% and interest only is payable monthly until the principal matures in October 2017.

During the year ended September 30, 2013, the Company acquired four parcels of real estate at a cost aggregating \$3,230,000 and incurred debt aggregating \$2,600,000 in connection therewith. The notes bear interest at rates ranging from 5 - 7% and are payable \$25,660 monthly, including principal and interest. The notes mature from 2018 to 2028.

On August 24, 2013, we sold to an investor (i) a 10 % Convertible Debenture with a principal amount of \$2,500,000 (the "Debenture"), under the terms and conditions set forth in the Debenture, and (ii) a warrant to purchase a total of 48,780 shares of our common stock (the "Warrant"), under the terms and conditions set forth in the Warrant. The Debenture has a term of two years, is convertible into shares of our common stock at a conversion price of \$10.25 per share (subject to adjustment), and has an annual interest rate of 10%, with one initial payment of interest only due February 28, 2014, and thereafter, the principal amount is payable in six equal quarterly principal payments of \$250,000 plus accrued and unpaid interest. Six months after the issue date of the Debenture, we have the right to redeem the Debenture if our common stock has a closing price of \$13.33 (subject to adjustment) for 20 consecutive trading days. The Warrant has an exercise price of \$10.25 per share (subject to adjustment) and expires on August 28, 2016. In the event there is an effective registration statement registering the shares of common stock underlying the Warrant, we have the right to require exercise of the Warrant if our common stock has a closing price of \$13.33 (subject to adjustment) for 20 consecutive trading days. We sold the Debenture and Warrant to the investor in a private transaction and received consideration of \$2,500,000.

The fair value of the warrants was estimated to be \$61,735 using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	26	%
Expected life	1.5	years
Expected dividend yield	-	
Risk free rate	0.38	%

F. Long-term Debt – continued

The cost of the warrants has been recognized as a discount on the related debt and will be amortized to interest expense over the life of the debt.

The Debenture also had a beneficial conversion feature, valued at \$32,467, which has been recognized as a discount on the related debt and will be amortized to interest expense over the life of the debt.

The proceeds from the sale of the Debenture and Warrants in August 2013 are intended to be utilized to make future acquisitions, and may be utilized for working capital and general corporate purposes.

An adviser to the Company received compensation in the amount of \$150,000, which was capitalized as loan origination cost and will be amortized to interest expense over the life of the debt, in connection with advising the Company regarding the debt.

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

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

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Volatility	28	%
Expected life	1.5	years
Expected dividend yield	-	
Risk free rate	0.33	%

The cost of the warrants has been recognized as a discount on the related debt and will be amortized to interest expense over the life of the debt.

In December 2013, the Company borrowed \$3.6 million from a lender. The funds were used to purchase an aircraft. The debt bears interest at 7.45% with monthly principal and interest payments of \$40,653 beginning March 2012. The note matures in January 2019.

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

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

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

On January 13, 2015 a Company subsidiary purchased Down in Texas Saloon gentlemen's club in an Austin, Texas suburb. As part of the transaction, another subsidiary also purchased the club's real estate. Total consideration of \$6.8 million consisted of \$3.5 million for the club business and \$3.3 million for its 3.5 acres of real estate. Payment was in the form of \$1 million in cash and \$1.4 million in seller financing at 6% annual interest, with the balance provided by commercial bank financing in the form of a note at a variable interest rate equal to the prime rate plus 2%, but in no event less than 6.5%. Payments on these notes aggregate \$68,829 per month.

On May 4, 2015 a Company subsidiary purchased The Seville gentlemen's club in Minneapolis Minnesota. As part of the transaction, another subsidiary also purchased the club's real estate. Total consideration of \$8.5 million consisted of \$4.5 million for the assets of the club business and \$4.0 million for the real estate. Payment was made through bank financing of \$5.7 million at 5.5% interest, seller financing of \$1.8 million at 6% and cash of \$1.1 million. There are certain financial covenants the Company with which the Company must be in compliance related to this financing. The Company is in compliance with such covenants as of September 30, 2015. There are certain financial covenants with which the Company must be in compliance related to this financing. The Company is in compliance with such covenants as of September 30, 2015. Payments on these notes aggregate \$65,355 per month.

F. Long-term Debt – continued

On July 30, 2015, a subsidiary of the Company acquired the building in which the Company's Miami Gardens, Florida nightclub operates. The cost was \$15,300,000 and was purchased with an \$11,325,000 note, payable in monthly installments of approximately \$78,000, including interest at 5.45% and matures in five years and the balance with cash. The building has several other third-party tenants in addition to the Company's nightclub.

The Company has reached a settlement with the State of Texas over payment of the state's Patron Tax on adult club customers. To resolve the issue of taxes owed, the Company agreed to pay \$10.0 million in equal monthly installments of \$119,000, without interest, over the next 84 months for all but two nonsettled locations. Going forward, the Company agreed to remit the Patron Tax on a monthly basis, based on the current rate of \$5 per customer. For accounting purposes, the Company has discounted the \$10.0 million at an imputed interest rate of 9.6%, establishing a net present value for the settlement of \$7.2 million. This is included as long-term debt in the consolidated balance sheets.

In September 2015, the Company borrowed \$2.0 million from a lender. The 12% note is collateralized by a certain subsidiary's stock and is payable interest only until it matures in three years.

Future maturities of long-term debt consist of the following, net of debt discount: (in thousands)

2016	\$9,700
2017	17,057
2018	16,051
2019	9,737
2020	17,129
Thereafter	25,246
Total maturities of long-term debt, net of debt discount	\$94,920

G. Income Taxes

The provision for income taxes on continuing operations consisted of the following for the years ended September 30:

(in thousands)	2015	2014	2013
Current	\$1,229	\$4,979	\$5,153

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

Deferred	3,935	937	261
Total income tax expense	\$5,164	\$5,916	\$5,414

Income tax expense on continuing operations differs from the “expected” income tax expense computed by applying the U.S. federal statutory rate of 34 % to earnings before income taxes for the years ended September 30 as a result of the following:

(in thousands)	2015	2014	2013
Computed expected tax expense	\$4,812	\$5,750	\$5,037
State income taxes, net of federal benefit	221	242	146
Stock-based compensation and other permanent differences	131	(76)	231
Total income tax expense	\$5,164	\$5,916	\$5,414

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company’s deferred tax assets and liabilities at September 30 were as follows:

(in thousands)	2015	2014
Deferred tax assets (liabilities):		
Definite and indefinite lived intangibles	\$(21,359)	\$(16,447)
Property and equipment	(10,302)	(9,141)
Patron tax	2,712	5,209
Other	862	(1,931)
Net deferred tax liabilities	\$(28,087)	\$(22,310)

G. Income Taxes - continued

The net deferred taxes are recorded in the balance sheets as follows:

	2015	2014
Current assets	\$3,442	\$5,378
Long-term liabilities	(31,529)	(27,688)
Net deferred tax liabilities	\$(28,087)	\$(22,310)

Included in the Company's deferred tax liabilities at September 30, 2015 is approximately \$16.4 million representing the tax effect of indefinite lived intangible assets from club acquisitions which are not deductible for tax purposes. These deferred tax liabilities will remain in the Company's consolidated balance sheet until the related clubs are sold.

The Company may recognize the tax benefit from uncertain tax positions only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement with the taxing authorities. We recognize accrued interest related to unrecognized tax benefits as a component of interest expense. We recognize penalties related to unrecognized tax benefits as a component of miscellaneous income (expense) in accordance with regulatory requirements.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended September 30, 2015, 2014 and 2013, the Company recognized no interest and penalties for unrecognized tax benefits. The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states. The years ended September 30, 2014 and 2013 remain open to tax examination. The Company's income tax returns for the years ended September 30, 2012 and 2011 were examined by the internal revenue service with no changes.

H. Put Options and Temporary Equity

We finished liquidating the put options during the quarter ended March 31, 2013 and we have no more obligations under the put options.

I. Stock Options

In 1995, the Company adopted the 1995 Stock Option Plan (the “1995 Plan”) for employees and directors. In August 1999, the Company adopted the 1999 Stock Option Plan (the “1999 Plan”) and in 2010, the Company’s Board of Directors approved the 2010 Stock Option Plan (the “2010 Plan”) (collectively, “the Plans”). The 2010 Plan was approved by the shareholders of the Company at the 2011 Annual Meeting of Stockholders. At the 2012 Annual Meeting of Stockholders, shareholders approved amending the 2010 Plan to increase the maximum aggregate number of shares of common stock that may be optioned and sold from 500,000 to 800,000. The options granted under the Plans may be either incentive stock options or non-qualified options. The Plans are administered by the Board of Directors or by a compensation committee of the Board of Directors. The Board of Directors has the exclusive power to select individuals to receive grants, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price not less than of the fair market value of the common stock covered by the option on the grant date and to make all determinations necessary or advisable under the Plans.

I. Stock Options- continued

Following is a summary of options activity:

(in thousands, except exercise prices and contractual terms)	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value at September 30, 2015
Outstanding at September 30, 2012	785	8.36		
Granted	10	8.70		
Expired or cancelled	(30)	7.15		
Exercised	-	-		
Outstanding at September 30, 2013	765	\$ 8.41		
Granted	-			
Expired or cancelled	(385)	8.35		
Exercised	(370)	8.40		
Outstanding at September 30, 2014	10	\$ 8.70		
Granted	-	-		
Expired or cancelled	-	-		
Exercised	(10)	8.70		
Outstanding at September 30, 2015	-	\$ -	-	\$ -
Exercisable at September 30, 2015	-	\$ -	-	\$ -

On June 27, 2012, the Company issued 100,000 options to the Company's directors. These options became exercisable in June 2013, had a strike price of \$ 8.78 per share and were to expire in June 2014. The fair value of these options were estimated to be \$ 160,488 at the date of grant using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	37	%
Expected life	1.5	years
Expected dividend yield	-	
Risk free rate	0.31	%

On July 2, 2012, the Company issued 655,000 options to certain Company employees. Of these options, 442,500 were exchanged for existing options which were to expire in September 2012. These new options became exercisable in July 2013, had a strike price of \$ 8.35 per share and were to expire in July 2014. The fair value of these options was estimated to be \$ 966,493 at the date of grant using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	37	%
Expected life	1.5	years
Expected dividend yield	-	
Risk free rate	0.30	%

In June 2013, the Company issued 10,000 options to a Company employee. These options became exercisable in June 2014, have a strike price of \$ 8.70 per share and expire in June 2015. The fair value of these options was estimated to be \$ 11,670 at the date of grant using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	27	%
Expected life	1.5	years
Expected dividend yield	-	
Risk free rate	0.27	%

I. Stock Options- continued

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company determined the initial expected life based on a simplified method, giving consideration to the contractual terms, vesting schedules and pre-vesting and post-vesting forfeitures. The Company has utilized the simplified method in accordance with US GAAP for the following reasons. Earlier in the Company's existence, longer-term options (generally 5 -year lives) were issued to employees, Directors and outsiders. In more recent years, option terms have generally become shorter (1 - 3 year lives) and options were issued principally to management and Directors. Then in 2010, short-term options (2 -year lives) were issued to Directors, management and a substantial number of employees. Due to the changes in the terms of the option grants and the type of persons receiving the options, we believe that the historical exercise data may no longer provide a reasonable basis upon which to estimate expected term. Therefore, the Company believes that the use of the simplified method for determining the expected term of the Company's options has been appropriate.

During the years ended September 30, 2015, 2014 and 2013, the Company recorded none, \$159,370 and \$847,183 of stock-based compensation, related to stock options, respectively. There was no unamortized stock compensation expense at September 30, 2015 related to stock options.

J. Commitments and Contingencies

Leases

The Company leases certain equipment and facilities under operating leases, of which rent expense was approximately \$4.5 million, \$4.8 million and \$3.6 million for the years ended September 30, 2015, 2014 and 2013, respectively. Rent expense for the Company's operating leases, which generally have escalating rentals over the term of the lease, is recorded using the straight-line method over the initial lease term whereby an equal amount of rent expense is attributed to each period during the term of the lease, regardless of when actual payments are made. Generally, this results in rent expense in excess of cash payments during the early years of a lease and rent expense less than cash payments in the later years. The difference between rent expense recognized and actual rental payments is recorded as other long-term liabilities in the consolidated balance sheets.

Future minimum annual lease obligations as of September 30, 2015 are as follows:

(in thousands)

2016	\$3,019
2017	2,765
2018	2,373
2019	1,130
2020	1,143
Thereafter	10,711

Total future minimum lease obligations \$21,141

Legal Matters

Texas Patron Tax

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

New York Settlement

On April 1, 2015, we and our subsidiaries, RCI Entertainment (New York), Inc. and Peregrine Enterprises, Inc., entered into an agreement to settle in full a New York based federal wage and hour class and collective action filed in the United States District Court for the Southern District of New York. Trial was scheduled to begin April 27, 2015. On September 22, 2015, the Court granted final approval of the settlement. Under the terms of the agreement, Peregrine Enterprises, Inc. was to make up to \$15 million available to class members and their attorneys. The actual amount paid was determined based on the number of class members responding by the end of a two month notice period which ended on December 4, 2015. Unclaimed checks or payments reverted back to Peregrine at that time. Based on the current schedule, an initial payment for attorneys' fees of \$1,833,333 was made in October 2015, with two subsequent payments of \$1,833,333 each being made in equal annual installments. As part of the settlement, we were required to guarantee the obligations of RCI Entertainment (New York), Inc. and Peregrine Enterprises, Inc. under the settlement.

Legal Matters - continued

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

In accordance with GAAP, the Company expensed \$11.1 million during the year ended September 30, 2015 as the final liability for its obligations under the settlement. This is included as settlement of lawsuits and other one-time costs in the consolidated statement of income. Of this amount \$5.6 million was paid to entertainers and \$5.5 million has been or will be paid to the lawyers. As of September 30, 2015 the Company has a total amount of \$4.2 million accrued with \$2.4 million included in accrued liabilities and \$1.8 million included in other long-term liabilities on the Company's consolidated balance sheet.

-

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. Since the expiration of the order the lawsuits have resumed. We are funding 100% of the costs of litigation and will seek reimbursement from the bankruptcy receiver.

On April 10, 2014, the Court of Chancery of the State of Delaware entered a Liquidation and Injunction Order With Bar Date ("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 be filed with the Receiver before the close of business on January 16, 2015 and that all pending lawsuits involving IIC as the insurer are further stayed or abated until October 7, 2014. As a result, the Company and its subsidiaries no longer have insurance coverage under the liability policy with IIC. Currently, there are multiple civil lawsuits pending or threatened against the Company and its subsidiaries; and other potential lawsuits for incidents that occurred before

October 25, 2013 could still be filed. The Company has retained counsel to defend against and evaluate these claims and lawsuits. The Company filed the appropriate claims against IIC with the Receiver before the January 16, 2015 deadline; 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, the Company has obtained general liability coverage from another insurer, effective October 25, 2013, which will cover any claims arising from actions after that date.

Settlement of lawsuits and other one-time costs for the year ended September 30, 2014 include a \$2 million settlement with a claimant which was unpaid by our general liability insurance carrier. We have filed a claim with the insurance company's estate and with the state's insurance fund for this settlement. This amount is unpaid and is accrued as of September 30, 2015 and 2014.

General

The Company is involved in various suits and claims arising in the normal course of business. The ultimate outcome of these items will not have a material adverse effect on the Company's consolidated statements of income or financial position.

The Company has been sued by a landlord in the 33rd Judicial District Court of Harris County, Texas for a Houston Bombshells which was under renovation in 2015. The plaintiff alleges RCI Hospitality Holdings, Inc.'s subsidiary, BMB Dining Services (Willowbrook), Inc., breached a lease agreement by constructing an outdoor patio, which allegedly interfered with the common areas of the shopping center, and by failing to provide Plaintiff with proposed plans before beginning construction. Plaintiff also asserts RCI Hospitality Holdings, Inc. is liable as guarantor of the lease. The lease was for a Bombshells restaurant to be opened in the Willowbrook Shopping Center in Houston, Texas. Both RCI Hospitality Holdings, Inc. and BMB Dining Services (Willowbrook), Inc. have denied liability and assert that Plaintiff has failed to mitigate its claimed damages. Further, BMB Dining Services (Willowbrook), Inc. asserts that Plaintiff affirmatively represented that the patio could be constructed under the lease and has filed counter claims and third-party claims against Plaintiff, Plaintiff's manager, and Plaintiff's broker asserting that they committed fraud and that the landlord breached the applicable agreements. It is unknown at this time whether the resolution of this uncertainty will have a material effect on the Company's financial condition.

Settlements of lawsuits for the years ended September 30, 2015, 2014, and 2013 total \$11.5 million, \$3.7 million, and \$707,000, respectively.

K. Common Stock

During the year ended September 30, 2013, the following common stock transactions occurred:

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

The Company acquired 192,455 shares of common stock for the treasury at a cost of \$ 1.6 million. These shares were subsequently retired.

In connection with the acquisition of a business, the Company issued 100,000 shares of common stock, valued at \$863,000.

During the year ended September 30, 2014, the following common stock transactions occurred:

The Company acquired 101,330 shares of its own common stock at a cost of \$1.2 million. These shares were subsequently retired.

The Company issued 295,061 common shares for the conversion of debt and interest in the aggregate amount of \$2,968,750.

Options exercised during the year amounted to 369,665 shares and \$3,125,403.

K. Common Stock - continued

During the year ended September 30, 2015, the following common stock transactions occurred:

The Company acquired 225,280 shares of its own common stock at a cost of \$2.3 million. These shares were subsequently retired.

The Company issued 232,506 common shares for the conversion of debt and interest in the aggregate amount of \$2.4 million.

The Company issued 200,000 common shares for a portion of the acquisition cost of an energy drink company. The value of the shares was \$2.4 million.

Options exercised during the year amounted to 10,000 shares and \$86,900.

L. Employee Retirement Plan

The Company sponsors a Simple IRA plan (the "Plan"), which covers all of the Company's corporate employees. The Plan allows the corporate employees to contribute up to the maximum amount allowed by law, with the Company making a matching contribution of 3 % of the employee's salary. Expenses related to matching contributions to the Plan approximated \$94,000, \$83,000 and \$64,000 for the years ended September 30, 2015, 2014 and 2013, respectively.

M. Acquisitions

2013 Acquisitions and Openings

In connection with the acquisition of the Foster Clubs in September 2012, the Company's wholly owned subsidiary, Jaguars Holdings, Inc. ("JHI"), entered into a Commercial Contract (the "Real Estate Agreement"), which agreement provided for JHI to purchase the real estate where the Foster Clubs are located. The transactions contemplated by the Real Estate Agreement closed on October 16, 2012. The purchase price of the real estate was \$10.1 million (discounted to \$9.6 million as explained below) and was paid with \$350,000 in cash, \$9.1 million in mortgage notes, and an agreement to make a one-time payment of \$ 650,000 in twelve years that bears no interest. The note bears

interest at the rate of 9.5%, is payable in 143 equal monthly installments and is secured by the real estate properties. The Company has recorded a debt discount of \$431,252 related to the one-time payment of \$650,000. The Company reduced previously recognized goodwill because the purchase of the Foster Clubs operations and the real estate were considered to be one purchase transaction with multiple closings and were included in the same purchase agreement.

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

Buildings and land	\$10,066
Goodwill	(431)
Net assets	\$9,635

On March 4, 2013, the Company completed the acquisition of a second adult business in midtown Manhattan. The Company opened a new gentlemen's club at the 61 West 37th Street location, just east of Sixth Avenue. The Company paid \$ 3 million for the business, with \$ 1.5 million paid in cash and the remaining \$1.5 million in six percent promissory notes convertible into shares of the Company's common stock at a conversion price of \$10.25. The notes call for monthly payments of \$ 16,653, including principal and interest, and mature in 120 months. At the option of the noteholders, the principal amount of the notes and the accrued but unpaid interest thereon may be converted into shares of the Company's common stock at \$ 10.25 per share. The notes are redeemable by the Company at any time if the closing price of its common stock for 20 consecutive trading days is at least \$ 13.47 per share. One of the noteholders with a note aggregating approximately \$790,000 converted his note into shares during 2015.

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

(in thousands)

Noncompete	\$150
Goodwill	997
SOB licenses	2,850
Deferred taxes	(997)
Net assets	\$3,000

M. Acquisitions - continued

The Company incurred approximately \$ 34,000 in legal costs associated with the acquisition, which are included in legal and professional expense in the accompanying consolidated statement of income.

Goodwill in the acquisition represents the offset to the deferred tax liability recorded as a result of the difference in the basis of the net assets for tax and financial purposes. The goodwill is not deductible for income tax purposes. The results of operations of this company are included in the Company's consolidated results of operations since March 5, 2013. This acquisition was made to further the Company's growth objective of acquiring nightclubs that will quickly contribute to the Company's earnings per share. Proforma results of operations have not been provided, as the amounts were not deemed material to the consolidated financial statements.

On May 29, 2013, our wholly owned subsidiary, RCI Entertainment (Delamo), Inc., completed the acquisition of the remaining 50 % of 1957 Delamo, LLC, which owns a new adult cabaret in Los Angeles County, California. We issued 100,000 restricted shares of our common stock to an individual in consideration for outstanding membership interests of 1957 Delamo, LLC. These shares were valued at \$ 863,000. The Company had previously paid \$ 600,000 in cash for the initial 50% investment.

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

Furniture and equipment	\$200
SOB licenses	1,263
Net assets	\$1,463

The Company incurred approximately \$ 7,000 in legal costs associated with the acquisition, which are included in legal and professional expense in the accompanying consolidated statement of income.

The results of operations of this company are included in the Company's consolidated results of operations since May 30, 2013. This acquisition was made to further the Company's growth objective of acquiring nightclubs that will quickly contribute to the Company's earnings per share. Proforma results of operations have not been provided, as the amounts were not deemed material to the consolidated financial statements.

In June 2013, the Company's subsidiary, RCI Dining Services (Beaumont), Inc. acquired, for \$300,000, the sexually oriented business license rights to operate an adult cabaret at a property in which another Company subsidiary had purchased in Beaumont, Texas. Of this amount, \$245,000 has been allocated to licenses.

2014 Acquisitions and Openings

In October 2013, the Company purchased 49 percent of a corporation that operates the Dallas club "PT's Platinum" and also acquired the building and personal property. Total cost of the transaction was \$500,000. This subsidiary is being consolidated in the Company's consolidated financial statements, effective as of the date of the purchase.

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

Buildings and land	\$ 350
Property and equipment	20
SOB license	265
Minority interest	(135)
Net assets	\$ 500

A subsidiary of the Company closed a transaction involving the air rights above the Company's 33rd Street club in Manhattan in October 2013. The subsidiary entered into a contract to buy the land and building for \$ 10 million at any time in the next five years. Concurrent with the building transaction, a third party (the "Third Party Purchaser") purchased the balance of the air rights of the property that are not subject to the Option Agreement. The purchase price for these air rights was \$13,000,000, of which the Company's subsidiary contributed \$5,200,000 in connection with the overall business transaction. The transactions are part of a previously announced transaction under which the Company agreed to purchase the land and building for \$23 million which has not closed. The new agreement also amends the lease for the three-story building at 50 West 33rd Street to \$100,000 per month for the next five years rather than the \$180,000 per month called for in the original agreement.

M. Acquisitions - continued**2015 Acquisitions and Openings**

On October 30, 2014, a 51% owned subsidiary of the Company (“Robust”) acquired certain assets and liabilities of Robust Energy LLC for \$200,000 in cash and 200,000 shares of its restricted common stock for a total purchase price of \$3.6 million. The Company has also agreed to issue 50,000 shares of RCIHH common stock each to the two principals of Robust Energy LLC if Robust has net income of at least \$1 million during the 2015 calendar year. The principals entered into a Lock-Up Agreement with the Company in connection with the issuance by the Company of its shares of common stock as explained above, which will provide that none of the shares will be sold for a period of one year after the date of issuance and, thereafter, neither principal will sell more than 1/6th of their respective shares per month that they receive in connection herewith. Robust is an energy drink distributor, targeting the on premises bar and mixer market.

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

(in thousands)	
Inventory and accounts receivable	\$500
Equipment, furniture and fixtures	356
Definite-lived intangibles	4,931
Goodwill	5,326
Accounts payable	(1,482)
Notes payable	(963)
Deferred tax liability	(1,726)
Noncontrolling interest	(3,392)
Net assets	\$3,550

In accordance with US GAAP, the Company recorded a gain of approximately \$229,000 on the value of its earlier 15% (750,000) investment in this company.

Goodwill from this transaction is deductible for tax purposes.

On January 13, 2015 a Company subsidiary purchased Down in Texas Saloon gentlemen’s club in an Austin, Texas suburb. As part of the transaction, another subsidiary also purchased the club’s real estate. Total consideration of \$6.8

Edgar Filing: RCI HOSPITALITY HOLDINGS, INC. - Form 10-K

million consisted of \$3.5 million for the club business and \$3.3 million for its 3.5 acres of real estate. Payment was in the form of \$1 million in cash and \$1.4 million in seller financing at 6% annual interest, with the balance provided by commercial bank financing at a variable interest rate equal to the prime rate plus 2%, but in no event less than 6.5%.

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

(in thousands)

Buildings and land	\$3,130
Furniture and fixtures	20
Inventory	4
SOB license	3,546
Noncompete	100
Net assets	\$6,800

On May 4, 2015 a Company subsidiary purchased The Seville gentlemen's club in Minneapolis Minnesota. As part of the transaction, another subsidiary also purchased the club's real estate. Total consideration of \$8.5 million consisted of \$4.5 million for the assets of the club business and \$4.0 million for the real estate. Payment was made through bank financing of \$5.7 million at 5.5% interest, seller financing of \$1.8 million at 6% and cash of \$1.1 million.

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

(in thousands)

Buildings and land	\$4,050
Furniture and fixtures	200
Inventory	109
Goodwill	3,941
Noncompete	200
Net assets	\$8,500

Goodwill from this transaction is deductible for tax purposes.

N. Quarterly Results of Operations (Unaudited)

(in thousands, except per share data)

	Fiscal Year 2015			
	Quarters Ended			
	Dec. 31	March 31	June 30	Sept. 30
Revenues	\$36,487	\$ 37,410	\$35,761	\$35,009
Income (loss) from operations	\$6,140	\$ (2,616)	\$14,152	\$3,202
Net income (loss) attributable to RCIHH shareholders	\$3,360	\$ (2,841)	\$8,267	\$526
Basic income (loss) per share:				
Net income (loss) attributable to RCIHH shareholders	\$0.33	\$ (0.28)	\$0.81	\$0.05
Diluted income (loss) per share:				
Net income (loss)	\$0.32	\$ (0.28)	\$0.78	\$0.05
Basic weighted average shares outstanding	10,264	10,275	10,245	10,363
Diluted weighted average shares outstanding	10,929	10,275	10,707	10,363

	Fiscal Year 2014			
	Quarters Ended			
	Dec. 31	March 31	June 30	Sept. 30
Revenues	\$29,423	\$ 32,870	\$33,343	\$33,538
Income from operations	\$5,614	\$ 7,459	\$2,892	\$2,910
Net income attributable to RCIHH shareholders	\$2,404	\$ 3,722	\$691	\$4,423
Basic income per share:				
Net income	\$0.25	\$ 0.39	\$0.07	\$0.44
Diluted income per share:				
Net income attributable to RCIHH shareholders	\$0.25	\$ 0.37	\$0.07	\$0.42
Basic weighted average shares outstanding	9,546	9,661	9,883	10,179
Diluted weighted average shares outstanding	9,855	10,853	9,968	11,014

N. Quarterly Results of Operations (Unaudited) - continued

	Fiscal Year 2013			
	Quarters Ended			
	Dec. 31	March 31	June 30	Sept. 30
Revenues	\$27,141	\$ 28,728	\$28,308	\$28,031
Income from operations	\$5,616	\$ 6,170	\$5,460	\$4,637
Net income (loss)	\$2,647	\$ 2,745	\$2,195	\$1,604
Basic income (loss) per share:				
Net income (loss)	\$0.28	\$ 0.29	\$0.23	\$0.17
Diluted income (loss) per share:				
Net income (loss)	\$0.28	\$ 0.29	\$0.23	\$0.17
Basic weighted average shares outstanding	9,575	9,514	9,479	9,504
Diluted weighted average shares outstanding	9,833	9,988	9,647	9,603

O. Impairment of Assets

The Company reviews property and equipment and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of its carrying amounts to future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets with definite lives are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair value.

During the year ended September 30, 2015, we recorded an impairment of \$1.7 million for the indefinite-lived intangible assets at two clubs that were closed.

At September 30, 2014, the Company recognized impairment on two properties, one which it closed and one which it sold in October 2014. These impairments were the result of the sale and closure and not from any goodwill impairment analysis. Following is the relevant information on the assets impaired:

(in thousands)

Current assets	\$65
Property and equipment	1,014
Definite lived intangibles	53
Indefinite lived intangibles	1,876
Patron tax payable	(670)

Other current liabilities	(44)
Total impairment	\$2,294

P. Gain on Contractual Debt Reduction

The Club Note from the Jaguars acquisition (see Note M, Acquisitions) also provides that in the event any regulatory or administrative authority seeks to enforce or attempts to collect any tax or obligation or liability that may be due pursuant to the Texas Patron Tax (sometimes referred to as the “Pole Tax”) or related legislation, then the then outstanding principal amount of the Club Note, as of the date the tax is enforced, will immediately be reduced by an amount calculated by multiplying 1,200,000 by the dollar amount of the per-person tax implemented (the “Reduction Amount”). The Reduction Amount cannot exceed \$6,000,000. By way of example, if exactly two years after closing, a \$2.00 per person tax is implemented and enforced, the Reduction Amount would be \$ 2,400,000 and the then principal amount of the Club Note would be reduced \$2,400,000. The Texas Patron Tax is currently enacted to be \$5 per person which equates to a \$6,000,000 Reduction Amount. The State of Texas has demanded payment (See Note J) and this provision was invoked in July 2014 and the Company recorded a gain of \$6 million, less related debt discount.

Q. Restricted Stock Issuance

In July 2014, the Company granted to an executive officer and an officer of a subsidiary an aggregate total of 96,325 shares of restricted stock. The total grant date fair value of all of these awards was \$938,478 and vest in two years. Restricted stock awards are awards of common stock that are subject the restrictions on transfer and to a risk of forfeiture if the awardee terminates employment with the Company prior to the lapse of the restrictions. The fair value of such stock was determined using the closing price on the grant date and compensation expense is recorded over the applicable vesting periods. Forfeitures are recognized as a reversal of expense of any unvested amounts in the period incurred. The Company recognized \$480,024 and \$122,935 during the years ended September 30, 2015 and 2014, respectively with respect to these shares. As of September 30, 2015, \$368,804 remains unamortized.

R. Warrants Issued

In February 2014, the Company issued warrants to acquire 100,000 shares of Company common shares to a financial adviser. The exercise price of the warrants was \$11.77, the market price of the shares at the time. The warrants were exercisable immediately and expire in two years. The fair value of the warrants, which was entirely charged to expense upon issuance, was estimated to be \$147,683 in accordance with FASB ASC 820, *Fair Value Measurements*, using a Black-Scholes option-pricing model using the following weighted average assumptions:

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

These warrants were acquired by the Company during the year ended September 30, 2015 for \$50,000 and were cancelled at that time.

S. Segment Information

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

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

	(in thousands)	2015	2014	2013
Business segment revenues:				
Nightclubs		\$123,280	\$121,454	\$108,723
Bombshells		19,091	6,213	1,869
Other		2,296	1,507	1,616
		\$144,667	\$129,174	\$112,208
Business segment operating income (loss):				
Nightclubs		\$30,444	\$25,970	\$28,400
Bombshells		1,773	(315)	(25)
Other		(1,921)	(246)	(206)
General corporate		(9,418)	(6,534)	(6,286)
		\$20,878	\$18,875	\$21,883
Business segment capital expenditures:				
Nightclubs		\$16,578	\$11,834	\$8,510
Bombshells		1,448	8,195	354
Other		973	8	-
General corporate		260	1,322	811
		\$19,259	\$21,359	\$9,675
Business segment depreciation and amortization:				
Nightclubs		\$4,630	\$3,453	\$4,800
Bombshells		727	429	21
Other		627	20	16
General corporate		910	2,414	500
		\$6,894	\$6,316	\$5,337

Business segment assets: