

Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

RIVIERA HOLDINGS CORP  
Form 10-Q  
November 12, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Mark One

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

For the quarterly period ended September 30, 2002

OR

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

For the transition period from \_\_\_\_\_ to

Commission file number 000-21430

Riviera Holdings Corporation  
-----

(Exact name of Registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

88-0296885  
(IRS Employer Identification No.)

2901 Las Vegas Boulevard South, Las Vegas, Nevada  
(Address of principal executive offices)

89109  
(Zip Code)

Registrant's telephone number,  
including area code (702) 794-9527

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 X No\_\_

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE LAST FIVE YEARS

Indicate by check mark whether the Registrant has filed all documentation  
and reports required to be filed by Section 12, 13, or 15(d) of the Securities  
Exchange Act of 1934 subsequent to the distribution of securities under a plan  
confirmed by a court. Yes \_\_No\_\_

APPLICABLE ONLY TO CORPORATE REGISTRANTS

Indicate the number of shares outstanding of each of the Registrant's  
classes of common stock, as of the latest practicable date.

As of October 31, 2002, there were 3,579,720 shares of Common Stock, \$.001 par  
value per share, outstanding.

# Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

## RIVIERA HOLDINGS CORPORATION

### INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements	
Independent Accountants' Report	2
Condensed Consolidated Balance Sheets (Unaudited) at September 30, 2002 and December 31, 2001	3
Condensed Consolidated Statements of Operations (Unaudited) for the Three and Nine Months ended September 30, 2002 and 2001	4
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three and Nine Months ended September 30, 2002 and 2001	5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Quantitative and Qualitative Disclosures about Market Risk	26
Item 4. Controls and Procedures	27
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	27
Item 6. Exhibits and Reports on Form 8-k	27
Signature Page	28
Certifications	29
Exhibits	33

#### INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors  
Riviera Holdings Corporation

We have reviewed the accompanying condensed consolidated balance sheet of

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

Riviera Holdings Corporation (the "Company") and subsidiaries as of September 30, 2002, and the related condensed consolidated statements of operations and of cash flows for the three and nine months ended September 30, 2002 and 2001. These financial statements are the responsibility of the Company's management.

We conducted our reviews, in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Riviera Holdings Corporation as of December 31, 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 12, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2001, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

October 22, 2002  
Las Vegas, Nevada

2

RIVIERA HOLDINGS CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited) (In Thousands, except share amounts)	September 30	December 31
	2002	2001
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 27,418	\$ 46,606
Accounts receivable, net	3,526	3,528
Inventories	1,657	2,253
Prepaid expenses and other assets	4,009	3,083
Total current assets	36,610	55,470
PROPERTY AND EQUIPMENT, Net	191,678	200,531
OTHER ASSETS, Net	14,954	6,728

Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

DEFERRED INCOME TAXES	2,964	5,089
	-----	-----
TOTAL	\$ 246,206	\$ 267,818
	=====	=====
LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 3,375	\$ 3,151
Accounts payable	9,062	8,200
Accrued interest	6,257	8,084
Accrued expenses	14,031	14,740
	-----	-----
Total current liabilities	32,725	34,175
	-----	-----
OTHER LONG-TERM LIABILITIES	7,771	7,391
	-----	-----
LONG-TERM DEBT, Net of current portion	217,438	217,288
	-----	-----
SHAREHOLDERS' (DEFICIENCY) EQUITY:		
Common stock (\$.001 par value; 20,000,000 shares authorized; 5,106,776 shares issued at December 31, 2001 and September 30, 2002, respectively)	5	5
Additional paid-in capital	13,485	13,485
Treasury stock (1,674,144 shares and 1,649,495 shares at December 31, 2001 and September 30, 2002, respectively)	(11,121)	(11,246)
	-----	-----
Retained earnings (accumulated deficit)	(14,097)	6,720
	-----	-----
Total stockholders' (deficiency) equity	(11,728)	8,964
	-----	-----
TOTAL	\$ 246,206	\$ 267,818
	=====	=====

See notes to condensed consolidated financial statements

3

RIVIERA HOLDINGS CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002  
AND 2001  
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September
	(unaudited)		(unaudited)
REVENUES:	2002	2001	2002
Casino	\$ 26,806	\$ 29,880	\$ 81,732
Rooms	11,020	9,987	32,406
Food and beverage	8,455	7,814	24,834
Entertainment	4,698	5,483	13,278
Other	2,031	2,211	6,281
	-----	-----	-----
Total revenues	53,010	55,375	158,531

Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

Less promotional allowances	4,398	4,330	13,567
Net revenues	48,612	51,045	144,964
COSTS AND EXPENSES:			
Direct costs and expenses of operating departments:			
Casino	14,751	16,459	43,937
Rooms	6,036	5,920	17,762
Food and beverage	5,622	5,626	16,257
Entertainment	3,280	3,924	8,954
Other	709	812	2,130
Other operating expenses:			
General and administrative	10,271	10,907	29,633
Depreciation and amortization	4,433	4,384	13,383
Total costs and expenses	45,102	48,032	132,056
INCOME FROM OPERATIONS	3,510	3,013	12,908
OTHER (EXPENSE) INCOME :			
Interest expense	(6,863)	(6,649)	(19,975)
Interest expense, net - Due to Defeasance	(2,328)	0	(2,692)
Loss on extinguishment of debt	(11,211)	0	(11,211)
Interest income	4	308	176
Other, net	(7)	9	(23)
Total other expense	(20,405)	(6,332)	(33,725)
LOSS BEFORE BENEFIT FOR INCOME TAXES	(16,895)	(3,319)	(20,817)
BENEFIT FOR INCOME TAXES	0	(819)	0
NET LOSS	\$ (16,895)	\$ (2,500)	\$ (20,817)
LOSS PER SHARE DATA:			
Loss per share:			
Basic & Diluted	\$ (4.89)	\$ (0.71)	\$ (6.04)
Weighted-average common and common equivalent shares	3,456	3,513	3,448

See notes to condensed consolidated financial statements

RIVIERA HOLDINGS CORPORATION AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Three Months Ended	Nine Months
	September 30,	September
	(unaudited)	(unaudited)
	2002	2002

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

### CASH FLOWS FROM OPERATING ACTIVITIES:

Net Loss	(\$16,895)	(\$2,500)	(\$20,817)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	4,433	4,384	13,383
Provision for bad debts	127	16	(218)
Provision for gaming discounts	0	(49)	(48)
Interest expense	6,863	6,649	19,975
Interest paid	(216)	(9,076)	(12,339)
Interest expense, net, Bonds held for retirement	2,328		2,692
Interest expense, net, Bonds held for retirement, paid	(2,548)		(2,548)
Loss on extinguishment of debt	11,211		11,211
Loss on extinguishment of debt paid	(6,646)		(6,646)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	(733)	14	267
Decrease (increase) in inventories	151	319	596
Decrease (increase) in prepaid expenses and other assets	(515)	578	(926)
Increase (decrease) in accounts payable	(538)	(1,315)	862
Increase (decrease) in accrued liabilities	1,678	2,565	709
Increase (decrease) in deferred income taxes	2,125	(819)	2,125
Increase in deferred compensation plan liability	10	76	115
Increase (decrease) in non-qualified pension plan obligation to CEO upon retirement	(125)	(125)	(375)
Net cash provided by operating activities	710	717	8,018
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures - Las Vegas, Nevada	(666)	(2,312)	(2,934)
Capital expenditures - Black Hawk, Colorado	(387)	(613)	(1,595)
Decrease (increase) in other assets	(140)	(27)	(1,877)
Net cash used in investing activities	(1,193)	(2,952)	(6,406)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term borrowings	0	0	211,781
US Treasury Bills to provide for defeasance of debt	226,576	0	0
Decrease (increase) in deferred loan fees	0		(10,381)
Payments on long-term borrowings	(220,674)	(702)	(222,325)
Purchase of treasury stock	0	(921)	0
Increase in paid-in capital	0	0	0
Purchase of deferred comp treasury stock	0	(582)	0
Purchase of Black Hawk 13% 1st Mortgage Notes	0	(1,000)	0
Issuance of restricted stock	25	25	125
Netcash (used in) provided by financing activities	5,927	(3,180)	(20,800)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,444	(5,415)	(19,188)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 21,974	\$ 49,530	\$ 46,606
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 27,418	\$ 44,115	\$ 27,418

See notes to condensed consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Riviera Holdings Corporation and its wholly owned subsidiary, Riviera Operating Corporation ("ROC") (together, the "Company"), were incorporated on January 27, 1993, in order to acquire all assets and liabilities of Riviera, Inc. Casino-Hotel Division on June 30, 1993, pursuant to a plan of reorganization.

In August 1995, Riviera Gaming Management, Inc. ("RGM") incorporated in the State of Nevada as a wholly owned subsidiary of ROC for the purpose of obtaining management contracts in Nevada and other jurisdictions. In March 1997, Riviera Gaming Management of Colorado was incorporated in the State of Colorado, and in August 1997, Riviera Black Hawk, Inc. ("RBH") was incorporated in the State of Colorado for the purpose of developing a casino in Black Hawk, Colorado which opened February 4, 2000.

On March 15, 2002, Riviera Gaming Management of New Mexico, Inc. was incorporated in the State of New Mexico. On June 5, 2002, Riviera Gaming Management of Missouri, Inc. was incorporated in the State of Missouri.

Nature of Operations

The Company owns and operates the Riviera Hotel & Casino ("Riviera Las Vegas") on the Strip in Las Vegas, Nevada and in February of 2000, opened its casino in Black Hawk, Colorado ("Riviera Black Hawk"). Riviera Black Hawk is owned through Riviera Black Hawk, Inc. ("RBH"), a wholly owned subsidiary of ROC. Riviera Gaming Management of Colorado, Inc. is a wholly owned subsidiary of RGM, and manages the casino.

Casino operations are subject to extensive regulation in the states of Nevada and Colorado and various state and local regulatory agencies. Management believes that the Company's procedures for supervising casino operations, recording casino and other revenues, and granting credit comply, in all material respects, with the applicable regulations.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiary ROC and various indirect wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

The financial information at September 30, 2002 and for the three and nine months ended September 30, 2002 and 2001 is unaudited. However, such information reflects all adjustments (consisting solely of normal and recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the

financial position, results of operations, and cash flows for the interim periods. The results of operations for the nine months ended September 30, 2002 and 2001 are not necessarily indicative of the results that will be achieved for the entire year.

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2001, included in the Company's Annual Report on Form 10-K.

### Interest Expense, Net - Due to Defeasance

The Company reports interest expense, net of interest earned on defeasing funds, separately for bonds to be retired when funds have been segregated for that specific purpose. The amounts totaling \$2.7 million for the nine months ended September 30, 2002 include the interest on the 10% bonds from June 26, 2002 until retirement on August 15, 2002 and the 13% RBH bonds from June 26 until retirement on July 26, 2002, less interest earned on the funds segregated for the retirement.

### Earnings Per Share

Basic per share amounts are computed by dividing net income by weighted average shares outstanding during the period. Diluted net income (loss) per share amounts are computed by dividing net income by weighted average shares outstanding plus the dilutive effect of common share equivalents. The effect of options outstanding was not included in diluted calculations for the three and nine months ended September 30, 2002 and 2001 since the Company incurred a net loss. The number of potentially dilutive options was 115,000 for the three and nine months ended September 30, 2002 and 111,000 for the three and nine months ended September 30, 2001.

### Income Taxes

The cash flow projections used by the Company in the application of SFAS 109 for the realization of deferred tax assets indicate that a valuation allowance should be recorded on the tax benefit earned by the Company in 2002. The estimates used are based upon recent operating results and budgets for future operating results. These estimates are made using assumptions about the economic, social and regulatory environments in which we operate. These estimates could be impacted by numerous unforeseen events including changes to regulations affecting how the Company operates the business, changes in the labor market or economic downturns in the areas where the Company operates. During 2002 the Company received refunds from 1996 totaling \$2.1 million and believe it will be able to file claims for refunds of approximately \$500,000 to \$600,000 in January 2003 for taxes paid in 1997.

### Estimates and Assumptions

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of

7

revenues and expenses during the reporting period. Significant estimates used by the Company include estimated useful lives for depreciable and amortizable assets, cash flow projections for testing asset impairment, certain accrued liabilities and the estimated allowance for receivables. Actual results may differ from estimates.

### Recently Issued Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement



## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

Obligations. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is currently assessing, but has not yet determined the impact of SFAS No. 143 on its financial position and results of operations.

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS No. 146"). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. A fundamental conclusion reached by the FASB in this statement is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company is currently assessing but has not yet determined the impact of SFAS No. 146 on its financial position and results of operations.

### Recently Adopted Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets, which is effective January 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, SFAS No. 142 includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. As of June 30, 2002 the Company has determined that it has no intangible assets or goodwill recorded on its balance sheet, and accordingly the adoption of SFAS No. 142 had no impact on its financial position or results of operations.

8

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of Accounting Principles Bulletin Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 also amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

years. The Company has determined that the implementation of SFAS No. 144 had no effect on its financial position and results of operations upon implementation.

In April 2002, the FASB issued Statement of Financial Accounting Standard No. 145, "Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"). SFAS No. 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30 ("Opinion No. 30"). Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent that meet criteria for classification as an extraordinary item. SFAS No. 145 is effective for the Company beginning January 1, 2003, but the Company adopted the provisions of SFAS No. 145 during fiscal year 2002, as permitted. The effect on our consolidated financial position and results of operations of the adoption of SFAS No. 145 was that the Company recognized and reported bond retirement costs as other expense.

### 2. OTHER ASSETS

Other assets at September 30, 2002 include deferred loan fees of approximately \$11.3 million associated with the refinancing of the Company's debt and capitalized costs associated with the RGM Missouri proposed venture of approximately \$700,000 and the RGM New Mexico proposed venture of approximately \$1.3 million.

### 3. LONG TERM DEBT AND COMMITMENTS

On June 26, 2002, the Company issued 11% Senior Secured Notes ("the 11% Notes") with a principal amount of \$215 million. The Notes were issued at a discount in the amount of \$3.2 million. The discount is being amortized over the life of the 11% Notes. The Company incurred fees of approximately \$9.3 million with the issuance of the \$215 million 11% Notes which are included in other assets at September 30, 2002 and are being amortized to interest expense over the life of the indebtedness.

On August 13, 1997, the Company issued 10% First Mortgage Notes ("the 10% Notes") with a principal amount of \$175 million. The Notes were issued at a discount in the amount of \$2.2 million. The discount was being amortized over

9

the life of the 10% Notes on a straight-line basis, which approximated the effective interest method. The Notes were defeased on June 26, 2002 as part of our new \$215 million dollar Senior Secured Note offering and were redeemed on August 15, 2002.

On June 3, 1999, Riviera Black Hawk, Inc. ("RBH"), a wholly owned subsidiary, closed a \$45 million private placement of 13% First Mortgage Notes, ("the 13% Notes"). The net proceeds of the placement were used to fund the completion of RBH's casino project in Black Hawk, Colorado. During 2000 and 2001 the Company repurchased approximately \$10 million of these bonds. The Notes were defeased on June 26, 2002 as part of our new \$215 million dollar Senior Secured Note offering and were redeemed on July 26, 2002.

Effective July 26, 2002 the Company entered in to a \$30 million, five year revolving credit arrangement with a financial institution. Terms of the arrangement include interest at prime plus .75 percent or a LIBOR derived rate. No advances on this revolver have been requested. The Company incurred loan fees of approximately \$1.5 million which are being expensed over the life of the

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

agreement.

### 4. LEGAL PROCEEDINGS

The Company is a party to several routine lawsuits, both as plaintiff and as defendant, arising from the normal operations of a hotel. The Company does not believe that the outcome of such litigation, in the aggregate, will have a material adverse effect on its financial position or results of its operations.

### 5. STOCK REPURCHASES

There were no treasury stock purchases for the nine months ended 2002 or 2001.

### 6. ISSUANCE OF RESTRICTED STOCK

There were 4,099 shares of Treasury Stock issued at an average cost of \$4.75 under the Restricted Stock Plan for executive compensation for the nine months ended 2002. Those shares had an average market value of \$6.10 per share at the time of issuance.

### 7. GUARANTOR INFORMATION

The Company's 11.0% Senior Secured Notes and the Foothill \$30 million line of credit are guaranteed by all of the Company's wholly owned existing significant restricted subsidiaries. These guaranties are full, unconditional, and joint and several. RGM Missouri and RGM New Mexico are unrestricted subsidiaries of RHC and are not guarantors of the notes.

### 8. SUBSEQUENT EVENT

On October 25, 2002, the Company commenced an offer to exchange the 11% Senior Secured Notes that were issued on June 26, 2002 for new notes, with substantially the same terms as the old notes, that have been registered under

the Securities Act of 1933. The exchange offer will expire on November 25, 2002, unless the Company extends the expiration date.

## 9. SEGMENT DISCLOSURES

The Company determines its segments based upon the review process of the chief decision maker who reviews by geographic gaming market segments: Riviera Las Vegas and Riviera Black Hawk. Beginning with the September 2002 period, the Company began allocating Corporate overhead in its determination of income (loss) from operations. All amounts for all periods presented have been revised to reflect this change. All intersegment revenues have been eliminated.

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Net revenues:				
Riviera Las Vegas	\$35,574	\$37,567	\$107,510	\$121,634
Riviera Black Hawk	13,038	13,478	37,454	36,438
	-----	-----	-----	-----
Total net revenues	\$48,612	\$51,045	\$144,964	\$158,072
	=====	=====	=====	=====
Income (loss) from operations:				
Riviera Las Vegas	\$3,071	\$1,709	\$11,370	\$13,380
Riviera Black Hawk	1,802	2,297	5,411	5,251
	-----	-----	-----	-----
Property Operating Income	4,873	4,006	16,781	18,631
Corporate Expenses	(1,363)	(993)	(3,873)	(3,892)
	-----	-----	-----	-----
Total income from operations	\$3,510	\$3,013	\$12,908	\$14,739
	=====	=====	=====	=====
EBITDA (1):				
Riviera Las Vegas	\$5,778	\$4,741	\$19,943	\$22,552
Riviera Black Hawk	3,310	3,649	10,005	9,009
	-----	-----	-----	-----
Property Operating Income	9,088	8,390	29,948	31,561
Corporate Expenses	(1,145)	(993)	(3,657)	(3,892)
	-----	-----	-----	-----
Total EBITDA	\$7,943	\$7,397	\$26,291	\$27,669
	=====	=====	=====	=====
EBITDA margin:				
Riviera Las Vegas	16.2%	12.6%	18.5%	18.5%
Riviera Black Hawk	25.4%	27.1%	26.7%	24.7%
	-----	-----	-----	-----
Total EBITDA	16.3%	14.5%	18.1%	17.5%

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

(1) EBITDA consists of earnings before interest, income taxes, depreciation, amortization, loss on extinguishment of debt and other, net. While EBITDA should not be construed as a substitute for operating income or a better indicator of liquidity than cashflow from operating activities, which are determined in accordance with generally accepted accounting principles ("GAAP"), it is included herein to provide additional information with respect to the ability of the Company to meet its future debt service, capital expenditure and working capital requirements. Although EBITDA is not necessarily a measure of the Company's ability to fund its cash needs, management believes that certain investors find EBITDA to be a useful tool for measuring the ability of the Company to service its debt. EBITDA margin is EBITDA as a percent of net revenues. The Company's definition of EBITDA may not be comparable to other companies' definitions.

12

	September 30, 2002	December 31, 2001
Assets (2):	(in thousands)	
Riviera Las Vegas	\$24,432	\$ 29,503
Riviera Black Hawk	65,663	67,549
Riviera Corporate	101,583	103,479
	-----	-----
Total assets	\$191,678	\$ 200,531
	=====	=====

(2) Asset represent property and equipment and intangible assets, net of accumulated depreciation and amortization. Riviera Holdings Corporation (Corporate) own the Riviera Las Vegas land and building.

### RIVIERA LAS VEGAS REVENUES

The primary marketing of the Riviera Las Vegas is not aimed toward residents of Las Vegas, Nevada. Significantly all revenues derived from patrons visiting the Riviera Las Vegas are from other parts of the United States and other countries. Revenues for Riviera Las Vegas from a foreign country or region may exceed 10 percent of all reported segment revenues; however, the Riviera Las Vegas cannot identify such information, based upon the nature of gaming operations.

### RIVIERA BLACK HAWK REVENUES

The casino in Black Hawk, Colorado, primarily serves the residents of metropolitan Denver, Colorado. As such, management believes that significantly all revenues are derived from within 250 miles of that geographic area.

### MANAGEMENT AGREEMENTS

RBH has a management agreement (the RBH Management Agreement) with Riviera Gaming Management of Colorado, Inc. (the Manager), a wholly-owned subsidiary of Riviera Holdings Corporation, which, in exchange for a fee, manages RBH.

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

Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2001

The following table sets forth, for the periods indicated, certain operating data for the Riviera Las Vegas and Riviera Black Hawk. Beginning with the September 2002 period, the Company began allocating Corporate overhead in its determination of income (loss) from operations. All amounts for all periods presented have been revised to reflect this change. Intercompany management fees have been eliminated from EBITDA from properties for the purpose of this table. Operating Income includes intercompany management fees.

(In Thousands)	Third Quarter 2002	2001	Incr/ (Decr)	% Incr/ (Decr)
Net revenues:				
Riviera Las Vegas	\$35,574	\$37,567	(\$1,993)	-5.3%
Riviera Black Hawk	13,038	13,478	(440)	-3.3%
Total Net Revenues	\$48,612	\$51,045	(\$2,433)	-4.8%
Operating Income (Loss)				
Riviera Las Vegas	\$3,071	\$1,709	\$1,362	79.7%
Riviera Black Hawk	1,802	2,297	(495)	-21.5%
Property Operating Income	4,873	4,006	867	21.6%
Corporate Expenses (1)	(1,363)	(993)	(370)	37.2%
Total Operating Income	\$3,510	\$3,013	\$497	16.5%
EBITDA: (2)				
Riviera Las Vegas	\$5,778	\$4,741	\$1,037	21.9%
Riviera Black Hawk	3,310	3,649	(339)	-9.3%
Property EBITDA as Adjusted	9,088	8,390	698	8.3%
Corporate Expenses (1)	(1,145)	(993)	(152)	-15.3%
Total EBITDA	\$ 7,943	\$7,397	\$546	7.3%
EBITDA margin				
Riviera Las Vegas	16.2%	12.6%	3.6%	
Riviera Black Hawk	25.4%	27.1%	-1.7%	
Total EBITDA	16.3%	14.5%	1.8%	
Reconciliation of Income from Operations to EBITDA				
Operating Income	\$3,510	\$3,013		
Depreciation	4,433	4,384		
EBITDA	\$ 7,943	\$ 7,397		

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

(1) Deferred compensation plan expenses were \$300,000 lower in the third quarter of 2001 as the result of a one-time reduction associated with the price of the Company's stock.

(2) EBITDA consists of earnings before interest, income taxes, depreciation, amortization, loss on extinguishment of debt and other, net. While EBITDA should not be construed as a substitute for operating income or a better indicator of liquidity than cash flow from operating activities, which are determined in accordance with generally accepted accounting principles ("GAAP"), it is included herein to provide additional information with respect to the ability of the Company to meet its future debt service, capital expenditure and working capital requirements. Although EBITDA is not necessarily a measure of the Company's ability to fund its cash needs, management believes that certain investors find EBITDA to be a useful tool for measuring the ability of the Company to service its debt. EBITDA margin is EBITDA as a percent of net revenues. The Company's definition of EBITDA may not be comparable to other companies' definitions.

Riviera Las Vegas

### Revenues

Net revenues decreased by approximately \$2.0 million, or 5.3%, from \$37.6 million in 2001 to \$35.6 million in 2002 due primarily to decreased casino and entertainment revenues. Casino revenues decreased by approximately \$2.6 million, or 15.2%, from \$17.2 million during 2001 to \$14.6 million during 2002 due to a 11.2% decrease in slot machine revenue. Room revenue increased \$1.0 million, or 10.3%, from \$10.0 million in 2001 to \$11.0 million in 2002 due to an increase in convention room nights. Hotel occupancy was comparable to last year at 93 percent and average daily room rate increased \$4.11 from \$55.87 in 2001 to \$59.98 in 2002. The Company has been able to bring occupancy back to normal levels since September 11, 2001 and increased the average daily rate for the quarter primarily due to increased convention room nights. Entertainment revenues decreased by approximately \$772,000, or 14.4%, from \$5.3 million during 2001 to \$4.6 million during 2002 due primarily to a decrease in Splash and Crazy Girls revenues as result of competition from the openings of new shows on the Las Vegas Strip and a slower economy. Other revenues decreased by approximately \$192,000, or 9.2%, from \$2.1 million during 2001 to \$1.9 million during 2002 due primarily to decreased gift shop and telephone revenues. Promotional allowances decreased by approximately \$183,000, or 5.3%, from \$3.4 million during 2001 to \$3.3 million during 2002 primarily due to decreases in comps related to lower casino activity.

### Income from Operations

Income from operations in Las Vegas increased \$1.4 million, or 79.7%, from \$1.7 million in 2001 to \$3.1 million in 2002 due to the 5.3% decrease in net revenues which was more than offset by an 8.8% decrease in expenses. The decreased expenses were mainly in the area of payroll and casino marketing expenses.

### EBITDA

Riviera Las Vegas EBITDA, as defined, increased by approximately \$1.0 million, or 21.9%, from \$4.7 million in 2001 to \$5.8 million in 2002 for reasons described above. During the same periods, EBITDA margin increased from 12.6% to 16.2% of net revenues.

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

Riviera Black Hawk

### Revenues

Net revenues decreased by approximately \$440,000, or 3.3%, from \$13.5 million in 2001 to \$13.0 million in 2002. Casino revenues decreased \$460,000, or 3.6%, from \$12.7 million in 2001 and \$12.2 million in 2002. Food and beverage revenues were approximately \$1.7 million in 2002, of which \$1.1 million was complimentary (promotional allowance). Although the Black Hawk market grew at a rate of 7.8 percent, it was substantially below the first six months' rate of 14.1 percent and below the 13.4 percent increase in the supply of slot machines introduced to the market with the opening of the Hyatt Casino in December of last year. Even with the decrease in revenues, our market share remained consistent with last year and was over 100 percent of our fair share (Riviera's share of revenue divided by its share of units) of the market. The Denver area economy has been slowing down over the past year, which we feel has had some impact on consumer confidence and spending. We continue to monitor market conditions and have made several adjustments to our marketing programs to insure that we stay competitive.

### Income from Operations

Income from operations in Black Hawk, Colorado decreased \$495,000, or 21.5%, from \$2.3 million in 2001 to \$1.8 million in 2002 due to decreased revenues resulting from a lower Colorado economic condition and various road construction projects in and around Black Hawk, Colorado and competition in the market place. As a result, we continue to monitor market conditions and have made several adjustments to our marketing programs to insure we stay competitive.

### EBITDA

Riviera Black Hawk EBITDA, as defined, decreased \$339,000, or 9.3%, from \$3.6 million in 2001 to \$3.3 million in 2002. EBITDA margin for the third quarter decreased to 25.4% from 27.1% in the same quarter of the prior year.

### Consolidated Operations

#### Corporate Expenses

In the past, we have shown corporate expenses as a part of the Las Vegas operation. Common practice in the industry is to break out corporate expenses that are not directly attributable or allocable to a specific operating unit. This quarter we started breaking out those expenses that were general expenses associated with the public company, including directors fees, listing fees, D&O insurance, executive office payroll and similar expenses. We believe this will make our property EBITDA more comparable to our peers. Deferred compensation plan expenses were \$300,000 lower in the third quarter 2001 as a result of a one-time reduction associated with the price of the Company's stock.

16

### Other Income (Expense)

Interest expense on the \$215 million 11% Senior Secured Notes issued by Riviera Holdings Corporation of \$5.9 million plus related amortization of loan fees and other financing costs totaled approximately \$6.3 million in



## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

2002. Interest expense on equipment and other financing totaled approximately \$500,000 for the quarter.

### Net Income (Loss)

The results of operations decreased \$14.4 million from a net loss of \$2.5 million in 2001 to a net loss of \$16.9 million in 2002 due primarily to the loss on extinguishment of debt totaling \$11.2 million or \$3.24 per share. The costs included the call premium on the Company's refinanced 10 percent bonds and Riviera Black Hawk's refinanced 13 percent bonds, the write off of unamortized deferred loan costs associated with the bond issues and the balance of the original issue discount on the 10 percent bonds. Furthermore, the quarterly net income was affected by approximately \$2.3 million or \$0.66 per share of additional interest expense, net, incurred as a result of the defeasance / retirement of the debt.

### EBITDA

Consolidated EBITDA, as defined, increased by approximately \$546,000, or 7.3%, from \$7.4 million in 2001 to \$7.9 million in 2002. During the same periods, EBITDA margin increased from 14.5% to 16.3% of net revenues for the reasons described above.

17

Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001

The following table sets forth, for the periods indicated, certain operating data for the Riviera Las Vegas and Riviera Black Hawk. The Company began allocating Corporate overhead in its determination of income (loss) from operations. All amounts for all periods presented have been revised to reflect this change. Intercompany management fees have been eliminated from EBITDA from properties for the purpose of this table. Operating Income includes intercompany management fees.

(In Thousands)	Nine Months Ended 2002	Nine Months Ended 2001	Incr/ (Decr)	% Incr/ (Decr)
Net revenues:				
Riviera Las Vegas	\$107,510	\$121,634	(\$14,124)	-11.6%
Riviera Black Hawk	37,454	36,438	1,016	2.8%

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

Total Net Revenues	\$144,964	\$158,072	(\$13,108)	-8.3%
Operating Income (Loss)				
Riviera Las Vegas	\$11,370	\$13,380	(\$2,010)	-15.0%
Riviera Black Hawk	5,411	5,251	160	3.0%
Property Operating Income	16,781	18,631	(1,850)	-9.9%
Corporate Expenses	(3,873)	(3,892)	19	-0.5%
Total Operating Income	\$12,908	\$14,739	(\$1,831)	-12.4%
EBITDA: (1)				
Riviera Las Vegas	\$19,943	\$22,522	(\$2,609)	-11.6%
Riviera Black Hawk	10,005	9,009	996	11.1%
Property EBITDA, as Adjusted	29,948	31,561	(1,613)	-5.1%
Corporate Expenses	(3,657)	(3,892)	235	-6.0%
Total EBITDA	\$ 26,291	\$27,669	(\$1,378)	-5.0%
EBITDA margin				
Riviera Las Vegas	18.5%	18.5%	0.0%	
Riviera Black Hawk	26.7%	24.7%	2.0%	
Total EBITDA	18.1%	17.5%	0.6%	
Reconciliation of Income from Operations to EBITDA				
Operating Income	\$12,908	\$14,739		
Depreciation	13,383	12,930		
EBITDA	\$ 26,291	\$ 27,669		

(1) EBITDA consists of earnings before interest, income taxes, depreciation, amortization, loss on extinguishment of debt and other, net. While EBITDA should not be construed as a substitute for operating income or a better indicator of liquidity than cash flow from operating activities, which are determined in accordance with generally accepted accounting principles ("GAAP"), it is

18

included herein to provide additional information with respect to the ability of the Company to meet its future debt service, capital expenditure and working capital requirements.

Although EBITDA is not necessarily a measure of the Company's ability to fund its cash needs, management believes that certain investors find EBITDA to be a useful tool for measuring the ability of the Company to service its debt. EBITDA margin is EBITDA as a percent of net revenues. The Company's definition of EBITDA may not be comparable to other companies' definitions.

Riviera Las Vegas

Revenues

Net revenues decreased by approximately \$14.1 million, or 11.6%, from \$121.6 million in 2001 to \$107.5 million in 2002 due primarily to decreased casino, rooms and entertainment revenues. Casino revenues decreased by approximately \$7.1 million, or 13.2%, from \$53.6 million during 2001 to \$46.5 million during 2002 due to a decrease in slot machine revenue. Room revenue decreased \$2.1 million, or 6.0%, from \$34.5 million in 2001 to \$32.4 million in 2002 due to the continued effects of a slower economy and the events of September 11, 2001. Hotel occupancy fell 3.9% from 96.0% in 2001 to 92.1% in

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

2002 and the average daily room rate fell \$2.45 from \$62.03 in 2001 to \$59.58 in 2002. Entertainment revenues decreased by approximately \$4.0 million, or 23.7%, from \$17.0 million during 2001 to \$13.0 million during 2002 due primarily to a decrease in Splash and Crazy Girls revenues as result of competition from the openings of new shows on the Las Vegas Strip and a slower economy. Other revenues decreased by approximately \$966,000, or 14.2%, from \$6.8 million during 2001 to \$5.8 million during 2002 due primarily to decreased gift shop and telephone revenues. Promotional allowances decreased by approximately \$412,000, or 3.9%, from \$10.5 million during 2001 to \$10.1 million during 2002 primarily due to decreases in comps related to lower casino activity.

### Income from Operations

Income from operations in Las Vegas declined \$2.0 million, or 15.0%, from \$13.4 million in 2001 to \$11.4 million in 2002 due to the 11.6% decrease in net revenues which was partially offset by a 11.1% decrease in expenses. Fixed costs in the rooms department and general administrative costs were not reduced in sufficient proportion to compensate for the decline in revenue. Room revenues fell 6.0% while costs were down 2.1%.

### EBITDA

Riviera Las Vegas EBITDA, as defined, decreased by approximately \$2.6 million, or 11.6%, from \$22.6 million in 2001 to \$20.0 million in 2002 for reasons described above. During the same periods, EBITDA margin remained the same at 18.5% of net revenues. Margins in Las Vegas continue to be pressured by the economy and competition, but have improved each month. The Las Vegas operation is spending more marketing dollars to increase demand and will continue to focus and improve incentive programs through the rest of the year and into 2003.

19

### Riviera Black Hawk

#### Revenues

Net revenues increased by approximately \$1.0 million, or 2.8%, from \$36.4 million in 2001 to \$37.4 million in 2002. Casino revenues increased \$623,000, or 1.8%, from \$34.6 million in 2001 to \$35.3 million in 2002.

Food and beverage revenues were approximately \$5.0 million in 2002, of which \$3.5 million was complimentary (promotional allowance). Riviera Black Hawk continues to refine its marketing efforts by constantly measuring the success rates of its programs, while monitoring the offerings of competitors. The operation is attempting to strike a balance between player incentives, gaming product, food offerings and entertainment as its primary marketing programs.

### Income from Operations

Income from operations in Black Hawk, Colorado increased \$160,000, or 3.0%, from \$5.3 million in 2001 to \$5.4 million in 2002 due to increased revenues as a result of refining direct marketing and promotional programs for the casino in the nine months of 2002.

### EBITDA

Riviera Black Hawk EBITDA, as defined, increased \$996,000, or 11.1%, from \$9.0 million in 2001 to \$10.0 million in 2002. EBITDA margin for the

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

nine months increased to 26.7% from 24.7% for the same period last year.

### Consolidated Operations

#### Other Income (Expense)

Interest expense on the \$215 million 11% Senior Secured Notes issued by Riviera Holdings Corporation of \$6.2 million plus related amortization of loan fees and equipment and other financing costs totaled approximately \$7.6 million in 2002. Interest on the \$175 million First Mortgage Notes plus related costs totaled \$9.2 million for the first nine months of 2002. Interest expense on the remaining \$35 million of the 13% First Mortgage Notes issued by Riviera Black Hawk in June 1999 combined with its interest from capital leases totaled \$3.2 million in the first nine months of 2002 compared to \$5.1 million for the first nine months of 2001. Additionally interest expense due to defeasance totaled \$2.7 million for the first nine months.

#### Net Income (Loss)

The results of operations decreased \$17.6 million from net loss of \$3.2 million in 2001 to a net loss of \$20.8 million in 2002 due primarily to the loss on extinguishment of debt totaling \$11.2 million, additional interest expense of \$2.7 million as a result of the defeasance/retirement of debt and the continuing effects of a slower economy and the events of September 11, 2001.

20

### EBITDA

Consolidated EBITDA, as defined, decreased by approximately \$1.4 million, or 5.0%, from \$27.7 million in 2001 to \$26.3 million in 2002. During the same periods, EBITDA margin increased from 17.5% to 18.1% of net revenues for the reasons described above.

### Liquidity and Capital Resources

In June 2002, the Company issued \$215 million 11% Senior Secured Notes due 2010. The proceeds along with cash on hand was used to retire our 10% First Mortgage Notes due 2004 and Riviera Black Hawk's remaining 13% First Mortgage Notes due 2005 with contingent interest.

On July 26, 2002 the Company entered into a \$30 million, five-year senior secured revolving credit facility. The credit facility is secured by substantially the same collateral that secures the 11% Notes. The lien on the collateral securing the credit facility is senior to the lien on the collateral securing the 11% Notes. The credit facility contains customary conditions to borrowing and certain representations and warranties customary in gaming-related financing. The credit facility also contains financial covenants and restrictions regarding, among other things, indebtedness, capital expenditures, minimum EBITDA levels throughout the five-year term, investments, distributions and changes in control of the Company. The Company interest rate is prime rate plus 0.75% or LIBOR plus 3.00%, with a minimum of 4.5%. The Company has received no advances under the revolver except for fees which are paid monthly.

At September 30, 2002, the Company had cash and cash equivalents of \$27.4 million. The cash and cash equivalents decreased \$19.2 million during the first nine months of 2002, including, \$8.0 million of cash provided by operations, \$6.4 million of cash outflow for investing activities and \$20.8 million outflow for financing activities.

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

Cash balances include amounts that may be required to fund the Chairman's pension obligation in a rabbi trust with 5 days notice. (See Note 7 to the financial statements, Other Long-Term Liabilities included in Form 10K as filed with the SEC.) Although there is no current intention to require this funding, the Company could be required to disburse approximately \$7.1 million for this purpose in a short period.

Management believes that cash flow from operations, combined with the \$27.4 million cash and cash equivalents and the new \$30 million revolving credit facility will be sufficient to cover the Company's debt service and enable investment in budgeted capital expenditures for 2002 for both the Las Vegas and Black Hawk properties and provide initial investments in the potential Missouri and New Mexico projects.

Cash flow from operations may not be sufficient to pay 100% of the principal of the \$215 million 11% Notes ("the 11% Notes") at maturity on June 15, 2010. Accordingly, the ability of the Company to repay Notes at maturity may be dependent upon our ability to refinance those notes. There can be no assurance that the Company will be able to refinance the principal amount of the 11% Notes at maturity.

The 11% Notes provide that, in certain circumstances, the Company and its subsidiary must offer to repurchase the 11% Notes upon the occurrence of a

21

change of control or certain other events. In the event of such mandatory redemption or repurchase prior to maturity, the Company and its subsidiary would be unable to pay the principal amount of the 11% Notes without a refinancing.

The 11% Notes contain certain covenants, which limit the ability of the Company and its restricted subsidiaries subject to certain exceptions, to: (i) incur additional indebtedness; (ii) pay dividends or other distributions, repurchase capital stock or other equity interests or subordinated indebtedness; (iii) enter into certain transactions with affiliates; (iv) create certain liens; sell certain assets; and (v) enter into certain mergers and consolidations. As a result of these restrictions, the ability of the Company and its subsidiaries to incur additional indebtedness to fund operations or to make capital expenditures is limited. In the event that cash flow from operations is insufficient to cover cash requirements, the Company and its subsidiaries would be required to curtail or defer certain capital expenditure programs under these circumstances, which could have an adverse effect on operations.

At September 30, 2002, the Company believes that it is in compliance with the covenants of the 11% Notes.

### Recently Issued Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is currently assessing, but has not yet determined the impact of SFAS No. 143 on its financial position and results of operations.

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS No. 146"). SFAS No.146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. A fundamental conclusion reached by the FASB in this statement is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company is currently assessing but has not yet determined the impact of SFAS No. 146 on its financial position and results of operations.

22

### Recently Adopted Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets, which is effective January 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, SFAS No. 142 includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. As of June 30, 2002 the Company has determined that it has no intangible assets or goodwill recorded on its balance sheet, and accordingly the adoption of SFAS No. 142 had no impact on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of Accounting Principles Bulletin Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 also amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company has determined that the implementation of SFAS No. 144 had no effect on its financial position and results of operations upon implementation.

In April 2002, the FASB issued Statement of Financial Accounting Standard No. 145, "Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"). SFAS No. 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30 ("Opinion No. 30"). Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent that meet criteria for

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

classification as an extraordinary item. SFAS No. 145 is effective for the Company beginning January 1, 2003, but the Company adopted the provisions of SFAS No. 145 during fiscal year 2002, as permitted. The effect on our consolidated financial position and results of operations of the adoption of SFAS No. 145 was that the Company recognized and reported bond retirement costs as other expense.

### Critical Accounting Policies

A description of our critical accounting policies and estimates can be found in Item 7 of our 2001 Form 10-K and for a more extensive discussion of our accounting policies, see Note 2, Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements in our 2001 Form 10-K filed on March 27, 2002.

23

### Forward Looking Statements

This report includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Statements in this report regarding future events or conditions, including statements regarding industry prospects and the Company's expected financial position, business and financing plans, are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed in this report as well as the Company's most recent annual report on Form 10-K, and include the Company's substantial leverage, the risks associated with the expansion of the Company's business, as well as factors that affect the gaming industry generally. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligations to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Specific factors that might cause actual results to differ from our expectations or might cause us to modify our plans or objectives include, but are not limited to:

- o the availability and adequacy of our cash flow to meet our requirements, including payment of amounts due under our indebtedness;
- o economic, competitive, demographic, business and other conditions in our local and regional markets;
- o changes or developments in laws, regulations or taxes in the gaming industry;
- o actions taken or omitted to be taken by third parties, including our customers, suppliers, competitors and members as well as legislative, regulatory, judicial and other governmental authorities;
- o competition in the gaming industry, including the availability and success of alternative gaming venues and other entertainment attractions;
- o a decline in the public acceptance of gaming;

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

- o changes in personnel or compensation, including federal minimum wage requirements;
- o our failure to obtain, delays in obtaining or the loss of any licenses, permits or approvals, including gaming and liquor licenses, or the limitation, conditioning, suspension or revocation of any such licenses, permits or approvals, or our failure to obtain an unconditional renewal of any such licenses, permits or approvals on a timely basis;

24

- o the loss of any of our casino facilities due to terrorist acts, casualty, weather, mechanical failure or any extended or extraordinary maintenance or inspection that may be required;
- o other adverse conditions, such as adverse economic conditions, changes in general customer confidence or spending, increased transportation costs, travel concerns or weather-related factors, that may adversely affect the economy in general and/or the casino industry in particular;
- o our substantial indebtedness, debt service requirements and liquidity constraints;
- o risks related to our notes and to high-yield securities and gaming securities generally;
- o changes in our business strategy, capital improvements or development plans;
- o the availability of additional capital to support capital improvements and development; and
- o factors relating to the current state of world affairs and any further acts of terrorism or any other destabilizing events in the United States or elsewhere.

25

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates. We invest our cash and cash equivalents in U.S. Treasury Bills with maturities of 30 days or less. Such investments are generally not affected by changes in interest rates.

As of September 30, 2002, we had \$220.8 million in borrowings. The borrowings include \$215 million in notes maturing in 2010 and capital leases maturing at various dates through 2005. Interest under the \$215 million notes is based on a fixed rate of 11%. The equipment loans and capital leases have interest rates



## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

ranging from 5.2% to 13.5%.The borrowings also include \$863,000 in a special improvement district bond offering with the City of Black Hawk.The Company's share of the debt on the SID bonds of \$1.2 million when the project is complete, is payable over tenyears beginning in 2000. The special improvement district bonds bear interest at 5.5%.

### Interest Rate Sensitivity

Principal (Notational Amount by Expected Maturity)

Average Interest Rate

(Amounts in thousands)	2002	2003	2004	2005	2006	Thereafter	To
<b>Assets</b>							
Short term investments							
Average interest rate							\$
Long Term Debt Including Current Portion							
Equipment loans and capital leases Las Vegas							
Average interest rate	\$ 298	\$ 1,326	\$ 988	\$ 11			\$ 2,
	8.0%	7.8%	7.8%	8.4%			
11% Senior Secured Notes							
Average interest rate						\$211,882	\$211
						11.6%	
Capital leases							
Black Hawk, Colorado	\$ 479	\$ 2,045	\$ 2,263	\$ 658			\$ 5,
Average interest rate	10.8%	10.8%	10.8%	10.8%			
Special Improvement District Bonds							
Black Hawk, Colorado	\$ -	\$ 103	\$ 109	\$ 116	\$ 124	\$ 411	\$ 8
Average interest rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	

26

#### Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

(b) Changes in Internal Controls. Since the Evaluation Date, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect such controls.

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

### Part II. OTHER INFORMATION

#### Item 1. Legal Proceedings

The Company is a party to several routine lawsuits, both as plaintiff and as defendant, arising from the normal operations of a hotel. The Company does not believe that the outcome of such litigation, in the aggregate, will have a material adverse effect on its financial position or results of its operations.

#### Item 6. Exhibits and Reports on Form 8-K.

(a) See list of exhibits on page 33.

(b) During the third quarter of 2002, the Company filed reports on Form 8-K on July 31, and September 19, 2002. Each Form 8-K reported Item Nos. 5 and 7 which, in the July 31, 2002 filing, included summary financial information for the Company's second quarter.

27

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

RIVIERA HOLDINGS CORPORATION

By: /s/ William L. Westerman  
William L. Westerman  
Chairman of the Board and  
Chief Executive Officer

By: /s/ Duane Krohn  
Duane Krohn  
Treasurer and  
Chief Financial Officer

Date: November 8, 2002

CERTIFICATIONS

I, William L. Westerman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Riviera Holdings Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal

29

controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002

William L. Westerman  
Chairman of the Board and  
Chief Executive Officer

30

### CERTIFICATIONS

I, Duane Krohn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Riviera Holdings Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

quarterly report (the "Evaluation Date"); and

- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal

31

controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002

Duane Krohn  
Treasurer and  
Chief Financial Officer

32

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

Riviera Holdings Corporation  
Form 10Q  
September 30, 2002

Exhibit No.	Description
10.1*	Loan and Security Agreement dated as of July 26, 2002 by and among the Company and the other Borrower parties thereto, the Guarantors parties thereto and Foothill Capital Corporation (see Exhibit 10.30 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
10.2*	Intercreditor Agreement dated as of July 26, 2002 by and between The Bank of New York, as trustee, and Foothill Capital Corporation (see Exhibit 10.31 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
10.3*	Fee Letter, dated July 26, 2002, issued by the Company, Riviera Black Hawk, Inc. and Riviera Operating Corporation to Foothill Capital Corporation (see Exhibit 10.32 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
10.4*	Intellectual Property Security Agreement dated as of July 26, 2002 by and between the Company and the other Debtors parties thereto, and Foothill Capital Corporation (see Exhibit 10.33 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
10.5*	Deed of Trust, Assignment of Rents, Leases, Fixture Filing and Security Agreement dated July 26, 2002, executed by the Company for the benefit of Foothill Capital Corporation (see Exhibit 10.34 to Amendment No. 1 to Registration Statement on Form S-4 filed with the Commission on August 26, 2002)
10.6*	Environmental Indemnity dated July 26, 2002 from the Company in favor of Foothill Capital Corporation (see Exhibit 10.35 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
10.7*	Continuing Guaranty dated July 26, 2002 by and among the Company, the other Borrowers parties thereto and the Guarantors parties thereto in favor of Foothill Capital Corporation (see Exhibit 10.36 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
10.8*	Subordination Agreement dated July 26, 2002 by and among the Company and the other Creditors parties thereto in favor of Foothill Capital Corporation (see Exhibit 10.37 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
10.9*	Stock Pledge and Security Agreement dated July 26, 2002, executed by the Company (see Exhibit 10.38 to Registration Statement on Form S-4 filed with the Commission on August 9,

## Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

2002)

- 10.10\* Stock Pledge and Security Agreement dated July 26, 2002, executed by Riviera Operating Corporation (see Exhibit 10.39 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 10.11\* Stock Pledge and Security Agreement dated July 26, 2002, executed by Riviera Gaming Management, Inc. (see Exhibit 10.40 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 10.12\* Deed of Trust to Public Trustee, Security Agreement, Fixture Filing and Assignment of Rents, Leases and Leasehold Interests dated July 26, 2002, executed by Riviera Black Hawk, Inc. for the benefit of Foothill Capital Corporation (see Exhibit 10.41 to Amendment No. 1 to Registration Statement on Form S-4 filed with the Commission on August 26, 2002)
- 10.13\* Environmental Indemnity dated July 26, 2002 from the Company and Riviera Black Hawk, Inc. in favor of Foothill Capital Corporation (see Exhibit 10.42 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)

\* The exhibits thus designated are incorporated herein by reference as exhibits hereto. Following the description of each such exhibit is a reference to it as it appeared in a specified document previously filed with the Commission to which there have been no amendments or changes.