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RIVIERA HOLDINGS CORP
Form 10-K
March 15, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934 For the fiscal year ended December 31, 2005
OR

[] TRANSITION REPORT PURSUANT TO SECTIONS 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 88-0296885

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

2901 Las Vegas Boulevard South
Las Vegas, Nevada 89109

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (702) 734-5110

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

Title of Each Class Name of Each Exchange on Which Registered
Common Stock, \$.001 par value American Stock Exchange

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

Common Stock, \$.001 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned
issuer, as defined in Rule 405 of the Securities Act.
YES ___ NO X_
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Indicate by check mark if the registrant is not required to file
reports pursuant to Section 13 or Section 15(d) of the Act. YES ___NO _X_
-

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

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registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO _____

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer ___ Accelerated filer _X_

Non-accelerated filer ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ___ NO _X_

Based on the closing sale price of the registrant's common stock on the American Stock Exchange on June 30, 2005, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$206,500,000.

As of March 1, 2006 the number of outstanding shares of the registrant's common stock was 12,451,755.

Documents incorporated by reference: Portions of the registrant's 2006 definitive annual meeting proxy statement on Schedule 14A (to be filed pursuant to Regulation 14A) are incorporated by reference into Part III of this Form 10-K.

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Page 1 of 53 pages
Exhibit Index Appears on Page 49 hereof.

RIVIERA HOLDINGS CORPORATION AND SUBSIDIARY
ANNUAL REPORT ON FORM 10-K FOR THE FISCAL
YEAR ENDED DECEMBER 31, 2005

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PART I

Item 1. Business
General

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Riviera Holdings Corporation, a Nevada corporation (the "Company"), through its wholly owned subsidiary, Riviera Operating Corporation, owns and operates the Riviera Hotel & Casino ("Riviera Las Vegas") located on Las Vegas Boulevard in Las Vegas, Nevada. Opened in 1955, Riviera Las Vegas has a long-standing reputation for delivering high-quality, traditional Las Vegas-style gaming, entertainment and other amenities.

The Company, through its wholly owned subsidiary, Riviera Black Hawk, Inc., owns and operates the Riviera Black Hawk Casino ("Riviera Black Hawk"), a limited-stakes casino in Black Hawk, Colorado, which opened on February 4, 2000.

The Company determines segments based upon geographic gaming markets and also reviews corporate expenses separately. The Company has two segments: the Las Vegas, Nevada market and the Black Hawk, Colorado market. The segment information can be found in Note 15 of the Notes to the Consolidated Financial Statements included in this document.

Riviera Las Vegas

General

Riviera Las Vegas is located on the corner of Las Vegas Boulevard and Riviera Boulevard in Clark County, Nevada, across from Circus Circus. Riviera Las Vegas targets slot and mid-level table game customers and various convention groups with a focus on creating repeat customers and increasing walk-in traffic. Key elements of this strategy include offering a value-oriented experience by providing a variety of hotel rooms, restaurants and entertainment, with some of Las Vegas' most popular shows, all at reasonable prices.

Gaming

Riviera Las Vegas has 110,000 square feet of casino space. The casino currently has approximately 1,150 slot machines and 40 gaming tables, including blackjack, craps, roulette, pai gow poker, Caribbean Stud(R) poker, Three Card Poker, Let It Ride(R) and mini-baccarat. The casino also includes a poker room and a race and sports book.

Gaming operations at Riviera Las Vegas are continually updated to respond to both changing market conditions and customer demand in an effort to attract new customers and encourage repeat customer business through player tracking and database management. We maintain a slot players club, through which members receive special promotions and targeted mailings. New and innovative slot and table games have been introduced based on customer feedback. We devote substantial time and attention to the type, location and player activity of all of our slot machines. We maintain a capital investment program for the upgrade of our slot machines. In 2004 we installed a new slot monitoring system that will help us expand our marketing capabilities and allow us to accelerate our commitment to provide our customers with the benefits that are now available with ticket-in/ticket-out ("TITO") technology.

Our current marketing programs are directed at mid-level gaming customers as opposed to high-stakes bettors. Mid-level gaming customers tend to provide us with a less volatile, more consistent gaming revenue stream. Consistent with our focus on mid-level gaming customers is our tendency to offer lower table game limits, stricter credit policies and more emphasis on slot machine play.

During 2005, we continued a number of initiatives at Riviera Las Vegas to increase slot play, including the replacement of older slot machines with new machines utilizing TITO technology to improve service and convenience to our customers, completed installation of our new player tracking system, and

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maintained our slot host program. Slot hosts are our employees who interact with patrons as goodwill ambassadors to generate loyalty. Our strategy is to continue to increase slot play through marketing programs and other improvements, including (1) our ongoing slot upgrade program, (2) operation of our new player tracking system, (3) addition of new signage, (4) promotion of the Riviera Las Vegas Player's Club, (5) sponsorship of slot tournaments, (6) creation of promotional programs, and (7) "Penny Town". Penny Town is comprised primarily of penny and nickel slot machines, which is one of the fastest growing segments of the Las Vegas slot market.

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Hotel

Riviera Las Vegas' hotel is comprised of five towers with 2,100 guest rooms, including 169 suites.

Riviera Las Vegas Room Analysis

Tower Description	Year Built	Std. Rooms	Suites	Total	Latest Remodel Year
North Tower	1955	391	11	402	2004
South Tower	1967	147	31	178	2004
Monte Carlo	1974	220	72	292	2005
San Remo	1977	243	6	249	1998
Monaco	1988	930	49	979	2004
Total		1,931	169	2,100	

Despite the significant increase in rooms on the Las Vegas Strip since 1997, we believe Riviera Las Vegas has attained room occupancy rates that are among the highest on the Las Vegas Strip. From 1994 to 2000, the occupancy rate ranged from 95.2% to 98.2%, and was 91.5% for 2001, 89.6% for 2002, 92.2% for 2003, 92.6% for 2004 and 92.6% for 2005 (based on available rooms). The average occupancy rate citywide was 89.2% in 2005 according to the Las Vegas Convention and Visitors Authority (the "LVCVA").

Restaurants

The quality, value and variety of food services are critical to attracting Las Vegas visitors. Riviera Las Vegas offers five bars and four restaurants and serves an average of approximately 4,900 meals per day, including banquets and room service. Riviera completely remodeled its buffet in 2001, upgrading the ambiance and food quality, and featuring cuisine from various countries as well as a carving station. The following table outlines, for each restaurant, the type of service provided and total seating capacity:

Name	Type	Seating Capacity
Kady's	Coffee Shop	290
Kristofer's	Steak and Seafood	162
Ristorante Italiano	Italian	126
World's Fare Buffet	All-you-can-eat	
B&Bs Prime Rib (World's Fare Buffet converts to this restaurant for dinner nightly)	Prime Rib and Ribs	366
Total		944

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In addition, Riviera Las Vegas operates a snack bar and continental breakfast buffet, and has a fast-food court operated by a third party. The food court has 200 seats and several fast-food restaurants, including A&W/KFC Express, Pizza Hut Express(R), Quiznos(R) and La Salsa(R). Riviera Las Vegas has also contracted with a third party for the ownership and operation of The JAX restaurant which serves breakfast and lunch, and features trendy sweets, deli items and sandwiches.

Convention Center

Riviera Las Vegas features 160,000 square feet of convention, meeting and banquet space. The convention center is one of the larger in Las Vegas and is an important feature that attracts customers. The facility can be reconfigured for multiple meetings of small groups or large gatherings of up to 5,000 people. Riviera Las Vegas hosted 310 conventions in 2005. The hotel currently has over 609,000 convention-related advance bookings of rooms through 2009, consisting of over 397,000 definite bookings and over 212,000 tentative bookings. In 2005 approximately 34.4% of the hotel's rooms were occupied for conventions. Based on current bookings we estimate that 34.6% of the rooms will be occupied for conventions in 2006.

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The Royal Pavilion portion of the convention center, which opened in February 1999 and comprises approximately 60,000 square feet of our convention facility, features state-of-the-art convention, meeting and banquet facilities, teleconferencing, wireless Internet and satellite uplink capability, and 12 skyboxes. The additional convention space at the Las Vegas and Mandalay Convention Centers has enabled Las Vegas to attract and book new conventions that may have had date and exhibit space conflicts in the past. Our flexibility of meeting space and proximity to the Las Vegas Convention Center continue to position us to increase our mix of small meetings and conventions, as well as new multi-hotel conventions booked into the Las Vegas Convention Center.

Entertainment

Riviera Las Vegas has one of the most extensive entertainment programs in Las Vegas, offering a variety of regularly scheduled shows and special appearances by headline entertainers. We believe entertainment provides an effective marketing tool to attract our customers. Riviera Las Vegas' entertainment program includes such well received shows as Splash(R) (a variety show), An Evening at La Cage(R) (a female impersonation show), Crazy Girls(R) (an adult revue), and featured comedians at the Riviera Comedy Club as well as a variety of regularly scheduled shows in our LeBistro Theater. We update our shows continually in response to customer surveys and to keep them fresh. Tickets for the shows are offered at reasonable prices in keeping with our emphasis on mid-level customers.

The following table outlines, for each entertainment center, the type of service provided and total seating capacity:

Name	Type	Seating Capacity
Splash	Variety	875
La Cage	Female Impersonation	575
Crazy Girls	Adult Revue	375
Comedy Club	Comedy	350

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Le Bistro	Variety	190

		2,365

We opened a nightclub in 2005, Syn City, which operates five nights per week in our Le Bistro Theater. Syn City opens at 12:00 am, which allows us to continue to offer a variety of entertainment in the Le Bistro Theater prior to 12:00 am and during Syn City nights off.

We believe that our substantial entertainment revenue is attributable to the popularity of the in-house productions supplemented by focused marketing and consistent advertising messages.

Future Expansion Possibilities

We continue to explore the possible development of an approximately 60,000 square-foot entertainment complex to be constructed directly over the casino, which could contain specialty themed entertainment that would appeal to Riviera Las Vegas' main target audience, adults aged 45 to 65. The exit from the complex would deliver patrons to the casino.

We are exploring a number of options for the development of our existing 26-acre site. These options include a joint venture for the development of a condominium, time-share or an additional hotel tower and parking garage. Under the terms of the indenture governing our \$215 million 11% Senior Secured Notes (the "Note Indenture"), we could contribute up to 6 acres of land to such projects, and if we decide to develop a hotel, condominium or time-share tower, a third party could construct and sell condominium or time-share units and arrange financing. We believe that additional rooms adjacent to the Las Vegas Convention Center would be particularly attractive to business customers and would provide a base for additional casino customers. The development of a condominium tower, time-share tower, hotel tower or parking facility would require additional financing and, in the case of a condominium or time-share tower, a joint venture partner, none of which we have in place at this time.

Marketing Strategies-Las Vegas

We have recently contracted outside marketing consultants to help us review our current programs and promotional offerings to help us remain competitive in the market. In addition to our focus on maximizing gaming revenues, we believe another key to our continued success is the expansion of our core conventioner customer base.

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We have developed a marketing program intended to develop a loyal following of repeat slot and mid-level table game customers. We believe we have been able to successfully attract these patrons using Riviera Las Vegas' restaurants, hotel accommodations and entertainment and by focusing on customer service. We have adopted a selective approach to the extension of credit to these customers in order to reduce volatility of operating results. We use our research data to tailor promotional offers to the specific tastes of targeted customers.

Riviera Las Vegas will continue to emphasize marketing programs that appeal to slot and mid-level table game customers with a focus on creating repeat customers and increasing walk-in traffic. In addition, a key marketing focus is expanding Riviera Las Vegas' core conventioner customer base. In developing an overall marketing program, we conduct extensive, ongoing research of our target customers' preferences through surveys, one-on-one interviews and

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focus groups.

Create Repeat Customers

Generating customer loyalty is a critical component of our business strategy, as retaining customers is less expensive than attracting new ones. We have developed a focused and coordinated marketing program intended to develop a loyal customer base which emphasizes (1) providing a high level of service to our customers to ensure an enjoyable experience while at the Riviera Las Vegas, (2) responding to customer surveys and (3) focusing marketing efforts and promotional programs on customers with positive gaming profiles. We believe the implementation of our new player tracking system will help us retain customers. We use our research data to tailor promotional offers to the specific tastes of targeted customers. All slot and table players are encouraged to join the Riviera Las Vegas Player's Club which tracks their level of play, and to fill out surveys that provide us with helpful information and personal preferences. Members of the Riviera Las Vegas Player's Club earn bonus points based upon their level of play, redeemable for free gifts, complimentary services or cash rebates. We make promotional offers to qualifying customers through direct mail, telemarketing and e-mail. We design promotional offers targeted at certain mid-level gaming patrons that are expected to provide significant revenues based upon their historical gaming patterns. We contact these customers through a combination of direct mail and telemarketing by an in-house marketing staff, an outside consultant and independent representatives located in major cities. Riviera Las Vegas uses a proprietary database which is linked to our player tracking system to help identify customers' requirements and preferences, thereby allowing Riviera Las Vegas to customize promotions to attract repeat visitors. We offer customers personalized service, credit availability and access to a variety of complimentary or reduced-rate room, dinner and entertainment reservations. We use a specialized multi-tiered marketing approach to attract customers in each of our major markets. Slot and table game tournaments and special events are designed for specific levels of play. Utilizing our proprietary database, our marketing department targets and invites the customers most appropriate for the customized events. In addition, we host an array of special events, including slot and table game tournaments, designed to attract customers for an extended stay. We have found that this individualized marketing approach has provided significant revenues and profitable repeat business.

Provide Extensive Entertainment Options

We also focus on attracting our guests through a range of entertainment opportunities. Riviera Las Vegas has one of the most extensive entertainment programs in Las Vegas with a variety of regularly scheduled shows and special appearances by headline entertainers. In addition to providing a positive impact on our profitability, the shows attract additional gaming revenue. Surveys conducted in September of 2005 indicate that approximately 67% of the 2005 show patrons came from outside the hotel and approximately 72% of these individuals gambled at Riviera Las Vegas before or after the shows.

Attract Walk-In Traffic

We seek to maximize the number of people who patronize the Riviera Las Vegas but who are not guests in the hotel by capitalizing on Riviera Las Vegas' prime Las Vegas Strip location, convention center proximity and several popular in-house productions. Riviera Las Vegas is well situated on the Las Vegas Strip near Circus Circus, Stardust Hotel & Casino, Sahara Hotel & Casino, Las Vegas Hilton, the Las Vegas Convention Center, Wynn Las Vegas, as well as numerous non-gaming condominium and time-share projects which are either planned or under construction within walking distance of our casino. We strive to attract customers from those facilities, as well as capitalize on the visitors in Las Vegas in general, with the goal of increasing walk-in traffic by (1)

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promoting Penny Town, (2) providing a variety of quality, value-priced entertainment and dining options, and (3) offering the "Free Pull" and the "\$40 for \$20" slot promotions, and placing them inside the casino.

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Focus on Convention Customers

This market consists of two groups: (1) those trade organizations and groups that hold their events in the banquet and meeting space provided by a single hotel and (2) those attending city-wide events, usually held at the Las Vegas Convention Center. Riviera Las Vegas targets convention business because it typically provides patrons willing to pay higher room rates and we are able to provide certain advance planning benefits, since conventions are usually booked two years in advance of the event date. We focus our marketing efforts on conventions whose participants have the most active gaming profile and higher room rates, banquet and function spending habits. Riviera Las Vegas also benefits from our proximity to the Las Vegas Convention Center, which makes us attractive to city-wide conventioners looking to avoid the congestion that occurs during a major convention, particularly at the south end of the Las Vegas Strip. In 2005 we derived 34.4% of our hotel occupancy and 42.3% of our room revenues from convention customers and we consider them to be a critical component of our customer base. We believe that the completed expansion of Riviera Las Vegas' convention facility in February 1999, from 100,000 to 160,000 square feet, has accommodated the growth in size and number of groups that presently use the facility, attracted new convention groups and increased the percentage of rooms occupied by conventioners.

We have found that many of our customers use tour and travel "package" options to reduce the cost of travel, lodging and entertainment. These packages are produced by wholesale operators and travel agents and emphasize mid-week stays. Tour and travel patrons often book at off-peak periods enabling us to maintain occupancy rates at the highest levels throughout the year. We have developed specialized marketing programs and cultivated relationships with wholesale operators, travel agents and major domestic air carriers to expand this market. Our four largest tour and travel operators currently account for approximately 13.1% of total available rooms and 14.2% of occupied rooms. We make an effort to convert many tour and travel customers who meet our target customer gaming profile into repeat slot customers. Several national tour operators canceled their Las Vegas charters late in the first quarter of 2005 and repositioned them to Mexican tour charters. Operators advised that the Mexican tour product is more profitable than the Las Vegas tour product.

Internet

The Internet segment of our business remained stable in 2005. This segment attracts customers in search of a bargain, those making last-minute travel arrangements and those who have the confidence in and find it convenient to book rooms over the Internet. In both 2004 and 2005, our Internet bookings accounted for approximately 11.6% of total available rooms and 12.6% of occupied rooms.

Riviera Black Hawk

Business

Riviera Black Hawk opened on February 4, 2000. Located in Black Hawk, Colorado, approximately 40 miles west of Denver, our casino is the first casino encountered by patrons arriving from Denver on Highway 119. Our casino features the third largest number of gaming devices in the market with approximately

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1,000 slot machines and 10 blackjack tables. In Colorado, each slot machine or table game is considered one gaming device.

We also offer a variety of non-gaming amenities designed to help differentiate our casino including:

- o parking spaces for 520 vehicles, of which 92% are covered, with convenient and free self-park and valet options;
- o a 252-seat casual buffet-styled restaurant;
- o a delicatessen;
- o two themed bars; and

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- o an entertainment center with seating for approximately 400 people.

The initial participants in this market were small, privately held gaming facilities whose inability to offer convenient parking and a full range of traditional casino amenities limited the growth of this market. Subsequently, larger casinos offering such amenities have entered the market, have been gaining market share and have contributed to the consistent growth in the overall market. As of December 31, 2005, there were 26 casinos in the Black Hawk/Central City market, with 11 casinos each offering more than 400 gaming devices. The Isle of Capri, located across the street from our casino, with 1,426 gaming machines and 1,100 covered parking spaces, has been the market leader in terms of win per gaming device.

Marketing strategy

We attract customers to our casino by implementing marketing strategies and promotions designed specifically for this market. In so doing, we hope to create customer loyalty and benefit from repeat visits by our customers. Specific marketing programs to support this strategy include the Riviera Black Hawk Player's Club and "V.I.P." services offered to repeat gaming customers. The Riviera Black Hawk Player's Club is a promotion that rewards casino play and repeat visits to the casino with various privileges and amenities such as cash bonuses, logo gift items and invitations to special events, such as parties and concerts. We have used the Player's Club promotion in our casino in Las Vegas and have tailored it for the Black Hawk/Central City market to implement it at Riviera Black Hawk. "V.I.P." services are available to the highest level of players and include special valet and self-parking services, complimentary food and entertainment offerings and special events specifically designed for this group of customers.

We benefit from strong walk-in traffic due to the proximity of our casino to the Colorado Central Station and the Isle of Capri Casino. We have and continue to develop specific marketing programs designed to attract these walk-in customers. We emphasize quality food and beverage amenities with friendly service as a marketing tool. In addition, we provide entertainment programs designed to meet the tastes of the Black Hawk/Central City market, such as live music performances by popular regional and national groups.

We rely on database marketing in order to best identify target customer segments of the population and to tailor our casino's promotions and amenities to our core group of customers. We use the current database to identify and stratify slot players living primarily in Colorado for appropriate incentives. Approximately 298,000 of these slot players have been identified as

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of December 31, 2005. In addition, we promote our casino by advertising in newspapers and on the radio in the local areas.

Geographical Markets

The Las Vegas Market

Las Vegas is one of the largest and fastest growing entertainment markets in the country. According to the LVCVA, the number of visitors who traveled to Las Vegas during the 19-year period from 1986 through 2005 increased at a steady and significant rate from approximately 15.2 million in 1986 to approximately 38.6 million in 2005, representing a 154% increase during that 19-year period. Approximately 35.1 million people visited Las Vegas in 2002, 35.5 million in 2003, 37.4 million in 2004 and 38.6 million in 2005. Clark County gaming continued to be a strong and growing business. Clark County gaming revenues increased from \$2.4 billion in 1986 to \$9.7 billion in 2005, a 304% increase during that period. Clark County gaming revenues were \$7.6 billion in 2002, \$7.8 billion in 2003, \$8.7 billion in 2004 and \$9.7 billion in 2005. The terrorist attacks of September 11, 2001 had an adverse effect on the number of visitors traveling to Las Vegas. Similar events in the future could have an adverse effect on the number of visitors traveling to Las Vegas.

Gaming and tourism are the major attractions of Las Vegas, complemented by warm weather and the availability of many year-round recreational activities. Although Las Vegas' principal market is the western region of the United States, most significantly southern California and Arizona, Las Vegas also serves as a destination resort for visitors from all over the world. Significant percentages of visitors originate from Latin America and Pacific Rim countries such as Japan, Taiwan, Hong Kong and Singapore. The events of September 11, 2001 have had, and may continue to have, an adverse impact on the number of international visitors coming to Las Vegas.

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Historically, Las Vegas has had one of the strongest hotel markets in the country. The number of hotel and motel rooms in Las Vegas has increased by over 99% from approximately 67,000 at the end of 1989 to approximately 133,186 at the end of 2005, giving Las Vegas the most hotel and motel rooms of any metropolitan area in the world. Despite this significant increase in the supply of rooms, the Las Vegas hotel occupancy rate met or exceeded 84% for each of the years from 1993 through 2005, with a hotel occupancy rate of 91.8% in 2005. During 2005, approximately 3,800 new hotel rooms opened in Las Vegas.

We believe that the growth in the Las Vegas market has been enhanced as a result of: (1) a dedicated program by the LVCVA and major Las Vegas casino/hotels to promote Las Vegas as a major convention site, (2) the increased capacity of McCarran International Airport and (3) the introduction of large themed "must see" destination resorts in Las Vegas. In 1988, approximately 1.7 million delegates attended conventions in Las Vegas and generated approximately \$1.2 billion of economic impact. The number of convention delegates increased to over 6.1 million in 2005 with an economic impact in excess of \$7.6 billion.

The Las Vegas Convention and Visitors Authority announced that they have received approval for an \$800 million dollar expansion that will add 350,000 feet of general session and meeting break out rooms and improve traffic flows between the North and South convention halls. This will enable them to pursue several large conventions that require large general session space that has not been available in the past. The new space will benefit hotel properties located in close proximity to the Convention Center.

During the past 12 years, McCarran International Airport has expanded

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its facilities to accommodate the increased number of airlines and passengers, which it services. The number of passengers traveling through McCarran International Airport has increased from approximately 22.5 million in 1993 to an estimated 44.3 million in 2005. McCarran International Airport is ranked the 10th and 6th busiest airports in the world and North America, respectively, based on passenger activity.

The Black Hawk/Central City Market

Gaming was first introduced to the Black Hawk/Central City market in October 1991 following a statewide referendum where Colorado voters approved limited stakes gaming for three historic mining towns, namely Black Hawk, Central City and Cripple Creek. Limited stakes gaming is defined as a maximum single bet of \$5.00. Black Hawk and Central City are contiguous cities located approximately 40 miles west of Denver and about 10 miles north of Interstate Highway 70, the main east-west artery from Denver. Historically, these two gold mining communities were popular tourist towns. However, since the inception of casino gaming in October 1991, gaming establishments have displaced many of the former tourist-related businesses.

The first casino in the Black Hawk/Central City market opened in October 1991, with 13 casinos open by the end of that year. The pace of expansion increased in 1992 with the number of casinos in the market peaking at 42. However, due to a trend of consolidation in the market and the displacement of small casinos by the entry of larger, better-capitalized operators, the number of casinos has declined to 26 as of December 31, 2005.

The Black Hawk/Central City market primarily caters to "day-trip" customers from Denver, Boulder, Fort Collins and Golden as well as Cheyenne, Wyoming. According to the 2004 census estimates the population of the Denver metropolitan area was about 2,830,000.

Since 1992, the number of gaming devices in the Black Hawk/Central City market has grown approximately 59% from 7,252 in 1992 to 11,539 in 2005. Gaming revenues in the Black Hawk/Central City market increased by approximately 4% in 2005 over 2004. The City of Black Hawk itself experienced an approximate 1% increase in gaming revenue in 2005.

The City of Black Hawk has experienced more significant growth in gaming revenues than Central City since 1992. The popularity of Black Hawk in comparison to Central City is due primarily to Black Hawk's superior access to major highways, as patrons must first pass through Black Hawk to access Central City from Denver. There is, however, a new road that opened in November 2004, which links Central City directly with Interstate 70, that allows customers to reach Central City without driving through Black Hawk. As a result of this new access road Central City gaming revenues grew by 36 % in 2005 compared to only 1% growth for Black Hawk. Despite the impressive growth experienced by Central City casinos in 2005, gaming revenues in Central City still represent only 12 % of the total gaming revenues for the Central City/Black Hawk market. Although the new road allows customers to access Central City directly, most customers continue to frequent Black Hawk casinos because of the superior amenities Black Hawk casinos offer. Due to this superior location, larger casino operators have focused on building in Black Hawk. As a result, casinos in Black Hawk now generally feature a larger average number of gaming devices, a wider variety of amenities and convenient free parking for patrons.

The expansion of Riviera Black Hawk and the construction of a pedestrian bridge to the Isle of Capri Casino, which was to begin May of 2005, have been put on hold. We have expensed approximately \$467,000 in 2005, which we

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had previously reported as construction in progress in our financial statements during the first three quarters of 2005. Although the City of Black Hawk has endorsed the construction of a bridge over Main Street connecting Riviera Black Hawk to the Isle of Capri Casino and drafted the agreements necessary for the parties to proceed, Riviera Black Hawk and the Isle of Capri Casino have not yet negotiated an acceptable construction easement agreement.

On June 21, 2005 a major rockslide closed Highway 6, the major access road to the Black Hawk/Central City market. Highway 6 did not reopen until September 13, 2005. The closure of Highway 6 for most of the summer had an adverse impact on gaming revenues for Riviera Black Hawk and other casinos located in Black Hawk.

Management Activities and New Venue Prospects

In order to capitalize on our expertise and reputation as a successful operator of casino properties, we formed Riviera Gaming Management, Inc., our wholly owned subsidiary, for the primary purpose of obtaining casino management contracts in Nevada and other jurisdictions. Riviera Gaming Management offers services such as assisting new venue license applicants in designing and planning their gaming operations and managing the start-up of new gaming operations. These services include casino design, equipment selection, and employee recruitment and training, control and accounting systems development and marketing programs. We believe that management contracts provide high margin income with limited additional overhead and little or no capital expenditure requirements. We are continually evaluating opportunities to manage other casinos/hotels. Our objective is to obtain the right to a substantial equity position in projects we would manage as part of the compensation for our services.

We filed an application with the Missouri Gaming Commission in October of 2002 for a casino/hotel development project in Jefferson County, Missouri, approximately 22 miles south of downtown St. Louis. Other applicants had also filed applications for development projects in and around the St. Louis metropolitan area. In August 2004, the Missouri Gaming Commission granted two licenses to another applicant.

We filed an application with the New Mexico Racing Commission in March of 2002 for a "racino" in Hobbs, New Mexico. We and three other prospective licensees made presentations to the Commission in November of 2003. The Commission awarded the racino license to one of the other applicants.

The significant contribution of our Black Hawk property to our shareholder value reinforces our effort to diversify into new venues, and we review appropriate opportunities to expand and become a larger multi-jurisdictional casino company. We will continue to pursue contacts to manage other casino properties, which may include financially distressed casino properties where we believe we may be able to affect a turn-around and where we can obtain a significant equity stake. However, these opportunities have generally declined, as the consolidation of the industry has resulted in spin-offs of less profitable riverboats and land-based properties at a high multiple of earnings. Unless and until those multiples decline, we do not anticipate that our diversification efforts will come to fruition.

Competition

Las Vegas, Nevada

Intense competition exists among companies in the gaming industry, many of which have significantly greater resources than we do. Riviera Las Vegas faces competition from all other casinos and hotels in the Las Vegas area. We believe that our most direct competition comes from certain large casino/hotels

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located on or near the Las Vegas Strip, which offer amenities and marketing programs similar to those offered by Riviera Las Vegas.

Las Vegas gaming square footage and room capacity are continuing to grow and are expected to continue to increase during the next several years.

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During 2005, approximately 4500 new hotel rooms opened, and as of December 31, 2005, there were approximately 3600 hotel/motel rooms expected to open in 2006. Existing and future expansions, additions and enhancements to existing properties and construction of new properties by our competitors could divert business from our facilities. There can be no assurance that we will compete successfully in the Las Vegas market in the future.

During 2005, available room nights in the Las Vegas market increased from approximately 47.4 million to approximately 48.5 million, or 2.5%, while total room nights occupied increased from approximately 41.9 million to approximately 43.2 million, or 2.9%. The ending room inventory at December 31, 2005 was approximately 133,200. At Riviera Las Vegas, room occupancy increased from 92.6% in 2004 to 92.6% in 2005 (higher than the Las Vegas hotel average of 91.8%). Room rates increased by \$7.03, or 10.8% from \$64.81 in 2004 to \$71.84 in 2005. Revenue per available room (Rev/Par) increased \$6.52 or 10.9% from \$59.99 in 2004 to \$66.51 in 2005.

We also compete to some extent with casinos in other states, riverboat and Native American gaming ventures, state-sponsored lotteries, on- and off-track wagering, card parlors and other forms of legalized gaming in the United States, as well as with gaming on cruise ships and international gaming operations (including Internet gaming). In addition, certain states have recently legalized or are considering legalizing casino gaming in specific geographical areas within those states. Any future development of casinos, lotteries or other forms of gaming in other states, particularly areas close to Nevada, such as California, could have a material adverse effect on our results of operations.

The number of casinos on Native American lands has increased since the enactment of the Indian Gaming Regulatory Act of 1988. California voters addressed this issue on March 7, 2000 when they voted in favor of an amendment to the California Constitution that allows Las Vegas-style gambling on Native American lands in that state. While new gaming jurisdictions generally have not materially impacted Las Vegas, the expansion of gaming into California poses a more serious threat to the continued growth of Las Vegas.

Our current business is highly dependent on gaming in Las Vegas. Riviera Las Vegas derives a substantial percentage of its business from tourists, including customers from southern California and the southwestern United States. Weakness in the economy of southern California has in the past, and could in the future, adversely affect our financial results. The events of September 11, 2001 had the most serious effect on our financial results. Similar events in the future could also have a material adverse effect on our financial results.

Black Hawk, Colorado

The Black Hawk/Central City gaming market is characterized by intense competition. The primary competitive factors in the market are location, availability and convenience of parking, number of slot machines and gaming tables, promotional incentives, hotel rooms, types and pricing of non-gaming amenities, name recognition and overall atmosphere. Our main competitors are the larger gaming facilities, particularly those with considerable on-site or nearby

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parking and established reputations in the local market. As of December 31, 2005, there were 26 gaming facilities in the Black Hawk market with 11 casinos each offering more than 400 gaming positions. Additional projects have also been announced, proposed, discussed or rumored for the Black Hawk/Central City market.

The gaming facilities near the intersection of Main and Mill Streets provide significant competition to our casino. Colorado Central Station, which has been one of the most successful casinos in Colorado, is located across the street from our casino and has 824 slot machines, 16 gaming tables, approximately 1,250 parking spaces and 160 hotel rooms. The Isle of Capri Casino, the most successful casino in Colorado, is located directly across the street from our casino and features approximately 1,426 slot machines, 21 table games, 1,100 parking spaces, and 238 hotel rooms. An expansion and renovation to Main Street is expected to be complete in the second quarter of 2006. After the expansion of Main Street is complete, Riviera Black Hawk will become the first property on Main Street accessible to all customers traveling to Black Hawk from the Denver Metro area via State Route 119. Our parking garage will be the first and most easily accessible parking garage directly from Main Street.

The number of hotel rooms currently in the Black Hawk/Central City market is approximately 566, with only four gaming facilities providing hotel accommodations. These include Fortune Valley (formerly Harvey's Wagon Wheel Casino Hotel) with approximately 118 rooms, the Lodge at Black Hawk with approximately 50 rooms, the Isle of Capri Casino with 238 rooms and Colorado Central Station with 160 rooms. Casinos offering hotel accommodations for overnight stay may have a competitive advantage over our casino. However, we believe that self-parking is a more effective utilization of our available space and that providing hotel accommodations will not be a significant competitive factor, but instead will contribute to growth in the overall market.

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Historically, the city of Black Hawk has enjoyed an advantage over Central City because customers have to drive through Black Hawk to reach Central City. However, there is a new road that opened in November 2004, which links Central City directly with Interstate 70 and allows customers to reach Central City without driving through Black Hawk. Although this road allows customers to directly access Central City, we believe that most customers will continue to frequent Black Hawk casinos because of the superior amenities Black Hawk casinos offer. This new road provides additional access to the Black Hawk/Central City market, which is especially important on weekends when the traditional road system is overburdened. We believe the new access road is important for the continued growth of the market. The new access road proved valuable between June 21st and September 13th of 2005 when a major rockslide closed Highway 6, the major route customers from the Denver area take to the Black Hawk/Central City market.

Limited stakes gaming in Colorado is constitutionally authorized in Central City, Black Hawk, Cripple Creek and two Native American reservations in southwest Colorado. However, gaming could be approved in other Colorado communities in the future. The legalization of gaming closer to Denver would likely have a material adverse effect on our results of operations. We also compete with other forms of gaming in Colorado, including lottery gaming, and horse and dog racing, as well as other forms of entertainment.

It is also possible that new forms of gaming could compete with our casino. Currently, Colorado law does not authorize video lottery terminals. However, Colorado law permits the legislature, with executive approval, to authorize new types of lottery gaming, such as video lottery terminals. Video lottery terminals are games of chance, similar to slot machines, in which the

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player pushes a button that causes a random set of numbers or characters to be displayed on a video screen. The player may be awarded a ticket, which can be exchanged for cash or credit play. This form of gaming could compete with slot machine gaming. Voters in the State of Colorado have rejected a proposal, which would have authorized video lottery terminals in five racetracks in Colorado. However, there is no guarantee that such a proposal or similar one will not be approved in the future.

Pursuant to a license agreement, Riviera Las Vegas licenses the use at Riviera Black Hawk of all of the trademarks, service marks and logos used by Riviera Las Vegas. The license agreement provides that additional trademarks, service marks and logos acquired or developed by us and used at our other facilities will be subject to the license agreement.

Employees and Labor Relations

Riviera Las Vegas

As of December 31, 2005, Riviera Las Vegas had 1,343 full-time equivalent employees and had collective bargaining contracts with eight unions covering approximately 791 of such employees, including food and beverage employees, rooms department employees, carpenters, engineers, stagehands, musicians, electricians, painters and teamsters. Riviera Las Vegas' agreement with the Painters Union was successfully negotiated in 2005 and expires on May 31, 2010. The Carpenters' Union agreement expired on July 31, 2005, and a one-year extension was negotiated at the request of the union. Negotiation with the Carpenters' Union for a new multiyear agreement will commence in early 2006. Agreements with the Southern Nevada Culinary and Bartenders Union, covering the majority of our unionized employees, were renegotiated in 2002 and expire in 2007, as does the agreement with the Stagehands Union. The agreement with the Teamsters Union expires in 2008 while the Operating Engineers Union and Electrician Union agreements expire in 2009. The collective bargaining agreement with the Musicians Union expired in 1999. After almost six years following expiration of this contract, Riviera Las Vegas has entered into negotiations with the Musicians' Union at that union's request. On June 17, 2002, the Teamsters Union filed a petition with the National Labor Relations Board to represent the clerks in our marketing department. On July 26, 2002, the marketing clerks voted in favor of representation by the Teamsters Union. On February 23, 2004, at the request of the affected employees, the Teamsters Union withdrew its interest in the representation of the marketing clerks. Although unions have been active in Las Vegas, Riviera Las Vegas considers its employee relations to be satisfactory. There can be no assurance, however, that new agreements will be reached without union action or on terms satisfactory to Riviera Las Vegas.

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Riviera Black Hawk

As of December 31, 2005, Riviera Black Hawk had 269 full-time equivalent employees, none of whom are covered by collective bargaining contracts. The Black Hawk/Central City labor market is very competitive. Riviera Black Hawk believes that it will be able to maintain its current employee level. There can be no assurance, however, that new and existing casinos will not affect Riviera Black Hawk's ability to maintain its current employee level.

There are currently no collective bargaining agreements in Black Hawk casinos.

Regulation and Licensing

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Nevada

Nevada Gaming Authorities

The ownership and operation of casino gaming facilities in Nevada are subject to: (1) The Nevada Gaming Control Act and the regulations promulgated thereunder (collectively, the "Nevada Act") and (2) various local ordinances and regulations. Our gaming operations are subject to the licensing and regulatory control of the Nevada Gaming Commission (the "Nevada Commission"), the State of Nevada Gaming Control Board (the "Nevada Board"), the Clark County Business Department and the Clark County liquor/gaming authorities (collectively, the "Clark County Board"), all of which are collectively referred to as the "Nevada Gaming Authorities."

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy which are concerned with, among other things: (1) the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time and in any capacity; (2) the establishment and maintenance of responsible accounting practices and procedures; (3) the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities; (4) the prevention of cheating and fraudulent practices; and (5) providing a source of state and local revenues through taxation and licensing fees. Changes in such laws, regulations and procedures could have an adverse effect on our operations.

Riviera Operating Corporation is required to be and is licensed by the Nevada Gaming Authorities (a "Corporate Licensee"). The gaming license held by Riviera Operating Corporation requires the periodic payment of fees and taxes and is not transferable. Riviera Operating Corporation is also licensed as a manufacturer and distributor of gaming devices. Such licenses require the periodic payment of fees and are not transferable. We are registered by the Nevada Commission as a publicly traded corporation (a "Registered Corporation") and have been found suitable to own the stock of Riviera Operating Corporation. As a Registered Corporation, we are required periodically to submit detailed financial and operating reports to the Nevada Commission and to furnish any other information, which the Nevada Commission may require. No person may become a stockholder of, or receive any percentage of profits from, Riviera Operating Corporation without first obtaining licenses and approvals from the Nevada Gaming Authorities. We and Riviera Operating Corporation have obtained, from the Nevada Gaming Authorities, the various registrations, approvals, permits, findings of suitability and licenses required in order to engage in gaming activities and manufacturing and distribution activities in Nevada.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, us or Riviera Operating Corporation in order to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Officers, directors and certain key employees of Riviera Operating Corporation must file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. Our officers, directors and key employees who are actively and directly involved in the gaming activities of Riviera Operating Corporation may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause, which they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. The applicant for licensing or a finding of suitability must pay all the costs of the investigation. Any change in a corporate position by a

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licensed person must be reported to the Nevada Gaming Authorities. In addition to their authority to deny an application for a finding of suitability or licensure, the Nevada Gaming Authorities have jurisdiction to disapprove a change in a corporate position.

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If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with Riviera Operating Corporation, or us we would have to sever all relationships with such person. In addition, the Nevada Commission may require us or Riviera Operating Corporation to terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or questions pertaining to licensing are not subject to judicial review in Nevada.

We and Riviera Operating Corporation are required to submit detailed financial and operating reports to the Nevada Commission. Substantially all material loans, leases, sales of securities and similar financing transactions by Riviera Operating Corporation must be reported to or approved by the Nevada Commission.

If it were determined that the Nevada Act was violated by Riviera Operating Corporation, the gaming license it holds could be limited, conditioned, suspended or revoked, subject to compliance with certain statutory and regulatory procedures. In addition, we or Riviera Operating Corporation and the persons involved could be subject to substantial fines for each separate violation of the Nevada Act at the discretion of the Nevada Commission. Further, a supervisor could be appointed by the Nevada Commission to operate the casino and, under certain circumstances, earnings generated during the supervisor's appointment (except for reasonable rental value of the casino) could be forfeited to the State of Nevada. Limitation, conditioning or suspension of the gaming license of Riviera Operating Corporation or the appointment of a supervisor could (and revocation of any gaming license would) materially adversely affect our gaming operations.

Any beneficial holder of our voting securities, regardless of the number of shares owned, may be required to file an application, be investigated, and have its suitability as a beneficial holder of our voting securities determined if the Nevada Commission has reason to believe that such ownership would otherwise be inconsistent with the declared policies of the State of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Act requires any person who acquires more than 5% of a Registered Corporation's voting securities to report the acquisition to the Nevada Commission. The Nevada Act requires that beneficial owners of more than 10% of our voting securities apply to the Nevada Commission for a finding of suitability within thirty days after the Chairman of the Nevada Board mails the written notice requiring such filing. Under certain circumstances, an "institutional investor," as defined in the Nevada Act, which acquires more than 10%, but not more than 15%, of our voting securities may apply to the Nevada Commission for a waiver of such finding of suitability if such institutional investor holds our voting securities for investment purposes only. An institutional investor that has obtained a waiver may, in certain circumstances, hold up to 19% of our voting securities and maintain its waiver for a limited period of time. An institutional investor shall not be deemed to hold our voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of our board of directors, any change in our corporate

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charter, bylaws, management, policies or operations, or any of our gaming affiliates, or any other action which the Nevada Commission finds to be inconsistent with holding our voting securities for investment purposes only. Activities which are deemed to be consistent with holding our voting securities for investment purposes only include: (1) voting on all matters voted on by stockholders; (2) making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in its management, policies or operations; and (3) such other activities as the Nevada Commission may determine to be consistent with such investment intent. If the beneficial holder of our voting securities who must be found suitable is a business entity or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within thirty days after being ordered to do so by the Nevada Commission or the Chairman of the Nevada Board may be found unsuitable. The same restrictions apply to a record owner of stock if the record owner, after request, fails to identify the beneficial owner. Any stockholder who is found unsuitable and who holds, directly or indirectly, any beneficial ownership of stock beyond such period of time as may be prescribed by the Nevada Commission may be guilty of a criminal offense. We are subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us or Riviera Operating Corporation, we (1) pay that person any dividend or interest upon voting our securities, (2) allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person, (3) pay remuneration in any form to that person for services rendered or otherwise, or (4) fail to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities including, if necessary, the immediate purchase of said voting securities for cash at fair market value. Additionally, the Clark County Board has the authority to approve all persons owning or controlling the stock of any corporation controlling a gaming licensee.

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The Nevada Commission may, in its discretion, require the holder of any of our debt securities to file applications, be investigated and be found suitable to own such securities, if it has reason to believe that such ownership would be inconsistent with the declared policies of the State of Nevada. If the Nevada Commission determines that a person is unsuitable to own such security, then pursuant to the Nevada Act, we can be sanctioned, which may include the loss of our approvals, if without the prior approval of the Nevada Commission, we (1) pay to the unsuitable person any dividend, interest, or any distribution whatsoever, (2) recognize any voting right by such unsuitable person in connection with such securities, (3) pay the unsuitable person remuneration in any form; or (4) make any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation, or similar transaction.

We are required to maintain a current stock ledger in Nevada, which may be examined by the Nevada Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada Gaming Authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner. The Nevada Commission has the power to require our stock certificates to bear a legend indicating that the securities are subject to the Nevada Act. However, the Nevada Commission has not imposed such a requirement on us.

We may not make a public offering of our securities without the prior

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approval of the Nevada Commission if the securities or proceeds therefrom are intended to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for such purposes. In addition, (1) a Corporate Licensee may not guarantee a security issued by a Registered Corporation pursuant to a public offering, or hypothecate its assets to secure the payment or performance of the obligations evidenced by such a security, without the prior approval of the Nevada Commission; (2) the pledge of the stock of a Corporate Licensee, such as Riviera Operating Corporation, is void without the prior approval of the Nevada Commission; and (3) restrictions upon the transfer of an equity security issued by a Corporate Licensee and agreements not to encumber such securities are ineffective without the prior approval of the Nevada Commission.

Changes in control of a registered corporation through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby he obtains control, may not occur without the prior approval of the Nevada Commission. Entities seeking to acquire control of a Registered Corporation must meet a variety of stringent standards of the Nevada Board and Nevada Commission prior to assuming control of such Registered Corporation. The Nevada Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defensive tactics affecting Nevada corporate gaming licensees and Registered Corporations that are affiliated with those operations may be injurious to stable and productive corporate gaming. The Nevada Commission has established regulations to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to: (1) assure the financial stability of corporate gaming licensees and their affiliates; (2) preserve the beneficial aspects of conducting business in the corporate form; and (3) promote a neutral environment for the orderly governance of corporate affairs. Approvals are, in certain circumstances, required from the Nevada Commission before the Registered Corporation can make exceptional repurchases of voting securities above the current market price thereof and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of recapitalization proposed by the Registered Corporation's board of directors in response to a tender offer made directly to the Registered Corporation's stockholders for the purposes of acquiring control of the Registered Corporation.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada and to the county in which Riviera Operating Corporation's operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable monthly, quarterly or annually and are based upon either: (1) a percentage of the gross revenues received; (2) the number of gaming devices operated; or (3) the number of table games operated. A live entertainment tax is also paid by casino operations where entertainment is furnished in connection with admission charges, the serving or selling of food, refreshments or the selling of merchandise. Nevada licensees that hold a license to manufacture and distribute slot machines and gaming devices, such as Riviera Operating Corporation, also pay certain fees and taxes to the State of Nevada.

Any person who is licensed, required to be licensed, registered, or required to be registered, or a person who is under common control with any of

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such persons (collectively, "Licensees"), and who proposes to become involved in a gaming venture outside of Nevada, is required to deposit with the Nevada Board, and thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expenses of investigation by the Nevada Board of their participation in such foreign gaming. The revolving fund is subject to increase or decrease in the discretion of the Nevada Commission. Thereafter, Licensees are required to comply with certain reporting requirements imposed by the Nevada Act. Licensees are also subject to disciplinary action by the Nevada Commission if they knowingly violate any laws of the foreign jurisdiction pertaining to the foreign gaming operation, fail to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations, engage in activities or enter into associations that are harmful to the State of Nevada or its ability to collect gaming taxes and fees, or employ, have contact with or associate with a person in the foreign operation who has been denied a license or finding of suitability in Nevada on the ground of personal unsuitability.

Other Nevada Regulation

The sale of alcoholic beverages at Riviera Las Vegas is subject to licensing, control and regulation by the Clark County Board. All licenses are revocable and none of them are transferable. The Clark County Board has full power to limit, condition, suspend or revoke any such license, and any such disciplinary action could (and revocation would) have a material adverse effect on our operations.

Colorado

Colorado Gaming and Liquor Regulation

Summary

In general, Riviera Black Hawk, its principal executive officers and those of Riviera Holdings Corporation, and any Riviera Black Hawk employees who are involved in Colorado gaming operations are required to be found suitable for licensure by the Colorado Gaming Commission (the "Colorado Commission"). Colorado also requires that persons owning, directly or indirectly 5% or more of our stock be certified as suitable for licensure. Riviera Black Hawk's original retail gaming license was approved by the Colorado Commission on November 18, 1999, and has been renewed each subsequent year.

Background

Pursuant to an amendment to the Colorado Constitution (the "Colorado Amendment"), limited stakes gaming became lawful in the cities of Central City, Black Hawk and Cripple Creek on October 1, 1991. Limited stakes gaming means a maximum single bet of five dollars on slot machines and in the card games of blackjack and poker.

Limited stakes gaming is confined to the commercial district of Black Hawk, as defined by Black Hawk on May 4, 1978. In addition, the Colorado Amendment restricts limited stakes gaming to structures that conform to the architectural styles and designs that were common to the areas prior to World War I, and which conform to the requirements of applicable city ordinances regardless of the age of the structures. Under the Colorado Amendment, no more than 35% of the square footage of any building and no more than 50% of any one floor of any building may be used for limited stakes gaming. Persons under the age of 21 cannot participate in limited stakes gaming. The Colorado Amendment also prohibits limited stakes gaming between the hours of 2:00 a.m. and 8:00 a.m., and allows limited stakes gaming in establishments licensed to sell alcoholic beverages.

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Further, the Colorado Limited Gaming Act of 1991 (the "Colorado Act") provides that, in addition to any applicable license fees, a gaming tax shall be imposed upon retail gaming licensees (casinos) up to a maximum of 40% of the adjusted gross proceeds (AGP) derived from limited stakes gaming. AGP is generally defined as the total amounts wagered less payouts to players, except for poker in which AGP means the monies retained by the casino as compensation (the "rake"). The tax rates are set by the Colorado Commission annually.

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The Colorado Act declares public policy on limited stakes gaming to be that: (1) the success of limited stakes gaming is dependent upon public confidence and trust that licensed limited stakes gaming is conducted honestly and competitively; the rights of the creditors of licensees are protected; gaming is free from criminal and corruptive elements; (2) public confidence and trust can be maintained only by strict regulation of all persons, locations, practices, associations and activities related to the operation of licensed gaming establishments and the manufacture or distribution of gaming devices and equipment; (3) all establishments where limited gaming is conducted and where gambling devices are operated, and all manufacturers, sellers and distributors of certain gambling devices and equipment must therefore be licensed, controlled and assisted to protect the public health, safety, good order and the general welfare of the inhabitants of the state to foster the stability and success of limited stakes gaming and to preserve the economy, policies and free competition in Colorado; and (4) no applicant for a license or other affirmative Colorado Commission approval has any right to a license or to the granting of the approval sought. Any license issued or other Colorado Commission approval granted pursuant to the provisions of the Colorado Act is a revocable privilege, and no holder acquires any vested rights therein.

Regulatory Structure

The Colorado Act subjects the ownership and operation of limited stakes gaming facilities in Colorado to extensive licensing and regulation by the Colorado Commission. The Colorado Commission has full and exclusive authority to promulgate, and has promulgated, rules and regulations governing the licensing, conduct and operation of limited stakes gaming. The Colorado Act also created the Colorado Division of Gaming within the Colorado Revenue Department to license, regulate and supervise the conduct of limited stakes gaming in Colorado. The division is supervised and administered by the Director of the Division of Gaming.

Gaming Licenses

The Colorado Commission may issue the following licenses applicable to the operation of Riviera Black Hawk:

- o operator;
- o retail gaming;
- o support; and
- o key employee.

The first two licenses require annual renewal by the Colorado Commission. Support and key employee licenses are issued for two-year periods and are renewable by the Division of Gaming Director. The Colorado Commission has broad discretion to condition, suspend for up to six months, revoke, limit or restrict a license at any time and also has the authority to impose fines.

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An applicant for a gaming license must complete comprehensive application forms, pay required fees and provide all information required by the Colorado Commission and the Division of Gaming. Prior to licensure, applicants must satisfy the Colorado Commission that they are suitable for licensing. Applicants have the burden of proving their qualifications and must pay the full cost of any background investigations. There is no limit on the cost of, or the time it takes to complete, such background investigations.

Gaming employees must hold either a support or key employee license. Every large retail gaming licensee, such as Riviera Black Hawk, must have a key employee licensee on premises and in charge of all limited stakes gaming activities when limited stakes gaming is being conducted. The Colorado Commission may determine that a gaming employee is a key employee and require that such person apply for a key employee license.

A retail gaming license is required for all persons conducting limited stakes gaming on their premises. In addition, an operator license is required for all persons who engage in the business of placing and operating slot machines on the premises of a retailer. However, a retailer is not required to hold an operator license. No person may have an ownership interest in more than three retail gaming licenses. A slot machine manufacturer or distributor license is required for all persons who manufacture, import and distribute slot machines in Colorado.

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The Colorado Act and regulations thereunder (the "Colorado Regulations") require that every officer, director, and stockholder of private corporations, or equivalent office or ownership holders for non-corporate applicants, and every officer, director or stockholder holding a 5% or greater interest or controlling interest in a publicly traded corporation, or owners of an applicant or licensee, shall be a person of good moral character and submit to a full background investigation conducted by the Division of Gaming and the Colorado Commission. The Colorado Commission may require any person having an interest, of any kind, in a license to undergo a full background investigation and pay the cost of investigation in the same manner as an applicant.

Persons found unsuitable by the Colorado Commission may be required immediately to terminate any interest, association, or agreement with, or relationship to, a licensee. A finding of unsuitability with respect to any officer, director, employee, associate, lender or beneficial owner of a licensee or applicant also may jeopardize the licensee's license or the applicant's application. A license approval may be conditioned upon the termination of any relationship with unsuitable persons. A person may be found unsuitable because of prior acts, associations or financial conditions. Acts that would lead to a finding of unsuitability include, among others, those that would violate the Colorado Act or the Colorado Regulations or that contravene the legislative purpose of the Colorado Act.

Duties of Licensees

A licensee must keep the Division of Gaming advised of its business operations including, but not limited to, gaming contracts and leases. All rules for the conduct of gaming activity pursuant to the Colorado Act or the Colorado Regulations must be strictly followed.

Licensees, such as Riviera Black Hawk, have a continuing duty to report immediately to the Division of Gaming the name, date of birth and social security number of each person who obtains an ownership, financial or equity interest in the licensee of 5% or greater, who has the ability to control the licensee, who has the ability to exercise significant influence over the

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licensee or who loans any money or other thing of value to the licensee. Licensees must report to the Division of Gaming all gaming licenses, and all applications for gaming licenses, in foreign jurisdictions.

With limited exceptions applicable to licensees that are publicly traded entities, no person may sell, lease, purchase, convey or acquire any interest in a retail gaming or operator license or business without the prior approval of the Colorado Commission.

All agreements, contracts, leases, or arrangements in violation of the Colorado Amendment, the Colorado Act or the Colorado Regulations are void and unenforceable.

Taxes, Fees and Fines

The Colorado Amendment requires each retail gaming licensee to pay in monthly increments an annual tax of up to 40% on its AGP derived from limited stakes gaming. Annually during April, May, and June, the Colorado Commission, as mandated by the Colorado Regulations, conducts rule-making hearings concerning the gaming tax rate and device fee rate for the subsequent gaming year. The gaming year begins on July 1st. However, during such hearings rigid adherence to addressing only specific, designated subjects related to the gaming taxes is not required, and there is not a limit to the time or practical restriction on the subject matters which the Colorado Commission may consider in determining the various tax rates. Currently, the gaming tax is:

- o 0.25% on the first \$2 million of these amounts;
- o 2% on amounts from \$2 million to \$4 million;
- o 4% on amounts from \$4 million to \$5 million;

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- o 11% on amounts from \$5 million to \$10 million;
- o 16% on amounts from \$10 million to \$15 million; and
- o 20% on amounts over \$15 million.

The municipality of Black Hawk assesses an annual device fee of \$750.00 per device on all gaming devices exceeding 50. There is no statutory limit on state or city device fees, which may be increased at the discretion of the Colorado Commission or the city. In addition, a business improvement fee of as much as \$7.42 per device and a monthly transportation authority device fee of \$6.41 per device also may apply depending upon the location of the licensed premises in Black Hawk.

Black Hawk also imposes taxes and fees on other aspects of the businesses of retail gaming licensees, such as parking, alcoholic beverage licenses and other municipal taxes and fees. Significant increases in these fees and taxes, or the imposition of new taxes and fees may occur.

Violation of the Colorado Act or the Colorado Regulations generally constitutes a class 1 misdemeanor, except as may be specifically provided otherwise in the Colorado Act, which may subject the violator to fines or incarceration or both. A licensee who violates the Colorado Act or Colorado Regulations is subject to suspension of the license for a period of up to six months, fines or both, or to license revocation.

Requirements for Publicly Traded Corporations

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The Colorado Commission has enacted Rule 4.5, which imposes requirements on publicly traded corporations holding gaming licenses in Colorado and on gaming licenses owned directly or indirectly by a publicly traded corporation, whether through a subsidiary or intermediary company. The term "publicly traded corporation" includes corporations, firms, limited liability companies, trusts, partnerships and other forms of business organizations. Such requirements automatically apply to any ownership interest held by a publicly traded corporation, holding company or intermediary company thereof, where the ownership interest directly or indirectly is, or will be upon approval of the Colorado Commission, 5% or more of the entire licensee. In any event, if the Colorado Commission determines that a publicly traded corporation, or a subsidiary, intermediary company or holding company, has the actual ability to exercise influence over a licensee, regardless of the percentage of ownership possessed by said entity, the Colorado Commission may require the entity to comply with the disclosure regulations contained in Rule 4.5.

Under Rule 4.5, gaming licensees, affiliated companies and controlling persons commencing a public offering of voting securities must notify the Colorado Commission no later than ten business days after the initial filing of a registration statement with the Securities and Exchange Commission. Licensed, publicly traded corporations are also required to send proxy statements to the Division of Gaming within five days after their distribution. Licensees to whom Rule 4.5 applies must include in their charter documents provisions that: restrict the rights of the licensees to issue voting interests or securities except in accordance with the Colorado Act and the Colorado Regulations; limit the rights of persons to transfer voting interests or securities of licensees except in accordance with the Colorado Act and the Colorado Regulations; and provide that holders of voting interests or securities of licensees found unsuitable by the Colorado Commission may, within 60 days of such finding of unsuitability, be required to sell their interests or securities back to the issuer at the lesser of the cash equivalent of the holders' investment or the market price as of the date of the finding of unsuitability. Alternatively, the holders may, within 60 days after the finding of unsuitability, transfer the voting interests or securities to a suitable person, as determined by the Colorado Commission. Until the voting interests or securities are held by suitable persons, the issuer may not pay dividends or interest, the securities may not be voted, they may not be included in the voting or securities of the issuer, and the issuer may not pay any remuneration in any form to the holders of the securities.

Pursuant to Rule 4.5, persons who acquire direct or indirect beneficial ownership of either (1) 5% or more of any class of voting securities of a publicly traded corporation that is required to include in its articles of organization the Rule 4.5 charter language provisions, or (2) a 5% or greater beneficial interest in a gaming licensee, directly or indirectly through any class of voting securities of any holding company or intermediary company of a licensee, (collectively such persons are hereinafter referred to as the "qualifying persons"), shall notify the Division of Gaming within 10 days of such acquisition, are required to submit all requested information and are subject to a finding of suitability as required by the Division of Gaming or the Colorado Commission. Licensees also must notify any qualifying persons of these requirements. A qualifying person other than an institutional investor whose interest equals 10% or more must apply to the Colorado Commission for a finding of suitability within 45 days after acquiring such securities. Licensees must also notify any qualifying persons of these requirements. Whether or not notified, qualifying persons are responsible for complying with these requirements.

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A qualifying person who is an institutional investor under Rule 4.5 and who, individually or in association with others, acquires, directly or indirectly, the beneficial ownership of 15% or more of any class of voting securities must apply to the Colorado Commission for a finding of suitability within 45 days after acquiring such interests.

The Colorado Regulations also provide for exemption from the requirements for a finding of suitability when the Colorado Commission finds such action to be consistent with the purposes of the Colorado Act.

Pursuant to Rule 4.5, persons found unsuitable by the Colorado Commission must be removed from any position as an officer, director, or employee of a licensee, or from a holding or intermediary company. Such unsuitable persons also are prohibited from any beneficial ownership of the voting securities of any such entities. Licensees, or affiliated entities of licensees, are subject to sanctions for paying dividends or distributions to persons found unsuitable by the Colorado Commission, or for recognizing voting rights of, or paying a salary or any remuneration for services to, unsuitable persons. Licensees or their affiliated entities also may be sanctioned for failing to pursue efforts to require unsuitable persons to relinquish their interest. The Colorado Commission may determine that anyone with a material relationship to, or material involvement with, a licensee or an affiliated company must apply for a finding of suitability or must apply for a key employee license.

Alcoholic Beverage Licenses

The sale of alcoholic beverages in gaming establishments is subject to strict licensing, control and regulation by state and local authorities. Alcoholic beverage licenses are revocable and nontransferable. State and local licensing authorities have full power to limit, condition, suspend for as long as six months or revoke any such licenses. Violation of state alcoholic beverage laws may constitute a criminal offense resulting in incarceration, fines, or both.

There are various classes of retail liquor licenses, which may be issued under the Colorado Liquor Code. A gaming licensee may sell malt, vinous or spirituous liquors only by the individual drink for consumption on the premises. Even though a retail gaming licensee may be issued one of the various classes of retail liquor licenses, such gaming licensee, and persons affiliated with that licensee, are subject to restrictions concerning what other types of liquor licenses they may hold. An application for an alcoholic beverage license in Colorado requires notice, posting and a public hearing before the local liquor licensing authority (e.g., the City of Black Hawk) prior to approval of the same. The Colorado Department of Revenue's Liquor Enforcement Division must also approve the application. Riviera Black Hawk's hotel and restaurant license has been approved by both the local licensing authority and the State Division of Liquor Enforcement. Such license must be, and has been, renewed annually since its issuance.

Federal Registration

Riviera Operating Corporation is required to annually file with the Attorney General of the United States in connection with the sales, distribution, or operations of slot machines. All requisite filings for the present year have been made.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. We operate in a highly competitive, dynamic and rapidly changing industry that involves numerous risks and uncertainties. Moreover, our debt instruments impose

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restrictions on us that are for the benefit of certain of our creditors, but not necessarily for our stockholders or us. Anyone who is making an investment decision regarding our stock should carefully consider the following risk factors, as well as the other information contained or incorporated by reference in this report. The risks and uncertainties described below are those that we currently believe may materially affect our company or your investment. Other risks and uncertainties that we do not presently consider to be material, or of which we are not presently aware, may become important factors that adversely affect our stockholders or us in the future. If any of the risks discussed below actually materialize, then our business, financial condition, operating results, cash flows and future prospects, or your investment in our stock, could be materially and adversely affected, resulting in a loss of all or part of your investment.

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Risks Relating To Our Business And Our Capital Structure We face significant competition in the two markets where we operate.

Competition in the Las Vegas and Black Hawk/Central City gaming markets has intensified over the last several years and is continuing to do so.

In Las Vegas, this has resulted from significant increases in hotel rooms, casino sizes and convention, trade show and meeting facilities. Our success depends on the success of Riviera Las Vegas and its ability to attract visitors and to continue operating successfully. Riviera Las Vegas competes with high-end, middle market and other casinos resort properties and hotels, including those located on or near the Las Vegas Strip or in downtown Las Vegas, on the basis of overall atmosphere, range of amenities, level of service, price, location, entertainment offered, shopping and restaurant facilities, theme and size. Currently, there are approximately 30 major gaming properties located on or near the Las Vegas Strip, approximately ten additional major gaming properties in the downtown area and many additional gaming properties located in other areas of Las Vegas. Companies that have more than one hotel/casino facility operate many of these properties, and many have greater name recognition and financial and marketing resources than we do and market to the same target demographic groups as we do. Furthermore, additional major hotel/casino openings and significant expansion of existing properties, containing a large number of hotel rooms and attractions, are expected to occur in Las Vegas in the coming years, which will put even further pressure on us to remain competitive.

In Black Hawk/Central City, the primary competitive factors are location, availability and convenience of parking, number of slot machines and gaming tables, promotional incentives, hotel rooms, types and pricing of non-gaming amenities, name recognition and overall atmosphere. Our main competitors are the larger gaming facilities, particularly those with considerable on-site or nearby parking and established reputations in the local market. Two of the most successful casinos in Colorado are located directly across the street from, and are considerably larger than, Riviera Black Hawk. Three other casinos in our market offer hotel accommodations as well as gaming facilities, and thereby have some competitive advantages over us. Also, a road which opened in November 2004 and which enables drivers to bypass Black Hawk on their way to Central City, may give our Central City competitors an advantage over us.

There have also been efforts in Colorado by Native American tribes to acquire land to use for construction of a casino that would operate without the limitations imposed on the Colorado casino industry, and efforts by other parties to amend the Colorado Constitution to permit installation of slot

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machines at five racetracks. Thus far, the Native American casino initiatives in Colorado have either been rejected or have failed to win support from government authorities, and in 2003 a race track/slot machine initiative was rejected by Colorado voters. Nevertheless, if either of these types of initiatives were to be pursued further in Colorado and gain the necessary approvals, then our Colorado operations could be adversely affected.

In addition to the competition that we face from our competitors in Las Vegas and Colorado, we face substantial competition from other companies in the gaming industry generally, such as land-based casinos, dockside casinos, riverboat casinos, casinos located on Native American land in California and elsewhere, and other forms of legalized gambling. If other casinos operate more successfully, if other existing gaming properties continue to be enhanced or expanded, or if additional hotels and casinos are established in or around the locations where we conduct business, we may lose market share.

The number of casinos on Native American lands has increased since enactment of the Indian Gaming Regulatory Act of 1988. In 2000 California voters approved an amendment to the California Constitution that allows Las Vegas-style gaming on Native American lands in that state. While new gaming jurisdictions generally have not materially impacted Las Vegas, the expansion of gaming into California poses a more serious threat to the continued growth of Las Vegas.

We also compete, to some extent, with other forms of gaming on both a local and national level, including state-sponsored lotteries, Internet gaming, on- and off-track wagering and card parlors. In particular, the legalization of gaming or the expansion of legalized gaming in or near any geographic area from which we attract or expect to attract a significant number of our customers could have a significant adverse effect on our business, financial condition, results of operations and future prospects.

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Increased competition may also require us to make substantial capital expenditures to maintain or enhance the competitive positions of our two properties. Because we are highly leveraged, after we satisfy our obligations under our outstanding indebtedness we might not have sufficient financing to make such expenditures. If we are unable to make such expenditures, our competitive position, results of operations and future prospects could be materially adversely affected.

We Only Operate in Two Markets, Which Exposes Us To Greater Risks Than Gaming Companies With More Operating Properties Or A Presence In More Markets.

We do not have material assets or operations other than Riviera Las Vegas and Riviera Black Hawk. Therefore, we will be entirely dependent upon these two properties for all of our cash flow unless and until we develop other properties, which might never happen. This makes us more sensitive to events and conditions affecting the markets in which we operate, including the following:

- o local economic and competitive conditions,
- o inaccessibility due to weather conditions, road construction or closure of primary access routes;
- o decline in air passenger traffic due to higher ticket costs or fears concerning air travel;
- o a decline in automobile traffic due to higher gasoline prices;
- o changes in state and local laws and regulations, including those affecting gaming;
- o an increase in the cost of electrical power for Riviera Las Vegas as a result of, among other things, power shortages in California or other western states with which Nevada shares a single regional power grid; and
- o a decline in the number of visitors to Las

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Vegas or the number of Colorado residents who visit Black Hawk.

Our Significant Indebtedness Could Adversely Affect Our Financial Health And Prevent Us From Fulfilling Our Obligations Under Our Outstanding Indebtedness.

We have a significant amount of debt, which could have important consequences to our stockholders and significant effects on our business and our ability to satisfy our debt obligations. For example, it could:

- o increase our vulnerability to adverse economic or industry conditions or a downturn in our business;
- o limit our ability to redeem our 11% Senior Secured Notes ("11% Notes") if we are required to do so as a result of a change in control of our company or due to regulatory requirements;
- o result in an event of default if we fail to comply with the financial and other restrictive covenants in our Note Indenture or our senior secured credit facility, which could result in all of our indebtedness becoming immediately due and payable and would permit certain lenders to foreclose on our assets securing that indebtedness;
- o limit our ability to fund or obtain additional financing for future working capital needs, capital expenditures and other general financial requirements;
- . require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital needs, capital expenditures, development projects, acquisitions and other general corporate purposes;
- . limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- o place us at a competitive disadvantage compared to our competitors that have less debt or whose debt is at lower interest rates and on more favorable terms than our debt.

We Will Need To Refinance Our 11% Notes In Order To Repay Them, And Refinancing Terms May Be Unfavorable To Us.

Our ability to repay the 11% Notes on or before the June 15, 2010 maturity date will depend on our ability to refinance them, because our cash flow from operations is insufficient for this purpose. In view of, among other things, our lack of profitability and the other risk factors that we are reporting, we may have to accept refinancing terms that are unfavorable to us. This, in turn, could have further adverse effects on our financial health and our ability to satisfy our debt obligations.

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We Are Dependent On Key Personnel Whom We Might Have Difficulty Replacing.

Our ability to operate successfully is dependent, in part, upon the continued services of certain of our executive personnel. Our loss of any of them or our inability to attract or retain key employees in the future could have a material adverse effect on us. We have an employment agreement with William L. Westerman, our Chairman of the Board, President and Chief Executive Officer ("CEO") who has been with us or our predecessor company since 1991. Mr. Westerman is employed for an indefinite period, subject to termination by us upon at least 90 days' written notice or termination by him upon at least 180 days' written notice. Mr. Westerman's contract is also subject to earlier termination upon the occurrence of certain events. We cannot assure you that we would find a suitable replacement for Mr. Westerman if he retires or his employment terminates for any other reason. There is a shortage of skilled

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management-level employees in the gaming industry, which might make it difficult for us to attract and retain qualified personnel at that level, in light of our relatively limited financial and marketing resources, competitive position within the industry and market perceptions about our future prospects.

Regulations Issued By Gaming Or Other Governmental Authorities Could Adversely Affect Our Operations.

As owners and operators of gaming facilities, we are subject to extensive governmental regulation. The ownership, management and operation of gaming facilities are subject to extensive laws, regulations and ordinances, which are administered by various federal, state and local government entities and agencies. The gaming authorities in the jurisdictions in which we operate have broad authority and discretion to require us and our officers, directors, managers, employees and certain security holders to obtain various licenses, registrations, permits, findings of suitability or other approvals. To enforce applicable gaming regulations, gaming authorities may, among other things, limit, suspend or revoke the licenses of any gaming entity or individual, and may levy fines against us or individuals or may cause us to forfeit our assets for violations of gaming laws or regulations. Any of these actions would have a material adverse effect on us.

Nevada and Colorado state and local government authorities require us to obtain gaming licenses and require our officers and key employees to demonstrate suitability to be involved in gaming operations. Those authorities may limit, condition, suspend or revoke a license for any cause they deem reasonable. Also, if we violate any gaming laws or regulations, those authorities may levy substantial fines against us or the individuals involved in the violations. The occurrence of any of these events could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We can not assure you that any new licenses, registrations, findings of suitability, permits and approvals, including for any proposed expansion of our properties or our entry into new markets, will be given or that our existing ones will be renewed when they expire. Any failure to renew or maintain our licenses or receive new licenses when necessary would have a material adverse effect on us.

We are subject to a variety of other laws, rules and regulations, including those pertaining to zoning, environmental matters, construction, land use and the serving of alcoholic beverages. We also pay substantial taxes and fees in connection with our operations as a gaming company, which taxes and fees are subject to increase or other change at any time. Any changes to these laws could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our compliance costs associated with these laws, regulations and licenses are significant. A change in the laws, regulations and licenses applicable to our business or a violation of any of them could require us to make material expenditures or could otherwise materially adversely affect our business, financial condition, results of operations and future prospects.

In Black Hawk and in other jurisdictions from which we attract customers, or in which we may expand, gaming is subject to local referendum. If the results of a referendum held in a jurisdiction in which we operate were to restrict gaming in whole or in part or if the results of a referendum in a nearby non-gaming jurisdiction were to permit gaming, our results of operations could be negatively impacted.

We Are Subject To Potential Exposure To Environmental Liabilities.

Generally, we are subject to various federal, state and local governmental laws and regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. Failure to comply could result in the imposition of severe penalties or restrictions on our operations by governmental agencies or courts. We are not aware of any such exposure at our properties. Riviera Black Hawk is located within a 400-square mile area that in 1983 was designated as the Clear Creek Central/City National Priorities List Site Study Area under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended. Although Riviera Black Hawk is not within any of the specific areas currently identified for investigation or remediation under that statute, we cannot assure you that environmental problems will not subsequently be discovered, including in connection with any future construction on our property. Furthermore, governmental authorities could broaden their investigations and identify areas of concern within the site, we could be identified as a "potentially responsible party" and any related liability could have a material adverse effect on us. We do not have insurance to cover environmental liabilities, if we incur any.

Energy Price Increases May Adversely Affect Our Costs Of Operations And Our Revenues

Our casino properties use significant amounts of electricity, natural gas and other forms of energy. Recent substantial increases in the cost of electricity in the United States have negatively affected our operating results and are likely to continue to do so. The extent of the impact is subject to the magnitude and duration of energy price increases, but this impact could be material. In addition, energy price increases in cities that constitute a significant source of customers for our properties could result in a decline in disposable income of potential customers and a corresponding decrease in visitation to our properties, which could negatively impact our revenues.

Our Business, Financial Condition, Results Of Operations And Future Prospects Are Dependent On Many Factors That Are Beyond Our Control.

The economic health of our business is generally affected by a number of factors that are beyond our control, including:

- . general economic conditions and economic conditions specific to our primary markets;
- . decline in tourism and travel due to concerns about homeland security, terrorism or other destabilizing events;
- . decline in the Las Vegas convention business;
- . intense competitive conditions in the gaming industry, including the effect of such conditions on the pricing of our games and products;
- . changes in the regulatory regimes affecting our business, including changes to applicable gaming, employment, environmental or tax regulations;
- . inaccessibility to our property due to construction on adjoining or nearby properties, streets or walkways;
- . substantial increases in the cost of electricity, natural gas and other forms of energy;
- . local conditions in key gaming markets, including seasonal and weather-related factors;
- . increased transportation costs;
- . levels of disposable income of casino customers;
- . continued increases in health care costs;
- . increases in gaming taxes or fees;
- . the relative popularity of entertainment alternatives to casino gaming that compete for the leisure dollar;

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- . an outbreak or suspicion of an outbreak of an infectious communicable disease; and
- . the adoption of anti-smoking regulations.

Any of these factors could negatively impact our properties or the casino industry generally, and as a result, our business, financial condition and results of operations.

We May Incur Losses That Are Not Adequately Covered By Insurance.

Although we maintain insurance that we believe is customary and appropriate for our business, insurance might not be available or adequate to cover all loss or damage to which our business or our assets might be subjected. Since the terrorist attacks of September 11, 2001, insurance coverage for certain types of damages or occurrences has been diminished substantially and is no longer available at reasonable commercial rates. The lack of adequate insurance for certain types or levels of risk could expose us to significant losses if a catastrophe or lawsuit occurs for which we do not have insurance coverage. Any losses we incur that are not adequately covered by insurance may decrease our future operating income, require us to pay the costs of replacing or repairing destroyed property and reduce the funds available for payment of our debt obligations.

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We Are Subject To Litigation, Which, If Adversely Determined, Could Cause Us To Incur Substantial Losses.

From time to time during the normal course of operating our business, we are subject to various litigation claims and other legal disputes. Some of the litigation claims may not be covered under our insurance policies or our insurance carriers may seek to deny coverage. As a result, we might be required to incur significant legal fees, which may have a material adverse effect on us. In addition, because we cannot predict the outcome of any legal action, it is possible that as a result of current or future litigation, we will be subject to adverse judgments or settlements that could significantly reduce our earnings or result in losses.

Homeland Security Concerns And The Uncertainty Of War, As Well As Other Factors Affecting Discretionary Consumer Spending, May Harm Our Operating Results.

The strength and profitability of our business depend on consumer demand for hotel/casino resorts, gaming in general and the types of amenities we offer. A general downturn in economic conditions and changes in consumer preferences or discretionary consumer spending could harm our business. The terrorist attacks of September 11, 2001, ongoing war activities and concerns about terrorism and homeland security have had a negative impact on travel and leisure expenditures, including lodging, gaming (in some jurisdictions) and tourism. We cannot predict the extent to which those events may continue to affect us, directly or indirectly, in the future. An extended period of reduced discretionary spending or disruptions or declines in travel could significantly harm our operations.

In addition to concerns about war, homeland security and terrorism, other factors affecting discretionary consumer spending, including general or regional economic conditions, disposable consumer income, fears of recession and consumer confidence in the economy, may negatively impact our business. Negative changes in factors affecting discretionary spending could reduce customer demand for the products and services we offer, thus imposing practical limits on our pricing and harming our operations.

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Risks Relating To Our Common Stock

Our Stock Price Has Been Volatile, Which Could Result In Substantial Losses For Our Shareholders.

Our common stock is traded on the American Stock Exchange ("AMEX"). Our stock's average daily trading volume for the 52-week period ended February 21, 2006 was approximately 82,000 shares. The daily closing sale prices of our stock, as reported by AMEX, have ranged from \$11.25 to \$26.20 for the 52-week period ended February 21, 2006. The volatility of the trading price of our stock could be due to many factors including, but not limited to:

- . the recent sale by our CEO of 1 million shares of our stock at \$15.00 per share under a December 22, 2005 agreement that could also result in his sale of all or substantially all of his remaining 1.1 million shares at that price, if the buyers request and obtain approvals by gaming authorities and our board of directors;
- . the previously reported intentions of the buyers of our CEO's shares to negotiate with us for an acquisition of our company at a price of not less than \$15.00 per share, followed by the termination of those discussions on March 2, 2006, because the buyers and the special committee of our board of directors did not agree on the acquisition price;
- . our November 8, 2005 announcement that we concluded the process of exploring strategic alternatives to maximize shareholder value but will continue to consider appropriate strategic opportunities if and when they arise;
- . fluctuations in Las Vegas real estate values, particularly as they affect property on the Las Vegas Strip;
- . the relatively low trading volume for our stock;
- . quarterly fluctuations in our financial results;
- . changes in analysts' estimates of our financial performance or future prospects;
- . announcements of new services or programs;

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- . additions or departures of key personnel;
- . the potentially dilutive effect of outstanding stock options to purchase 310,500 shares of our stock at a weighted average exercise price of \$2.44 per share;
- . general conditions in our industry and in the financial markets; and
- . a variety of other risk factors including the ones described elsewhere in this report.

The Volatility Of The Las Vegas Real Estate Market Might Result In A Substantial Decline In Our Stock Price.

Over the past two years, the market value of real estate located on or near the Las Vegas Strip has increased substantially. Over that same period, there has been a substantial increase in the trading price of our stock. Our Las Vegas property, which is located near the northern end of the Las Vegas Strip and consists of approximately 26 acres, is valued on our balance sheet at its 1993 historical cost of \$21 million. We believe that the increase in the value of real estate on the Las Vegas Strip has been a significant factor in the increase in our stock price over the past two years. Likewise, we believe that any future downward trend in those real estate values could cause a significant drop in the price of our stock.

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There Are Limitations On Changes In Control Of Our Company That Could Reduce Your Ability To Sell Our Shares At A Premium.

The Note Indenture restricts the ability of anyone to effect a change in control of our company. If anyone acquires 35% or more of our outstanding stock, or if other events occur that constitute a change in control according to our Note Indenture, then we would have to make a prompt offer to repurchase all of our 11% Notes at 101% of their principal amount plus accrued interest. It is unlikely that we would have the funds to repurchase our 11% Notes within the required time frame unless we obtained the necessary funding as part of the change in control transaction, which adds significantly to the funding that a buyer would need to acquire our company. Our Note Indenture also would require us to obtain the consent of holders of a majority of the outstanding principal amount of the 11% Notes in order for us to be a party to a merger or to sell all or substantially all of our assets unless, after giving effect to the transaction, we meet certain net worth or financial ratio tests, which might be difficult or impossible for us to meet.

Besides our Note Indenture, our articles of incorporation and bylaws contain provisions that could reduce the likelihood of a change in control or acquisition of our company. These could limit your ability to sell your shares at a premium or otherwise affect the price of our common stock. These provisions:

- . limit the voting power of persons who acquire more than 10% of our outstanding stock without our prior approval.
- . permit us to issue up to 60 million shares of common stock;
- . permit us to increase the size of our board of directors and fill the resulting vacancies without a vote by shareholders; and
- . limit the persons who may call special meetings of shareholders.

In addition, Nevada law contains provisions governing the acquisition of a substantial or controlling interest in certain publicly-held Nevada corporations, including our company. Those laws provide generally that any person who acquires more than a specified percentage of our outstanding stock must obtain certain approvals from us before the acquisition or they might be denied voting rights or the ability to engage in various transactions with us, unless our disinterested stockholders vote to restore those rights. The ownership percentage that triggers some of these restrictions is 10%, and further restrictions can be triggered at the 20%, 33-1/3% or 50.1% ownership level.

Also, a person that seeks to acquire control must satisfy the licensing requirements of the Nevada and Colorado gaming authorities. The gaming authorities may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with a person proposing to acquire control to be investigated and licensed as part of the approval process relating to the transaction.

Nevada law also provides that we may resist a change or potential change in control if our board of directors determines that the change is not in the best interest of our company.

We Have Never Paid Dividends, Do Not Intend To Pay Dividends In The Foreseeable Future And Cannot Pay Dividends To Any Unsuitable Person

We have never paid dividends on our stock, nor do we anticipate paying dividends in the foreseeable future. We intend to retain our cash flow or

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earnings, if any, to use in our growth and ongoing operations. In addition, because we are a holding company, our ability to pay dividends would be dependent on our subsidiaries' ability to provide funds to us. However, the terms of our debt instruments and credit facilities materially restrict our ability to pay dividends even when our subsidiaries pay dividends to us. Also, due to gaming law considerations, our articles of incorporation prohibit the payment of dividends to anyone who is deemed an "unsuitable person" or is an affiliate of an "unsuitable person."

Certain Owners Of Our Stock May Have To File An Application With, And Be Investigated By, Nevada Gaming Authorities. If That Owner Is Deemed "Unsuitable," It Will Lose Most Of The Attributes Of Being A Stockholder.

Any person who acquires beneficial ownership of more than 10% of our voting securities must apply to the Nevada Commission for a finding of suitability within 30 days after the Chairman of the Nevada Board mails a written notice requiring such application. Under certain circumstances, if an "institutional investor" (as defined in Nevada gaming regulations) acquires beneficial ownership of more than 10% but not more than 15% of our voting securities and holds the securities only for investment purposes, it may apply for a waiver of such finding of suitability requirement. In addition, any beneficial owner of our voting securities, regardless of the number of shares owned, may be required, at the discretion of the Nevada Commission, to apply for a finding of suitability. A finding of suitability is comparable to licensing, and the applicant must pay all costs of investigation incurred by the Nevada gaming authorities in conducting the investigation.

Any such person who fails to apply for a finding of suitability within 30 days after being ordered to do so by the Nevada Commission may be found to be unsuitable. Any person who is found by the Nevada Commission to be unsuitable to be a beneficial owner of our voting securities but continues such beneficial ownership beyond the period of time prescribed by the Nevada Commission may be guilty of a criminal offense. We will be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a beneficial owner of our voting securities or to have any other relationship with us, we:

- . pay that person any dividend or interest on our voting securities;
- . allow that person to exercise, directly or indirectly, any voting right conferred through our voting securities held by that person;
- . pay that person any remuneration in any form for services rendered or otherwise; or
- . fail to pursue all lawful efforts to require that person to relinquish our voting securities for cash at fair market value.

We May Redeem Shares Due To Gaming Law Considerations, Either As Required By Gaming Authorities Or In Our Discretion.

Our articles of incorporation provide that if a gaming authority determines that any stockholder or its affiliates are unsuitable, or if deemed necessary or advisable by us for gaming law considerations, we may redeem shares of our stock that the stockholder or the stockholder's affiliates own or control. The redemption price will be the amount required by the gaming authority or, if the gaming authority does not determine the price, the price deemed reasonable by us. If we determine the redemption price, that price will be capped at the market price of the shares on the date we give the redemption notice. We may pay the redemption price in cash, by promissory note, or both, as required by the applicable gaming authority and, if not so required, as we elect.

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Our Shares Could Be Delisted From AMEX.

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Our common stock is traded on AMEX under the symbol RIV. We do not currently meet the earnings or net worth standards of AMEX. We have been informed, however, that according to AMEX policy, AMEX will not normally consider suspending dealings in or delisting the securities of a company which is below the earnings and net worth standards if the total market value of that company's publicly held shares is at least \$15,000,000. Based on the number of our publicly held shares as of February 21, 2006, our shares would need to have a per-share market value of at least \$1.50 in order to meet that \$15,000,000 level. However, we cannot be sure that AMEX will follow that policy or that the price of our shares will enable us to stay at that level in the future. If our shares were delisted from AMEX, the marketability and liquidity of our stock could be significantly reduced.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Riviera Las Vegas

Riviera Las Vegas is located on the Las Vegas Strip, at 2901 Las Vegas Boulevard South, Las Vegas, Nevada and occupies approximately 26 acres. The buildings comprise approximately 1.8 million square feet, including 110,000 square feet of casino space, a 160,000 square-foot convention, meeting and banquet facility, 2,100 hotel rooms (including 169 luxury suites) in five towers, three restaurants, a buffet and barbeque, four showrooms, a lounge and approximately 2,300 parking spaces. In addition, executive and other offices for Riviera Las Vegas are located on the property.

There are approximately 35 food and retail concessions operated under individual leases with third parties. The leases are for periods from one year to ten years and expire over the next five years.

The Riviera Las Vegas and Riviera Black Hawk properties are encumbered by deeds of trust securing our 11% Notes and our five-year senior secured credit facility, which matures in July 2007.

Riviera Black Hawk

Riviera Black Hawk is located on 1.63 acres of land at 400 Main Street, Black Hawk, Colorado. The buildings include approximately 325,000 square feet and comprise 32,000 square feet of gaming space, parking for approximately 520 vehicles (substantially all of which are covered), a 252-seat buffet, two bars and an entertainment center with seating for approximately 400 people.

The Riviera Las Vegas and Riviera Black Hawk properties are encumbered by deeds of