

Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-Q

RIVIERA HOLDINGS CORP

Form 10-Q

August 09, 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 June 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

89109

(Address of principal executive offices)

(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 ☒ 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

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

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

As of July 31 , 2002, there were 3,575,372 shares of Common Stock, \$.001 par value per share, outstanding.

### RIVIERA HOLDINGS CORPORATION

#### INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements	
Independent Accountants' Report	2
Condensed Consolidated Balance Sheets (Unaudited) at June 30, 2002 and December 31, 2001	3
Condensed Consolidated Statements of Operations (Unaudited) for the Three and Six Months ended June 30, 2002 and 2001	4
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three and Six Months ended June 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	13
Item 3. Quantitative and Qualitative Disclosures about Market Risk	23
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	24
Item 4. Submission of Matters to a Vote of Security Holders	24
Item 6. Exhibits and Reports on Form 8-k	26
Signature Page	25
Exhibits	26

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

To the Board of Directors  
Riviera Holdings Corporation

We have reviewed the accompanying condensed consolidated balance sheet of Riviera Holdings Corporation (the "Company") and subsidiaries as of June 30, 2002, and the related condensed consolidated statements of operations and of cash flows for the three and six months ended June 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

July 30, 2002  
Las Vegas, Nevada

2

### RIVIERA HOLDINGS CORPORATION CONSOLIDATED BALANCE SHEETS

(In Thousands, except share amounts)

	June 30	December 31
	2002	2001
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 21,974	\$ 46,606
Accounts receivable, net	2,921	3,528
Inventories	1,807	2,253
Prepaid expenses and other assets	3,493	3,083

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

US Treasury bills held to retire bonds	226,632	0
	-----	-----
Total current assets	256,827	55,470
PROPERTY AND EQUIPMENT, Net	195,060	200,531
OTHER ASSETS, Net	18,638	6,728
DEFERRED INCOME TAXES	5,089	5,089
	-----	-----
TOTAL	\$ 475,614	\$ 267,818
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 3,297	\$ 3,151
Accounts payable	10,517	8,200
Accrued interest	343	8,084
Accrued expenses	13,040	14,740
Bonds (including accrued interest payable of \$7,434) to be retired by US Treasury bills	217,374	0
	-----	-----
Total current liabilities	244,571	34,175
	-----	-----
OTHER LONG-TERM LIABILITIES	7,666	7,391
	-----	-----
LONG-TERM DEBT, Net of current portion	218,234	217,288
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock (\$.001 par value; 20,000,000 shares authorized; 5,106,776 shares issued at December 31, 2001 and June 30, 2002, respectively)	5	5
Additional paid-in capital	13,486	13,485
Treasury stock (1,674,144 shares and 1,653,594 shares at December 31, 2001 and June 30, 2002, respectively)	(11,146)	(11,246)
	-----	-----
Retained earnings	2,798	6,720
	-----	-----
Total stockholders' equity	5,143	8,964
	-----	-----
TOTAL	\$ 475,614	\$ 267,818
	=====	=====
See notes to condensed consolidated financial statements		

3

RIVIERA HOLDINGS CORPORATION		
CONSOLIDATED STATEMENTS OF OPERATIONS		
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001		
(In thousands, except per share amounts)	Three Months Ended	
	June 30,	
	-----	-----
	2002	2001
REVENUES:		

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

Casino	28,863	31,045
Rooms	10,667	11,736
Food and beverage	8,519	8,493
Entertainment	4,372	5,864
Other	2,200	2,500
	-----	-----
Total revenues	54,621	59,638
Less promotional allowances	4,767	4,810
	-----	-----
Net revenues	49,854	54,828
	-----	-----
COSTS AND EXPENSES:		
Direct costs and expenses of operating departments:		
Casino	14,814	16,790
Rooms	6,272	6,242
Food and beverage	5,545	5,690
Entertainment	2,887	4,126
Other	741	854
Other operating expenses:		
General and administrative	9,429	10,557
Depreciation and amortization	4,455	4,287
	-----	-----
Total costs and expenses	44,143	48,546
	-----	-----
INCOME FROM OPERATIONS	5,711	6,282
	-----	-----
OTHER (EXPENSE) INCOME:		
Interest expense	(6,568)	(6,669)
Interest expense - bonds held for retirement	(364)	
Interest income	137	290
Interest capitalized		
Other, net	(4)	(27)
	-----	-----
Total other expense	(6,799)	(6,406)
	-----	-----
INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	(1,088)	(124)
(BENEFIT) FOR INCOME TAXES	0	(54)
	-----	-----
NET INCOME (LOSS)	\$ (1,088)	\$ (70)
	=====	=====
EARNINGS (LOSS) PER SHARE DATA:		
Earnings (loss) per share:		
Basic & Diluted	\$ (0.32)	\$ (0.02)
	-----	-----
Weighted-average common and common equivalent shares	3,452	3,668
	-----	-----
See notes to condensed consolidated financial statements		

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

## RIVIERA HOLDINGS CORPORATION AND SUBSIDIARY CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended June 30,	
	2002	2001
<hr/>		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (loss)	(\$1,088)	(\$70)
Adjustments to reconcile net income(loss) to net cash (used in) and provided by operating activities:		
Depreciation and amortization	4,455	4,287
Provision for bad debts	22	57
Provision for gaming discounts	(48)	(92)
Interest expense	6,932	6,669
Interest paid	(3,172)	(2,674)
Changes in operating assets and liabilities:		
Increase in interest receivable on US T-Bills purchased to retire bonds	(57)	0
Decrease (increase) in accounts receivable	966	2,499
Decrease (increase) in inventories	(11)	537
Decrease (increase) in prepaid expenses and other assets	(204)	(88)
Increase (decrease) in accounts payable	1,545	593
Increase (decrease) in accrued liabilities	(177)	(1,387)
Increase (decrease) in deferred income taxes	0	(55)
Increase in deferred compensation plan liability	105	494
Increase (decrease) in non-qualified pension plan obligation to CEO upon retirement	(125)	(283)
	<hr/>	
Net cash provided by operating activities	9,143	10,487
	<hr/>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures - Las Vegas, Nevada	(1,337)	(2,451)
Capital expenditures - Black Hawk, Colorado	(749)	(1,022)
Decrease (increase) in other assets	(622)	(196)
	<hr/>	
Net cash provided by (used in) investing activities	(2,708)	(3,669)
	<hr/>	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	211,781	0
US Treasury Bills purchased to retire bonds	(226,576)	0
Increase in deferred loan fees	(10,381)	
Payments on long-term borrowings	(854)	(690)
Purchase of treasury stock	0	0
Increase in paid-in capital	0	41
Purchase of deferred comp treasury stock	0	(193)
Purchase of Black Hawk 13% 1st Mortgage Notes	0	0
Issuance of restricted stock	25	91
	<hr/>	
Net cash (used in) provided by financing activities	(26,005)	(751)
	<hr/>	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,570)	6,067
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 41,544	\$ 43,463
	<hr/>	

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

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 21,974	\$ 49,530
	=====	=====
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:		
Property acquired with debt and accounts payable	\$65	\$232
See notes to condensed consolidated financial statements		

5

## 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 June 30, 2002 and for the three and six months ended June 30, 2002 and 2001 is unaudited. However, such information reflects

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

all adjustments (consisting solely of normal and recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the

6

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

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 on Bonds Held for Retirement

The Company reports interest expense separately for bonds to be retired when funds have been segregated for that specific purpose.

### Earnings Per Share

Basic per share amounts are computed by dividing net income by weighted average shares outstanding during the period. Diluted net income 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 six months ended June 30, 2002 and 2001 since the Company incurred a net loss. The number of potentially dilutive options was 285,500 and 113,000 for the three and six months ended June 30, 2002 and 283,500 for the three and six months ended June 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.

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

7

### Recently Issued Accounting Pronouncements



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

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.

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 may adopt the provisions of SFAS No. 145 prior to this date. The effect on our consolidated financial position and results of operations of the adoption of SFAS No. 145 will be that we recognize and report bond retirement costs as an operating expense.

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, 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.

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

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.

### 2. 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 June 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 the life of the 10% Notes on a straight-line basis. The Notes were defeased on June 26, 2002 as part of our new \$215 million dollar Senior Secured Note offering and will be 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.

### 3. 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.

9

### 4. STOCK REPURCHASES

There were no treasury stock purchases for the second quarter of 2002 or 2001.

### 5. ISSUANCE OF RESTRICTED STOCK

There were 4,771 shares of Treasury Stock issued at an average cost of \$4.75 under the Restricted Stock Plan at an average market value of \$5.24 per share, for executive compensation in the second quarter of 2002. The stock has

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

restrictions as to when it can be traded or sold by its holder, primarily the shares cannot be sold until the executive terminates his employment with the Company.

### 6. GUARANTOR INFORMATION

The Company's 11.0% Senior Secured Notes are guaranteed by all of the Company's wholly owned existing significant restricted subsidiaries. These guaranties are full, unconditional, and joint and several.

### 7. SUBSEQUENT EVENT

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 pf approximately \$1.5 million which are being expensed over the life of the agreement.

In July 2002, the Company received an income tax refund of approximately \$1.9 million.

10

### 8. SEGMENT DISCLOSURES

The Company determines its segments based upon review process of the chief decision maker who reviews by geographic gaming market segments: Riviera Las Vegas and Riviera Black Hawk. All intersegment revenues have been eliminated.

(Dollars in thousands)	Three months ended June 30,		Six mon Jun
	2002	2001	2002
Net revenues:			
Riviera Las Vegas	\$37,227	\$42,838	\$71,936
Riviera Black Hawk	12,627	11,990	24,416

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

Total net revenues	----- \$49,854 =====	----- \$ 54,828 =====	----- \$ 96,352 =====
Income (loss) from operations:			
Riviera Las Vegas	\$3,530	\$4,662	\$5,789
Riviera Black Hawk	2,181	1,620	3,609
Total income from operations	----- \$5,711 =====	----- \$6,282 =====	----- \$9,398 =====
EBITDA (1):			
Riviera Las Vegas	\$6,417	\$7,750	\$11,652
Riviera Black Hawk	3,749	2,819	6,695
Total EBITDA	----- \$10,166 =====	----- \$10,569 =====	----- \$18,347 =====
EBITDA margin:			
Riviera Las Vegas	17.2%	18.1%	16.2%
Riviera Black Hawk	29.7%	23.5%	27.4%
Total EBITDA	20.4%	19.3%	19.0%

(1) EBITDA consists of earnings before interest, income taxes, depreciation, amortization, 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.

	June 30, 2002	December 31, 2001
Assets (2):	(in thousands)	
Riviera Las Vegas	\$128,619	\$ 132,982
Riviera Black Hawk	66,441	67,549
	-----	-----

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

Total assets	\$195,060	\$ 200,531
	=====	=====

(2) Asset represent property and equipment and intangible assets, net of accumulated depreciation and amortization.

### 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 entered into 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. The management fee consists of a revenue fee and a performance fee. The revenue fee is based on 1 percent of net revenues (gross revenue less complimentaries) and is paid quarterly in arrears. The performance fee is based on the following percentages of EBITDA, whose components are derived from amounts calculated using generally accepted accounting principles: (1) 10 percent of EBITDA from \$5 million to \$10 million, (2) 15 percent of EBITDA from \$10 million to \$15 million, and (3) 20 percent of EBITDA in excess of \$15 million. The performance fee is based on the preceding quarterly installments subject to year-end adjustment. The management fee began of February 4, 2000, the date of the opening of the Riviera Black Hawk Casino. If there is any default under the RBH Management Agreement, the Manager will not be entitled to receive management fees but will still be entitled to intercompany service fees. At June 30, 2002, RBH had accrued but not paid, and the Manager had recognized management fees of \$2.7 million of which \$411,000 are for the three months ended June 30, 2002 and \$278,000 are for the three months ended June 30, 2001. These management fees are eliminated in consolidation.

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

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

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

The following table sets forth, for the periods indicated, certain operating data for the Riviera Las Vegas and Riviera Black Hawk. Intercompany management fees have been eliminated from EBITDA from properties for the purpose of this table. Operating Income includes intercompany management fees.

(In Thousands)	Second Quarter 2002 ----	2001 ----	Incr/ (Decr) -----	% Incr/ (Decr) -----
Net revenues:				
Riviera Las Vegas	\$37,227	\$42,838	(\$5,611)	-13.1%
Riviera Black Hawk	12,627 -----	11,990 -----	637 ---	5.3%
Total Net Revenues	\$49,854 =====	\$54,828 =====	(\$4,974) =====	-9.1% =====
Operating Income (Loss)				
Riviera Las Vegas	\$3,530	\$4,662	(\$1,132)	-24.3%
Riviera Black Hawk	2,181 -----	1,620 -----	561 ---	34.6%
Total Operating Income	\$5,711 =====	\$6,282 =====	(\$571) =====	-9.1% =====
EBITDA: (1)				
Riviera Las Vegas	\$6,417	\$7,750	(\$1,333)	-17.2%
Riviera Black Hawk	3,749 -----	2,819 -----	930 ---	33.0%
Total EBITDA	\$ 10,166 =====	\$10,569 =====	(\$403) =====	-3.8% =====
EBITDA margin				
Riviera Las Vegas	17.2%	18.1%	-0.9%	
Riviera Black Hawk	29.7%	23.5%	6.2%	
Total EBITDA	20.4%	19.3%	1.1%	

(1) EBITDA consists of earnings before interest, income taxes, depreciation, amortization, 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.

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

### Revenues

Net revenues decreased by approximately \$5.6 million, or 13.1%, from \$42.8 million in 2001 to \$37.2 million in 2002 due primarily to decreased casino, rooms and entertainment revenues. Casino revenues decreased by approximately \$2.6 million, or 13.1%, from \$19.6 million during 2001 to \$17.0 million during 2002 due to a 7.7% decrease in slot machine revenue. Room revenue decreased \$1.1 million, or 9.1%, from \$11.7 million in 2001 to \$10.6 million in 2002 due to the continued effects of a slower economy and the events of September 11, 2001. Hotel occupancy fell 2.8% from 98.5% in 2001 to 95.8% in 2002 and average daily room rate fell \$5.32 from \$62.02 in 2001 to \$56.70 in 2002. The Company has been able to bring occupancy back to normal levels, however, the average daily rate remained 8.6% below historical levels in June 2001. Entertainment revenues decreased by approximately \$1.5 million, or 26.4%, from \$5.8 million during 2001 to \$4.3 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 \$402,000, or 16.9%, from \$2.4 million during 2001 to \$2.0 million during 2002 due primarily to decreased gift shop and telephone revenues. Promotional allowances decreased by approximately \$141,000, or 3.7%, from \$3.8 million during 2001 to \$3.7 million during 2002 primarily due to decreases in comps related to lower casino activity.

### Income from Operations

Income from operations in Las Vegas declined \$1.1 million, or 24.3%, from \$4.6 million in 2001 to \$3.5 million in 2002 due to the 13.1% decrease in net revenues which was partially offset by an 11.7% decrease in expenses. Rooms department fixed expenses did not decline in proportion to revenues which accounted for the decline in income from operations.

### EBITDA

Riviera Las Vegas EBITDA, as defined, decreased by approximately \$1.3 million, or 17.2%, from \$7.7 million in 2001 to \$6.4 million in 2002 for reasons described above. During the same periods, EBITDA margin decreased from 18.1% to 17.2% of net revenues. Margins in Las Vegas continue to be pressured by the economy and competitor actions, but have improved each month. The Las Vegas operation is spending more marketing dollars to increase demand and will continue to focus and grow incentive programs through the rest of the year and into 2003.

### Riviera Black Hawk

#### Revenues

Net revenues increased by approximately \$637,000, or 5.3%, from \$12.0 million in 2001 to \$12.6 million in 2002. Casino revenues increased \$390,000, or 3.4%, from \$11.4 million in 2001 and \$11.8 million in 2002. This continues a historical trend of growth for the Black Hawk market as new casinos offering a variety of new amenities have expanded the market's appeal to a

broader base of customers. The Black Hawk market grew by a healthy 12.5% in the second quarter of 2002 compared to the second quarter of 2001.

Food and beverage revenues were approximately \$1.6 million in 2002, of which \$1.1 million was complimentary (promotional allowance). Riviera

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

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 in order to implement a more cost effective marketing plan that will have a positive impact on profitability.

### Income from Operations

Income from operations in Black Hawk, Colorado increased \$561,000, or 34.6%, from \$1.6 million in 2001 to \$2.2 million in 2002 due to increased revenues as a result of refining our direct marketing and promotional programs for the casino in the second quarter of 2002.

### EBITDA

Riviera Black Hawk EBITDA, as defined, increased \$930,000, or 33.0%, from \$2.8 million in 2001 to \$3.7 million in 2002. EBITDA margin for the second quarter increased to 29.7% from 23.5% in the same quarter of the prior year.

### Consolidated Operations

#### Other Income (Expense)

Interest expense on the \$175 million 10% First Mortgage Notes issued by Riviera Holdings Corporation of \$4.4 million plus related amortization of loan fees and equipment and other financing costs totaled approximately \$5 million in 2001 and 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 \$1.7 million in the second quarter of 2002 compared to \$1.7 million for the second quarter of 2001. In addition a new offering of \$215 million Senior Secured Notes (refinancing the 10% and 13% notes) incurred interest of \$353,000 in the second quarter of 2002.

#### Net Income (Loss)

The results of operations decreased \$1.0 million from net loss of \$70,000 in 2001 to a net loss of \$1.1 million in 2002 due primarily to the continuing effects of a slower economy and the events of September 11, 2001.

### EBITDA

Consolidated EBITDA, as defined, decreased by approximately \$403,000, or 3.8%, from \$10.6 million in 2001 to \$10.2 million in 2002. During the same periods, EBITDA margin increased from 19.3% to 20.4% of net revenues for the reasons described above.

15

### Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

The following table sets forth, for the periods indicated, certain operating data for the Riviera Las Vegas and Riviera Black Hawk. Intercompany management fees have been eliminated from EBITDA from properties for the purpose of this table. Operating Income includes intercompany management fees.

(In Thousands)	Six Months Ended 2002	2001	Incr/ (Decr)	% Incr/ (Decr)
----------------	--------------------------	------	-----------------	-------------------



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

	-----	-----	-----	-----
Net revenues:				
Riviera Las Vegas	\$71,936	\$84,068	(\$12,132)	-14.4%
Riviera Black Hawk	24,416	22,960	1,456	6.3%
	-----	-----	-----	-----
Total Net Revenues	\$96,352	\$107,028	(\$10,676)	-10.0%
	=====	=====	=====	=====
Operating Income (Loss)				
Riviera Las Vegas	\$5,789	\$8,770	(\$2,981)	-34.0%
Riviera Black Hawk	3,609	2,956	653	22.1%
	-----	-----	---	-----
Total Operating Income	\$9,398	\$11,726	(\$2,328)	-19.9%
	=====	=====	=====	=====
EBITDA: (1)				
Riviera Las Vegas	\$11,652	\$14,910	(\$3,258)	-21.9%
Riviera Black Hawk	6,695	5,362	1,333	24.9%
	-----	-----	-----	-----
Total EBITDA	\$ 18,347	\$20,272	(\$1,925)	-9.5%
	=====	=====	=====	=====
EBITDA margin				
Riviera Las Vegas	16.2%	17.7%	-1.5%	
Riviera Black Hawk	27.4%	23.4%	4.0%	
Total EBITDA	19.0%	18.9%	0.1%	

1 EBITDA consists of earnings before interest, income taxes, depreciation, amortization, and others, 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 \$12.1 million, or 14.4%, from \$84.1 million in 2001 to \$72.0 million in 2002 due primarily to decreased casino, rooms and entertainment revenues. Casino revenues decreased by

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

approximately \$4.5 million, or 12.3%, from \$36.4 million during 2001 to \$31.9 million during 2002 due to a decrease in slot machine revenue. Room revenue decreased \$3.1 million, or 12.6%, from \$24.5 million in 2001 to \$21.4 million in 2002 due to the continued effects of a slower economy and the events of September 11, 2001. Hotel occupancy fell 5.6% from 97.4% in 2001 to 91.8% in 2002 and average daily room rate fell \$5.65 from \$65.02 in 2001 to \$59.37 in 2002. The Company has been able to bring occupancy back to normal levels, however, the average daily rate remained 8.6% below historical levels in June 2002. Entertainment revenues decreased by approximately \$3.3 million, or 27.9%, from \$11.7 million during 2001 to \$8.4 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 \$775,000, or 16.5%, from \$4.7 million during 2001 to \$3.9 million during 2002 due primarily to decreased gift shop and telephone revenues. Promotional allowances decreased by approximately \$229,000, or 3.3%, from \$7.0 million during 2001 to \$6.8 million during 2002 primarily due to decreases in comps related to lower casino activity.

### Income from Operations

Income from operations in Las Vegas declined \$3.0 million, or 34.0%, from \$8.8 million in 2001 to \$5.8 million in 2002 due to the 14.4% decrease in net revenues which was partially offset by a 12.2% 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 12.6% while costs were down 4.1%.

### EBITDA

Riviera Las Vegas EBITDA, as defined, decreased by approximately \$3.3 million, or 21.9%, from \$14.9 million in 2001 to \$11.6 million in 2002 for reasons described above. During the same periods, EBITDA margin decreased from 17.7% to 16.2% of net revenues. Margins in Las Vegas continue to be pressured by the economy and competitor actions, but have improved each month. The Las Vegas operation is spending more marketing dollars to increase demand and will continue to focus and grow incentive programs through the rest of the year and into 2003.

17

### Riviera Black Hawk

#### Revenues

Net revenues increased by approximately \$1.5 million, or 6.3%, from \$22.9 million in 2001 to \$24.4 million in 2002. Casino revenues increased \$1.1 million, or 4.9%, from \$21.9 million in 2001 and \$23.0 million in 2002.

Food and beverage revenues were approximately \$3.3 million in 2002, of which \$2.4 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.

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

### Income from Operations

Income from operations in Black Hawk, Colorado increased \$653,000, or 22.1%, from \$3.0 million in 2001 to \$3.6 million in 2002 due to increased revenues as a result of refining direct marketing and promotional programs for the casino in the six months of 2002.

### EBITDA

Riviera Black Hawk EBITDA, as defined, increased \$1.3 million, or 24.9%, from \$5.4 million in 2001 to \$6.7 million in 2002. EBITDA margin for the six months increased to 27.4% from 23.4% for the same period last year.

### Consolidated Operations

#### Other Income (Expense)

Interest expense on the \$175 million 10% First Mortgage Notes issued by Riviera Holdings Corporation of \$8.8 million plus related amortization of loan fees and equipment and other financing costs totaled approximately \$10.0 million in 2001 and 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 \$3.3 million in the first six months of 2002 compared to \$3.5 million for the first six months of 2001. Additionally the new offering of \$215 million Senior Secured Notes incurred interest expense of \$353,000 for the first six months of 2002.

#### Net Income (Loss)

The results of operations decreased \$3.2 million from net loss of \$728,000 in 2001 to a net loss of \$3.9 million in 2002 due primarily to the continuing effects of a slower economy and the events of September 11, 2001.

18

### EBITDA

Consolidated EBITDA, as defined, decreased by approximately \$1.9 million, or 9.5%, from \$20.3 million in 2001 to \$18.3 million in 2002. During the same periods, EBITDA margin increased from 18.9% to 19.0% 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 defease 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,

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

minimum EBITDA levels throughout the five-year term, investments, distributions and changes in control of the Company. Under the credit facility, the Company can obtain extensions of credit in the forms of cash advances and letters of credit. The Company is required to pay interest on all outstanding cash advances at the rate of interest announced by Wells Fargo at its principal office in San Francisco as its prime rate plus 0.75% or at the rate at which major international banks in London charge each other for borrowings in U.S. dollars plus 3.00%. However, the minimum interest rate the Company will be charged on outstanding cash advances is 4.50%. The Company is required to pay a fee on all outstanding letters of credit equal to their face value times an annual percentage rate of 2.5%. Additionally, if the Company is in default under the credit facility (which would include a default under the 11% Notes), the credit facility lender may increase the interest rate and letter of credit fee by an additional 2.00% per year during the period of the default.

At June 30, 2002, the Company had cash and cash equivalents of \$22 million. The cash and cash equivalents decreased \$19.6 million during the first six months of 2002, including, \$7.3 million of cash provided by operations, \$5.2 million of cash outflow for investing activities and \$ 26.7 million outflow for financing activities.

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 might need to disburse, approximately \$7.0 million for this purpose in a short period.

The Las Vegas operations are self insured for workmen's compensation claims. The State of Nevada requires that Riviera Holdings Corporation maintain a \$2.5 million tangible net worth, as defined in the statute. If tangible net worth were to fall below \$2.5 million, the Company would have to fund a \$2.5 million bond with the State or obtain workmen's compensation insurance at a significantly higher cost than its current cost structure. The State has notified the Company that it qualifies for self insurance through April of 2003.

Management believes that cash flow from operations, combined with the \$22 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 to 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 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

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

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 June 30, 2002, the Company believes that it is in compliance with the covenants of the 10% Notes, the 13% Notes and 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.

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

20

Company beginning January 1, 2003, but the Company may adopt the provisions of SFAS No. 145 prior to this date. The effect on our consolidated financial position and results of operations of the adoption of SFAS No. 145 will be that we recognize and report bond retirement costs as an operating expense.

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

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

results of operations.

### Recently Adopted Accounting Pronouncements

In June 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, 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.

### 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.

### 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

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

undertakes no obligations to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

22

### 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 June 30, 2002, we had \$221.5 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 ranging from 5.2% to 13.5%. The borrowings also include \$912,000 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 ten years 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
Assets						
Short term investments						
Average interest rate						
Long Term Debt Including Current Portion						
Equipment loans and capital leases Las Vegas	\$ 601	\$ 1,326	\$ 988	\$ 11		
Average interest rate	8.0%	7.8%	7.8%	8.4%		
11% Senior Secured Notes						\$211,781
Average interest rate						11.6%
Capital leases						
Black Hawk, Colorado	\$ 946	\$ 2,045	\$ 2,263	\$ 658		
Average interest rate	10.8%	10.8%	10.8%	10.8%		
Special Improvement District Bonds						
Black Hawk, Colorado	\$ 49	\$ 103	\$ 109	\$ 116	\$ 124	\$ 411
Average interest rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%

-----  
Bonds held for retirement

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

13% First Mortgage Note  
Black Hawk, Colorado casino  
project \$34,941  
Average interest rate 14.0%

10% First Mortgage Note  
Las Vegas \$ 175,000  
Average interest rate 10.6%

23

### 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 4. Submission of Matters to a Vote of Security Holders.

On May 14, 2002, the Company held its annual meeting of shareholders at which the Company's board of directors was elected. The voting results as to each director nominee were as follows (with no abstentions or broker nonvotes):

	Votes For	Votes Against or Withheld
William L. Westerman	2,959,295	18,468
Robert R. Barengo	2,965,460	12,303
James N. Land, Jr.	2,965,460	12,303
Jeffrey A. Silver	2,963,923	13,840
Paul A. Harvey	2,963,818	13,945

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

(a) See list of exhibits on page 26.

(b) During the second quarter of 2002, the Company filed reports on Form 8-K on April 22, June 6, June 21, June 27, and June 28, 2002. Each Form 8-K reported Item Nos. 5 and 7 which, in the April 22, 2002 filing, included summary financial information for the Company's first quarter.



24

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: August 9, 2002

25

Riviera Holdings Corporation  
Form 10Q  
June 30, 2002

Exhibit No.

Description

10.1\*Registration Rights Agreement dated as of June 26, 2002 by and among the Company, the Guarantors party thereto, and Jefferies & Company, Inc. (see Exhibit 10.1 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)

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

- 10.2\*Purchase Agreement dated June 19, 2002 among the Company, the Guarantors party thereto, and Jefferies & Company, Inc. (see Exhibit 10.2 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 10.3\*Deed of Trust, Assignment of Rents, Leases, Fixture Filing and Security Agreement dated June 26, 2002, executed by the Company for the benefit of The Bank of New York (see Exhibit 10.21 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 10.4\*Deed of Trust to Public Trustee, Security Agreement, Fixture Filing and Assignment of Rents, Leases and Leasehold Interests dated as of June 26, 2002, by Riviera Black Hawk, Inc. for the benefit of The Bank of New York (see Exhibit 10.22 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 10.5\*Security Agreement dated June 26, 2002 by and among the Company, Riviera Operating Corporation, Riviera Gaming Management, Inc., Riviera Gaming Management of Colorado, Inc., Riviera Black Hawk, Inc, and The Bank of New York (see Exhibit 10.23 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 10.6\*Assignment of Rents, Leases and Leasehold Interests dated as of June 26, 2002 by Riviera Black Hawk, Inc. for the benefit of The Bank of New York (see Exhibit 10.24 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 26
- 10.7\*Stock Pledge and Security Agreement dated June 26, 2002, executed by the Company (see Exhibit 10.25 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 10.8\* Stock Pledge and Security Agreement dated June 26, 2002, executed by Riviera Operating Corporation (see Exhibit 10.26 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 10.9\* Stock Pledge and Security Agreement dated June 26, 2002, executed by Riviera Gaming Management, Inc. (see Exhibit 10.27 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 10.10\* Environmental Indemnity dated as of June 26, 2002 by and among the Company and Riviera Black Hawk, Inc., as indemnitors, and The Bank of New York, as trustee (see Exhibit 10.28 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 10.11\* Environmental Indemnity dated as of June 26, 2002 by and between the Company, as indemnitor, and The Bank of New York, as trustee (see Exhibit 10.29 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002)
- 10.12\* 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)
- 10.13\* 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)

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

10.14\* 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)

10.15\* 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)

27

10.16\* 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)

10.17\* 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)

10.18\* 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)

10.19\* 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, 2002)

10.20\* 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)

10.21\* 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)

10.22\* 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)

99.1 CEO Officers Certification

99.2 CFO Officers Certification

\* 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 the Company's Registration Statement on Form S-4 filed with the Commission on the same date as the filing of this Form 10-Q.

28

