

Risk Factors Comparison 2023-12-14 to 2022-12-14 Form: 10-K

Legend: New Text Removed Text Unchanged Text Moved Text Section

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. A summary of our risk factors is as follows: Risks related to general macroeconomic and safety conditions

- The novel coronavirus (COVID- 19) pandemic has disrupted and may continue to disrupt our business, which has and could continue to materially affect our operations, financial condition, and results of operations for an extended period of time.
- Our business, financial condition, and results of operations could be adversely affected by disruptions in the global economy caused by the ongoing **conflict-war** between Russia and Ukraine **and the Israel- Hamas war**.
- If we are unable to maintain compliance with certain of our debt covenants or unable to obtain waivers, we may be unable to make additional borrowings and be declared in default where our debt will be made immediately due and payable. In addition, global economic conditions may make it more difficult to access new credit facilities.
- We have recorded impairment charges in current and past periods and may record additional impairment charges in future periods.

Risks related to regulations and / or regulatory agencies

- 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.
- The adult entertainment industry standard is to classify adult entertainers as independent contractors, not employees. If federal or state law mandates that they be classified as employees, our business could be adversely impacted.
- Our revenues could be significantly affected by limitations relating to permits to sell alcoholic beverages.
- 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.

Risks related to our business

- We may deviate from our present capital allocation strategy.
- We may need additional financing, or our business expansion plans may be significantly limited.
- There is substantial competition in the nightclub entertainment industry, which may affect our ability to operate profitably or acquire additional clubs.
- The adult entertainment industry is extremely volatile.
- Private advocacy group actions targeted at the kind of adult entertainment we offer could result in limitations and our inability to operate in certain locations and negatively impact our business.
- We rely heavily on information technology in our operations and any material failure, weakness, interruption or breach of security could prevent us from effectively operating our business.

We are exposed to risks related to cyber Security security breaches and protection of confidential customer information , and failure to protect the integrity and security of payment card or personal employee individually identifiable information may adversely affect of our guests and employees our- or business confidential and proprietary information of the Company could damage our reputation and expose us to loss of revenues, increased costs and litigation .

- Our acquisitions may result in disruptions in our business and diversion of management' s attention.
- We face a variety of risks associated with doing business with franchisees and licensees.
- The impact of new club or restaurant openings could result in fluctuations in our financial performance.
- Our ability to grow sales through delivery orders is uncertain.
- We incur significant costs as a result of operating as a public company, and our management devotes substantial time to new compliance initiatives.
- We have identified a material weakness **weaknesses** in our internal control over financial reporting.
- We may have uninsured risks in excess of our insurance coverage .
- **We are subject to increasing legal complexity and could be party to litigation that could adversely affect us .**
- Our previous liability insurer may be unable to provide coverage to us and our subsidiaries.
- The protection provided by our service marks is limited.
- We are dependent on key personnel .
- **If we are not able to hire, develop, and retain qualified club and restaurant employees and / or appropriately plan our workforce, our growth plan and profitability could be adversely affected .**
- A failure to maintain food safety throughout the supply chain and food- borne illness concerns may have an adverse effect on our business .
- **Our venture, expansion, and renovation projects may face significant inherent risks .**

Other risk factors may adversely affect our financial performance. Risk related to our common stock

- We must continue to meet NASDAQ Global Market Continued Listing Requirements, or we risk delisting.
- We may be subject to allegations, defamations, or other detrimental conduct by third parties, which could harm our reputation and cause us to lose customers and / or contribute to a deflation of our stock price.
- Our quarterly operating results may fluctuate and could fall below the expectations of securities analysts and investors due to seasonality and other factors, some of which are beyond our control, resulting in a decline in our stock price.
- Anti- takeover effects of the issuance of our preferred stock could adversely affect our common stock.
- Future sales or the perception of future sales of a substantial amount of our common stock may depress our stock price.
- Our stock price has been volatile and may fluctuate in the future.
- Cumulative voting is not available to our stockholders.
- Our directors and officers have limited liability and have rights to indemnification. Details of our risk factors are as follows: The novel coronavirus (COVID- 19) pandemic has disrupted and may continue to disrupt our business, which has and could continue to materially affect our operations, financial condition and results of operations for an extended period of time. The COVID- 19 pandemic ~~has~~ had an adverse effect that was material on our business. The COVID- 19 pandemic, federal, state and local government responses to COVID- 19, our customers' responses to the pandemic, and our Company' s responses to the pandemic ~~have~~ all disrupted ~~and will continue to disrupt~~ our business. In the United States, state and local governments imposed a variety of restrictions on people and businesses and public health authorities offered regular guidance on health and safety. Once COVID- 19 vaccines were approved and moved into wider distribution in the United States in early 2021, public health conditions improved and almost all of the COVID- 19 restrictions on businesses eased. During

fiscal 2022, increases in the numbers of cases of COVID- 19 throughout the United States including the Omicron variant which impacted our restaurants in the second quarter, mostly in January 2022, subjected some of our restaurants to other COVID- 19-related restrictions such as mask and / or vaccine requirements for team members, guests or both. Exclusions and quarantines of restaurant team members or groups thereof disrupt an individual restaurant' s operations and often come with little or no notice to the local restaurant management. ~~During fiscal 2022~~ **In the last couple of years**, along with COVID- 19, our operating results were impacted by geopolitical and other macroeconomic events, leading to higher than usual inflation on wages and other cost of goods sold. These events further impacted the availability of team members needed to staff our restaurants and caused additional disruptions in our product supply chain. The ongoing **war** effects of COVID- 19 and its variants, along with ~~other geopolitical and macroeconomic events could lead to future capacity restrictions, mask and vaccination mandates, wage inflation, staffing challenges, product cost inflation and disruptions in the supply chain that impact our restaurants' ability to obtain the products needed to support their operations.~~ The ongoing conflict between Russia and Ukraine **and the more recent Israel- Hamas war** could have adverse effects on global macroeconomic conditions which could negatively impact our business, financial condition, and results of operations. ~~The~~ **These conflict conflicts is are** highly unpredictable and **has have** already resulted in significant volatility in oil and natural gas prices worldwide . ~~We currently have some software developers in Ukraine and the uncertainty of their living conditions has delayed some of the deliverables in our recently launched internet venture. In addition, the conflict could lead to increased cyberattacks or could aggravate other risk factors that we have previously identified.~~ Our liquidity position is, in part, dependent upon our ability to borrow funds from financial institutions and / or private individuals. Certain of our debts have financial covenants that require us to maintain certain operating income to debt service ratios. As of September 30, ~~2022~~ **2023**, we were in compliance with all covenants. Due to the impact of COVID- 19 and other external factors such as supply chain disruption, the ~~conflict conflicts~~ in Ukraine **and in the Gaza Strip**, and the potential economic slowdown, our financial performance in future ~~periods~~ **fiscal quarters** could be negatively impacted. A failure to comply with the financial covenants under our credit facility or obtain waivers would give rise to an event of default under the terms of certain of our debts, allowing the lenders to accelerate repayment of any outstanding debt. 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 asset value, mostly allocated to licenses and goodwill. Generally accepted accounting principles require periodic impairment review of indefinite- lived intangible assets, long- lived assets, and goodwill to determine if, or when events and circumstances indicate that, the fair value of these assets is not recoverable. As a result of our periodic impairment reviews, we recorded impairment charges of \$ **12. 6 million in 2023 (representing \$ 4. 2 million of goodwill impairment on four clubs, \$ 6. 5 million of SOB license impairment on eight clubs, \$ 1. 0 million of operating lease right- of- use asset on one club, \$ 814, 000 of software impairment on two investment projects, and \$ 58, 000 of property and equipment impairment on one club);** \$ 1. 9 million in 2022 (representing \$ 566, 000 **of** goodwill impairment on one club, \$ 293, 000 **of** SOB license impairment on one club, and \$ 1. 0 million **of** property and equipment impairment on one club and one Bombshells unit); **and** \$ 13. 6 million in 2021 (representing \$ 6. 3 million **of** goodwill impairment on seven clubs, \$ 5. 3 million **of** SOB license impairment on three clubs, and \$ 2. 0 million **of** property and equipment impairment on four clubs and one held- for- sale property) ; **and \$ 10. 6 million in 2020 (representing \$ 7. 9 million goodwill impairment on seven club reporting units, \$ 2. 3 million of license impairment on two clubs, \$ 302, 000 property and equipment impairment on one club and one Bombshells, and \$ 104, 000 of operating lease right- of- use asset impairment on one club).** A huge portion, if not all, of the impairments in 2021 ~~and 2020~~ related to the ~~then-~~ projected decline in EBITDA caused by the COVID- 19 pandemic. If difficult market and economic conditions materialize over the next year and / or we experience a decrease in revenue at one or more nightclubs or restaurants, we could incur a decline in fair value of one or more of our nightclubs or restaurants. This could result in future impairment charges of up to the total value of our tangible and intangible assets, including goodwill. We actively monitor our clubs and restaurants for any indication of impairment. 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. The adult entertainment industry standard is to classify adult entertainers as independent contractors, not employees. The Internal Revenue Service regulations and applicable state law guidelines regarding independent contractor classification are subject to judicial and agency interpretation, and it could be determined that the independent contractor classification is inapplicable. Further, if legal standards for classification of independent contractors change, it may be necessary to modify our compensation structure for these adult entertainers, including by paying additional compensation or reimbursing expenses. While we take steps to ensure that our adult entertainers are deemed independent contractors, if our adult entertainers are determined to have been misclassified as independent contractors, we would incur additional exposure under federal and state law, workers' compensation, unemployment benefits, labor, employment and tort laws, including for prior periods, as well as potential liability for employee benefits and tax withholdings. Any of these outcomes could result in substantial costs to us, could significantly impair our financial condition and our ability to conduct our business as we choose, and could damage our ability to attract and retain other personnel. 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. 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 of our nightclubs is conducted in conformance with local, state and federal laws. We have a "no tolerance" policy on illegal drug use in or around our 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. We believe that our present capital allocation strategy will provide us with optimized returns. However, implementation of our capital allocation strategy depends on the interplay of several factors such as our stock price, our outstanding common shares, the interest rates on our debt, and the rate of return on available investments. If these factors are not conducive to implementing our present capital allocation strategy, or we determine that adopting a different capital allocation strategy is in the best interest of shareholders, we reserve the right to deviate from this approach. There can be no assurance that we will not deviate from or adopt an alternative capital allocation strategy moving forward. 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 and new restaurant development. If additional funds are raised through the issuance of equity or convertible debt securities, the ownership percentage of our then-existing shareholders will be diluted. We cannot ensure 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, if needed, will have material adverse consequences on our business operations. Our nightclubs face substantial competition. Some of our 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. 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, adult 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 nightclubs. 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 nightclubs. 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. Private advocacy group actions targeted at the kind of adult entertainment we offer could result in limitations in our inability to operate in certain locations and negatively impact our business. Our ability to operate successfully depends on the protection provided to us under the First Amendment to the U. S. Constitution. From time to time, private advocacy groups have sought to target our nightclubs by petitioning for non-renewal of certain of our permits and licenses. Furthermore, private advocacy groups which have influences on certain financial institutions have managed to sway these financial institutions into not doing business with us. In addition to possibly limiting our operations and financing options, negative publicity campaigns, lawsuits and boycotts could negatively affect our businesses and cause additional financial harm by discouraging investors from investing in our securities or requiring that we incur significant expenditures to defend our business. We rely heavily on information technology in our operations and any material failure, weakness, interruption, or breach of security could prevent us from effectively operating our business. Our operations and corporate functions rely heavily on information systems, including point-of-sale processing, management of our supply chain, payment of obligations, collection of cash, electronic communications, data warehousing to support analytics, finance and accounting systems, mobile technologies to enhance the customer experience, and other various processes and procedures, some of which are handled by third parties. Our ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, or a breach in security relating to these systems could result in delays in consumer service and reduce efficiency in our operations. These problems could adversely affect our results of operations, and remediation could result in significant, unplanned capital investments. **Our A significant portion of our revenues are paid through debit and credit cards. Other restaurants and retailers have experienced significant security breaches in which debit and credit card information or other personal information of their customers have been stolen. We also maintain certain personal information regarding our**

employees. Although we aim to safeguard our technology systems, they could potentially be vulnerable to damage, and disability or failures due to physical theft, fire, power outage, telecommunication failure or other catastrophic events, as well as financial, proprietary, and other confidential information related to our business, and a significant portion of our sales are by credit or debit cards. If our technology systems, or those of third-party services providers we rely upon, are compromised as a result of a cyber-attack (including whether from circumvention of security systems, denial-of-service attacks, hacking, "phishing" attacks, computer viruses, ransomware, malware, or social engineering) or other external or internal method, it could result in an external adverse and material impact on our reputation, operations, and financial condition. The cyber risks we face range from cyber-attacks common to most industries, to attacks that target us due to the confidential consumer information we obtain through our electronic processing of credit and debit card transactions. Such security breaches, employee error or malfeasance, denial-of-service attacks, viruses, worms and other disruptive problems caused by hackers and cyber criminals. A breach in our systems that compromises the information of our customers or employees could also result in litigation, widespread negative publicity, damage to our reputation, governmental investigation against us, as well as the imposition of penalties. These impacts could also occur if we are perceived either to have had an attack or to have failed to properly respond to an incident. We are subject to a loss variety of customers, continually evolving and legal liabilities. We may in developing laws and regulations regarding privacy, data protection, and data security, including the those related future become subject to lawsuits or other the collection, storage, handling, use, disclosure, transfer, proceedings for purportedly fraudulent transactions arising from the actual or alleged theft of our customers' debit and credit card information or if customer or employee security of personal data. The use and disclosure of such information is obtained by unauthorized regulated and enforced at the federal, state and international levels, and these laws, rules and regulations are subject to change. As privacy and information security laws and regulations change or cyber risks evolve pertaining to data, we may incur significant additional costs in technology, third-party services, and persons personnel or used inappropriately to maintain systems designed to anticipate and prevent cyber-attacks. As with Any such claim or proceeding, or any many adverse publicity public resulting companies, our defenses are under attack regularly. There might be minor intrusions from such an event, may time to time. We have a material adverse effect on added certain preventive measures to reduce cyber risks. However, we cannot provide assurance that our security frameworks and measures will be successful in preventing future significant cyber-attacks our or business data loss. 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 have started franchising Bombshells in 2015. We believe that we have selected highly competent operating partners and franchisees with significant experience in restaurant operations, and we are providing them training and support on the Bombshells brand. However, the probability of opening, ultimate success and quality of any franchise or licensed restaurant rests principally with the franchisee. If the franchisee does not successfully open and operate its restaurants in a manner consistent with our standards, or if guests have negative experiences due to issues with food quality or operational execution, our brand value could suffer, which could have an adverse impact on our business. Performance of any new club or restaurant location will usually differ from its originally targeted performance due to a variety of factors, and these differences may be material. New clubs and restaurants typically encounter higher customer traffic and sales in their initial months, which may decrease over time. Accordingly, sales achieved by new or reconcepted locations may not be indicative of future operating results. Additionally, we incur substantial pre-opening expenses each time we open a new establishment, which expenses may be higher than anticipated. Due to the foregoing factors, results for any one fiscal quarter are not necessarily indicative of results to be expected for any other fiscal quarter or for a full fiscal year. Part of our strategy for restaurant growth is dependent on increased sales from guests that want our food delivered to them. We currently rely on third-party delivery providers for the ordering and payment platforms that receive guest orders and that send orders directly to our point-of-sale system. These platforms could be damaged or interrupted by technological failures, cyber-attacks, or other factors, which may adversely impact our sales through these channels. Delivery providers generally fulfill delivery orders through drivers that are independent contractors. These drivers may make errors, fail to make timely deliveries, damage our food, or poorly represent our brands, which may lead to customer disappointment, reputational harm and unmet sales expectations. Our sales may also be adversely impacted if there is a shortage of drivers that are willing and available to make deliveries from our restaurants. We also incur additional costs associated with delivery orders, and it is possible that these orders could cannibalize more profitable in-restaurant visits or take-out orders. We incur significant legal, accounting and other expenses that our non-public 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 control over financial reporting and effective disclosure controls and procedures. In particular, under Section 404 of the Sarbanes-Oxley Act, we are required to perform system and process evaluation and testing on the effectiveness of our internal control over financial

reporting, and our independent registered public accounting firm is required to report on the effectiveness of our internal control over financial reporting. In performing this evaluation and testing, both our management and our independent registered public accounting firm concluded that our internal control over financial reporting is not effective as of September 30, 2022-2023. We are, however, addressing this issue and remediating our material weakness-weaknesses. When we were to identify a material weakness, correcting that issue, and thereafter our continued compliance with Section 404 require that we incur substantial accounting expense and expend significant management efforts. Moreover, if we are not able to correct an internal control issue and comply with the requirements of Section 404 in a timely manner, or if in the future 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. Management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of September 30, 2022-2023, and concluded that we did not maintain effective internal control over financial reporting. Specifically, management-Management identified a material weakness-weaknesses related to **(1) proper design and implementation of controls over management's review of the Company's accounting for business combinations, specifically related to the identification of and accounting for, intangibles assets acquired in a business combination and over the precision of management's review of certain valuation assumptions; (2) the impairment of goodwill, indefinite - see-lived intangibles, and long- lived assets, specifically over the precision of management's review of certain assumptions; and (3) ineffective information technology general controls in the areas of user access and program change- management over certain information technology systems that support the Company's financial reporting processes.** See Item 9A, "Controls and Procedures," below. While certain actions have been taken to implement a remediation plan to address this-these material weakness-weaknesses and to enhance our internal control over financial reporting, if this-these material weakness-weaknesses is-are not remediated, it could adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner, which could negatively affect investor confidence in our company-Company, and, as a result, the value of our common stock could be adversely affected. 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 seller 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 TABC. 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. **Increasing legal complexity will continue to affect our operations and results. We could be subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations, employment and personal injury claims, claims alleging violations of federal and state laws regarding consumer, workplace and employment matters, wage and hour claims, discrimination and similar matters, landlord / tenant disputes, disputes with current and former suppliers, claims by current and former franchisees, contractors, data privacy claims and intellectual property claims (including claims that we infringed upon another party's trademarks, or copyrights). Inconsistent standards imposed by governmental authorities can adversely affect our business and increase our exposure to litigation which could result in significant judgments, including punitive and liquidated damages, and injunctive relief. Occasionally, our guests file complaints or lawsuits against us alleging that we are responsible for an illness or injury they suffered as a result of a visit to our restaurants, or that we have problems with food quality or operations. As a Company, we take responsible alcohol service seriously. However, we are subject to " dram shop " statutes. These statutes generally allow a person injured by an intoxicated person to recover damages from an establishment that served alcoholic beverages to the intoxicated person. Some litigation against restaurant chains has resulted in significant judgments, including punitive damages, under dram shop statutes. Because a plaintiff may seek punitive damages, which may not be covered by insurance, this type of action could have an adverse impact on our financial condition and results of operations. Litigation involving our relationship with contractors and the legal distinction between our contractors and us for employment law purposes, if determined adversely, could increase costs, negatively impact the business prospects of our operations and subject us to incremental liability for their actions. Our operating results could also be affected by the following:**

- The relative level of our defense costs and nature and procedural status of pending proceedings;
- The cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or to take other actions that may affect perceptions of our brands and products;
- Adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices; and
- The scope and terms of insurance or indemnification protections that we may have (if any). Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time, attention and money away from our operations and hurt our performance. A judgment significantly in excess of any

applicable insurance coverage could have significant adverse effect on our financial condition or results of operations.

Further, adverse publicity resulting from these claims may hurt our business. As previously reported, the Company and its subsidiaries were insured under a liability policy issued by Indemnity Insurance Corporation, RRG (“ IIC ”) through October 25, 2013. The Company and its subsidiaries changed insurance companies on that date. On November 7, 2013, the Court of Chancery of the State of Delaware entered a Rehabilitation and Injunction Order (“ Rehabilitation Order ”), which declared IIC impaired, insolvent and in an unsafe condition and placed IIC under the supervision of the Insurance Commissioner of the State of Delaware (“ Commissioner ”) in her capacity as receiver (“ Receiver ”). The Rehabilitation Order empowered the Commissioner to rehabilitate IIC through a variety of means, including gathering assets and marshaling those assets, as necessary. Further, the order stayed or abated pending lawsuits involving IIC as the insurer until May 6, 2014. On April 10, 2014, the Court of Chancery of the State of Delaware entered a Liquidation and Injunction Order With Bar Date (“ Liquidation Order ”), which ordered the liquidation of IIC and terminated all insurance policies or contracts of insurance issued by IIC. The Liquidation Order further ordered that all claims against IIC must have been filed with the Receiver before the close of business on January 16, 2015 and that all pending lawsuits involving IIC as the insurer were further stayed or abated until October 7, 2014. As a result, the Company and its subsidiaries no longer had insurance coverage under the liability policy with IIC. The Company has retained counsel to defend against and evaluate these claims and lawsuits. We are funding 100 % of the costs of litigation and will seek reimbursement from the bankruptcy receiver. The Company filed the appropriate claims against IIC with the Receiver before the January 16, 2015 deadline and has provided updates as requested; however, there are no assurances of any recovery from these claims. It is unknown at this time what effect this uncertainty will have on the Company. As previously stated, since October 25, 2013, the Company obtained general liability coverage from other insurers, which have covered and / or will cover any claims arising from actions after that date. As of September 30, ~~2022~~ **2023**, we have 1 remaining unresolved ~~claims-~~ **claim** out of the original 71 claims. Our rights to the trade names “ RCI Hospitality Holdings, Inc., ” “ Rick’ s, ” “ Rick’ s Cabaret, ” “ Tootsie’ s Cabaret, ” “ Club Onyx, ” “ XTC Cabaret, ” “ Temptations, ” “ Jaguars, ” “ Downtown Cabaret, ” “ Cabaret East, ” “ Bombshells Restaurant and Bar, ” “ Vee Lounge, ” “ Mile High Men’ s Club, ” “ Country Rock Cabaret, ” “ PT’ s, ” and “ Diamond Cabaret ” are established under common law, based upon our substantial and continuous use of these trade names 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, ” and the “ BOMBHELLS RESTAURANT & BAR ” logo design with the United States Patent and Trademark Office. We have also obtained service mark registrations from the Patent and Trademark Office for “ RICK’ S AND STARS DESIGN ” logo, “ RCI HOSPITALITY HOLDINGS, INC., ” “ RICK’ S, ” “ RICK’ S CABARET, ” “ CLUB ONYX, ” “ XTC CABARET, ” “ SCARLETT’ S CABARET, ” “ SILVER CITY CABARET, ” “ BOMBHELLS RESTAURANT AND BAR, ” “ THE SEVILLE CLUB, ” “ DOWN IN TEXAS SALOON, ” “ ~~CLUB DULCE,~~ “ ~~THE BLACK ORCHID,~~ “ ~~HOOPS CABARET,~~ “ VEE LOUNGE, ” “ STUDIO 80, ” “ FOXY’ S CABARET, ” “ EXOTIC DANCER, ” “ TOYS FOR TATAS, ” “ MILE HIGH MEN’ S CLUB, ” “ MHMC logo, ” “ AFTER DARK, ” “ COUNTRY ROCK CABARET, ” “ PT’ S, ” “ DIAMOND CABARET, ” “ **CABARET ROYALE, ” “ BABY DOLLS SALOON, ” “ BABY DOLLS TOPLESS SALOON, ” “ BABY DOLLS, ” “ JAGUARS, ”** and BOMBHELLS OFFICER’ S CLUB 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 “ TOOTSIES CABARET, ” “ **RICK’ S REWARDS, ” “ VENICE CABARET, ” “ IN THE BIZ, ” “ CHERRY CREEK FOOD HALL AND BREWERY ” “ JAGUARS ”, and “ THE MANSION ,” and “ LA BOHEME GENTLEMAN’ S CLUB. ” We also own the rights to numerous trade names 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 effect on our business. Our future success is dependent, in a large part, on retaining the services of Eric Langan, our President and Chief Executive Officer, and Bradley Chhay, our Chief Financial 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. Mr. Chhay possesses thorough familiarity with our accounting system and how it affects our operations. Mr. Chhay is also vital in our due diligence efforts when acquiring clubs. We maintain key- man life insurance with respect to Mr. Langan but not for Mr. Chhay. Although Messrs. Langan and Chhay have signed employment agreements with us (as described herein), there can be no assurance that Mr. Langan or Mr. Chhay will continue to be employed by us. **We rely on our restaurant- and club- level employees to consistently provide high- quality food and positive experiences to our guests. In addition, our ability to continue to open new restaurants depends on us attracting, hiring, developing, and retaining high- quality managers. Maintaining appropriate staffing in our restaurants requires precise workforce planning, which planning has become more complex due to predictive scheduling laws (also called “ fair workweek ” or “ secure scheduling ”) and “ just cause ” termination legislation in certain geographic areas where we operate, and the so- called “ great resignation ” trend. The market for qualified talent continues to be competitive and we must ensure that we continue to offer competitive wages, benefits, and workplace conditions to retain qualified employees. We have experienced and may continue to experience challenges in hiring and retaining restaurant and club employees and in maintaining full restaurant and or club staffing in various locations, which has resulted in longer wait times for guest orders and potentially decreased employee satisfaction. A shortage of qualified candidates who meet all legal work authorization and training requirements, failure to hire and retain new restaurant or club employees in a timely manner or higher than expected turnover levels could affect our ability to open new restaurants, grow sales at existing restaurants and clubs or meet our labor cost objectives. In addition, failure to adequately monitor and proactively respond to employee dissatisfaction could lead to poor guest satisfaction, higher****

turnover, litigation and unionization efforts, which could negatively impact our ability to meet our growth targets. 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 or clubs 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.

Investment in certain projects we may undertake will be subject to the many risks inherent in the expansion or renovation of an existing enterprise or construction of a new enterprise, including unanticipated design, construction, regulatory, environmental and operating problems and lack of demand for our projects. Our current and future projects could also experience: • delays and significant cost increases; • delays in obtaining or inability to obtain necessary permits, licenses and approvals; • lack of sufficient, or delays in the availability of, financing; • shortages of materials; • shortages of skilled labor, work stoppages or labor disputes; • poor performance or nonperformance by any third parties on whom we place reliance; • unforeseen construction scheduling, engineering, environmental, permitting, construction or geological problems, including defective plans and specifications; • weather interference, floods, fires or other casualty losses; and • COVID- 19 related delays. The completion dates of any of our projects could differ significantly from expectations for construction-related or other reasons. Actual costs and construction periods for any of our projects can differ significantly from initial expectations. Our initial project costs and construction periods are based upon budgets, conceptual design documents and construction schedule estimates prepared at inception of the project in consultation with architects and contractors. Many of these costs can increase over time as the project is built to completion. We can provide no assurance that any project will be completed on time, if at all, or within established budgets, or that any project will result in increased earnings to us. Significant delays, cost overruns, or failures of our projects to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.

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 or COVID- 19), 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. We are also subject to the general risks of inflation, increases in minimum wage, health care, and other benefits that may have a material adverse effect on our cost structure, and the disruption in our supply chain caused by several factor, including the COVID- 19 pandemic. 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 delisted 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. We have been subject to allegations by third parties or purported former employees, negative internet postings, and other adverse public exposure on our business, operations and staff compensation. We may also become the target of defamations or other detrimental conduct by third parties or disgruntled former or current employees. Such conduct may include complaints, anonymous or otherwise, to regulatory agencies, media or other organizations. We may be subject to government or regulatory investigation or other proceedings as a result of such third-party conduct and may be required to spend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Any government or regulatory investigations initiated as a result of the above may cause a deflation in our stock price. Additionally, allegations, directly or indirectly against us, may be posted on the internet, including social media platforms by anyone, whether or not related to us, on an anonymous basis. Any negative publicity on us or our management can be quickly and widely disseminated. Social media platforms and devices immediately publish the content of their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted may be inaccurate and adverse to us, and it may harm our reputation, business or prospects. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of negative and potentially false information about our business and operations, which in turn may cause us to lose customers. Our nightclub operations are affected by seasonal factors. Historically, we have experienced reduced revenues from April through September with the strongest operating results occurring from October through March. As a result, our quarterly and annual operating results and comparable restaurant sales may fluctuate significantly as a result of seasonality and the factors discussed above. Accordingly, results for any one fiscal quarter are not necessarily indicative of results to be expected for any other fiscal quarter or for any fiscal year and same-store sales for any particular future period may decrease. In the future, operating results may fall below the expectations of securities analysts and investors. In that event, the price of our common stock would likely decrease. Our **Board-board** of **Directors-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-board** of **Directors-directors** could adversely affect the rights of the

holders of our 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 costlier. 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-board** of **Directors directors** has no present intention to issue preferred stock. 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. 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; • 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. 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 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.