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RIVIERA HOLDINGS CORP
Form 10-Q
May 10, 2006

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Mark One

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from _____ to _____

Commission file number 000-21430

Riviera Holdings Corporation

(Exact name of Registrant as specified in its charter)

Nevada

88-0296885

(State or other jurisdiction
of incorporation or organization)

(IRS Employer Identification No.)

2901 Las Vegas Boulevard South, Las Vegas, Nevada

89109

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number,
Including area code

(702) 794-9237

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

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act). Yes X No

Indicate by check mark whether the registrant is a large accelerated filer, an
accelerated filer, or a non-accelerated filer.
(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

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

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

Yes No
---- -

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 8, 2006, there were 12,430,755 shares of Common Stock, \$.001 par value per share, outstanding.

RIVIERA HOLDINGS CORPORATION

INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Report of Independent Registered Public Accounting Firm	2
Condensed Consolidated Balance Sheets (Unaudited) at March 31, 2006 and December 31, 2005	3
Condensed Consolidated Statements of Income (Unaudited) for the Three Months ended March 31, 2006 and 2005	4
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three Months ended March 31, 2006 and 2005	5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	21
Item 4. Controls and Procedures	22
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	22
Item 1A. Risk Factors	22
Item 5. Other Information	23
Item 6. Exhibits	23
Signature Page	24
Exhibits	25

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1

PART I - FINANCIAL INFORMATION ITEM

1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Riviera Holdings Corporation

We have reviewed the accompanying condensed consolidated balance sheet of Riviera Holdings Corporation (the "Company") and subsidiaries as of March 31, 2006, and the related condensed consolidated statements of operations and of cash flows for the three months ended March 31, 2006 and 2005. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Riviera Holdings Corporation as of December 31, 2005, and the related consolidated statements of operations, stockholders' equity, and of cash flows for the year then ended (not presented herein); and in our report dated March 13, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

May 10, 2006
Las Vegas, Nevada

2

RIVIERA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
(In Thousands, except share amounts)

March 31, December 31,

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	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$28,651	\$20,571
Accounts receivable, net of allowances of \$1,347 and \$1,244, respectively	4,228	3,544
Inventories	2,144	2,485
Prepaid expenses and other assets	3,834	4,197
	-----	-----
Total current assets	38,857	30,797
PROPERTY AND EQUIPMENT, Net	171,126	171,130
OTHER ASSETS, Net	6,974	7,396
DEFERRED INCOME TAXES, Net	2,446	2,446
	-----	-----
TOTAL	\$219,403	\$211,769
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$843	\$824
Current portion of obligation to officers	1,000	1,000
Accounts payable	9,720	10,133
Accrued interest	6,971	1,087
Accrued expenses	13,210	12,261
	-----	-----
Total current liabilities	31,744	25,305
	-----	-----
OBLIGATION TO OFFICERS- net of current portion	2,863	3,126
	-----	-----
LONG-TERM DEBT, net of current portion	214,454	214,607
	-----	-----
COMMITMENTS AND CONTINGENCIES (See Note 6)		
STOCKHOLDERS' DEFICIENCY:		
Common stock (\$.001 par value; 60,000,000 shares authorized; 17,119,824 and 17,082,324 issued at March 31, 2006 and December 31, 2005, respectively)	17	17
Deferred Compensation - Restricted Stock	-	(3,585)
Additional paid-in capital	17,426	20,886
Treasury stock (4,762,393 shares and 4,859,091 shares at March 31, 2006 and December 31, 2005, respectively)	(9,841)	(10,047)
Accumulated deficit	(37,260)	(38,540)
	-----	-----
Total stockholders' deficiency	(29,658)	(31,269)
	-----	-----
TOTAL	\$219,403	\$211,769
	=====	=====

See notes to condensed consolidated financial statements

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RIVIERA HOLDINGS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
 FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
 (In thousands, except per share amounts) Three Months Ended
 March 31,

REVENUES:	2006	2005
Casino	\$27,082	\$27,483
Rooms	14,843	13,425
Food and beverage	8,898	8,843
Entertainment	3,681	4,882
Other	1,703	2,037
	-----	-----
Total revenues	56,207	56,670
Less promotional allowances	4,518	4,206
	-----	-----
Net revenues	51,689	52,464
	-----	-----
COSTS AND EXPENSES:		
Direct costs and expenses of operating departments:		
Casino	13,820	13,864
Rooms	6,789	6,558
Food and beverage	6,332	6,053
Entertainment	2,642	3,669
Other	466	680
Other operating expenses:		
General and administrative	10,017	10,005
Mergers, Acquisitions and Development Costs, net	117	(667)
Equity Compensation - Restricted Stock	216	53
Sarbanes-Oxley Act costs	228	
Asset Impairment	13	198
Depreciation and amortization	3,260	3,294
	-----	-----
Total costs and expenses	43,900	43,707
	-----	-----
INCOME FROM OPERATIONS	7,789	8,757
	-----	-----
OTHER (EXPENSE) INCOME :		
Interest expense	(6,590)	(6,659)
Interest income	81	40
	-----	-----
Total other expense	(6,509)	(6,619)
	-----	-----
INCOME BEFORE PROVISION FOR INCOME TAXES	1,280	2,138
PROVISION FOR INCOME TAXES	0	0
	-----	-----
NET INCOME	\$1,280	\$2,138
	=====	=====
INCOME PER SHARE DATA:		
Income per share:		
Basic	\$ 0.11	\$ 0.18
	-----	-----
Diluted	\$ 0.10	\$ 0.18
	-----	-----
Weighted-average common shares outstanding	11,997	11,781
	-----	-----
Weighted-average common and common equivalent shares	12,258	12,070
	-----	-----

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See notes to condensed consolidated financial statements

4

RIVIERA HOLDINGS CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (in thousands)	Three Months Ended March 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$1,280	\$2,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,260	3,294
Stock compensation - restricted stock	216	53
Asset impairment	13	197
Provision for bad debts	108	70
Interest expense	6,590	6,659
Interest paid	(206)	(280)
Increase in operating (assets) and liabilities:		
Accounts receivable	(792)	(827)
Inventories	341	(30)
Prepaid expenses and other assets	363	139
Accounts payable	(413)	(361)
Accrued liabilities	949	(1,600)
Deferred compensation plan obligation	(2)	(47)
Obligation to officers	(250)	(250)
Net cash provided by operating activities	11,457	9,155
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for property and equipment		
- Las Vegas, Nevada	(1,401)	(1,762)
Capital expenditures - Black Hawk, Colorado	(1,855)	(904)
Net cash (used in) investing activities	(3,256)	(2,666)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term borrowings	(236)	(879)
Proceeds from exercise of stock options	115	289
Net cash (used in) financing activities	(121)	(590)
INCREASE IN CASH AND CASH EQUIVALENTS	8,080	5,899
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20,571	18,886
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$28,651	\$24,785
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:		
Property acquired with debt and accounts payable	\$1,653	\$564

See notes to condensed consolidated financial statements

5

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RIVIERA HOLDINGS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Nature of Operations

Riviera Holdings Corporation ("RHC") and its wholly-owned subsidiary, Riviera Operating Corporation ("ROC") (together with their wholly-owned subsidiaries, the "Company"), were incorporated on January 27, 1993, in order to acquire all assets and liabilities of Riviera, Inc. Casino-Hotel Division on June 30, 1993, pursuant to a plan of reorganization. The Company operates the Riviera Hotel & Casino (the "Riviera Las Vegas") on the Las Vegas Strip in Las Vegas, Nevada.

In August 1995, Riviera Gaming Management, Inc. ("RGM") was incorporated in the State of Nevada as a wholly owned subsidiary of ROC for the purpose of obtaining management contracts in Nevada and other jurisdictions.

In February 2000, the Company opened its casino in Black Hawk, Colorado, which is owned through Riviera Black Hawk, Inc. ("RBH"), a wholly-owned subsidiary of ROC. Riviera Gaming Management of Colorado, Inc. is a wholly-owned subsidiary of RGM and manages the Black Hawk casino.

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

Principles of Consolidation

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

The financial information at March 31, 2006 and for the three months ended March 31, 2006 and 2005 is unaudited. However, management believes such information reflects all adjustments (consisting solely of normal and recurring adjustments) that are necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods.

The results of operations for the three months ended March 31, 2006 and 2005 are not necessarily indicative of the results for the entire year.

These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2005, included in our Annual Report on Form 10-K (as amended).

6

Earnings Per Share

Basic per share amounts are computed by dividing net income by weighted average shares outstanding during the period. Diluted net income (loss) per share amounts are computed by dividing net income by weighted average shares outstanding plus the dilutive effect of common share equivalents. No potentially dilutive options were excluded from the diluted shares outstanding calculation for the three months ended March 31, 2006 and 2005 respectively.

Income Taxes

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The income tax provisions of \$135,345 and \$748,300 for the three months ended March 31, 2006 and 2005, respectively, were fully offset by the utilization of loss carryforwards for which a valuation allowance had been previously provided. The estimates used to determine the remaining valuation allowance are based upon recent operating results and budgets for future operating results. These estimates are made using assumptions about the economic, social and regulatory environments in which we operate. These estimates could be impacted by numerous unforeseen events including changes to regulations affecting how we operate the business, changes in the labor market or economic changes in the areas where we operate.

Estimates and Assumptions

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Significant estimates used by us include estimated useful lives for depreciable and amortizable assets, certain accrued liabilities, the estimated allowance for receivables, cash flow projections for testing asset impairment and establishment of the income tax valuation allowance. Actual results may differ from estimates.

Stock Based Compensation

On January 1, 2006, we adopted Statement of Financial Accounting Standards ("SFAS") No.123 (R), using the modified prospective application. Accordingly, prior amounts have not been restated. In the first quarter of 2006, the adoption of SFAS No. 123 (R) resulted in no incremental stock-based compensation expense, as we had no non-vested options outstanding at January 1, 2006. However, as required by SFAS 123 (R), upon adoption, we reclassified \$3.6 million of deferred compensation to additional paid in capital.

As of March 31, 2006, we had outstanding options under two stock option plans. Prior to January 1, 2006 we had adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Accordingly, we recognized no compensation cost for stock options during the first quarter of 2005.

The following table details the effect on net income and earnings per share had compensation expense for the employee stock based awards been recorded in the first quarter of 2005 based on the fair value method under SFAS No. 123 (in thousands, except per share amounts):

	2005
Net income as reported	\$ 2,138
Deduct: Total stock-based employee compensation expense determined under fair value-based methods for awards net of related tax effects	(11)

Net income pro forma	\$ 2,127
	=====
Basic income per common share as reported	\$ 0.18
Basic income per common share pro forma	\$ 0.18

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Diluted income per common and common share equivalent as reported	\$ 0.18
Diluted income per common and common share equivalent pro forma	\$ 0.18

We estimated fair value of each option grant on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2003: dividend yield of 0%; expected volatility of 52%; risk-free interest rate of 4.49%; and expected lives of 10 years. All outstanding options were vested as of December 31, 2005. There have been no options granted in 2006 or 2005.

2. OTHER ASSETS

Other assets at March 31, 2006 and 2005 include deferred loan fees of approximately \$5.8 million and \$7.3 million respectively, associated with the refinancing of our debt.

3. LONG-TERM DEBT AND COMMITMENTS

On June 26, 2002, we issued 11% Senior Secured Notes with a principal amount of \$215 million, substantially all of which were later exchanged for our Securities Act of 1933-registered Senior Secured Notes with substantially the same terms (collectively, the "11% Notes"). The 11% Notes were issued at a discount of \$3.2 million. The discount is being amortized over the 8 year life of the 11% Notes.

Effective July 26, 2002 we entered into a \$30 million, five-year revolving credit arrangement with a financial institution. Terms of the arrangement include interest at prime plus .75 percent or a LIBOR -derived rate. There were no advances outstanding on this revolver at March 31, 2006. We incurred loan fees of approximately \$1.5 million, which are being expensed over the life of the arrangement. A .05 percent annual fee is charged monthly on the unused portions of the revolver plus a \$3,000 monthly service fee.

4. STOCK REPURCHASES

There were no shares of RHC common stock ("Common Stock") purchased by our Deferred Compensation Plan for the three months ended March 31, 2006 or 2005. The Deferred Compensation Plan distributed to participants 96,698 and 187,983 shares for the three months ended March 31, 2006 and 2005, respectively.

8

5. SHARED-BASED PAYMENTS

Effective March 10, 2005, we approved and authorized the grant of 337,500 shares of Common Stock under our Restricted Stock Plan to 19 executives at no cost, subject to their execution of appropriate acceptances. Of that total, 67,875 shares vested during the three month period ended March 31, 2006. We granted those shares in substitution for stock options that we attempted to grant on July 15, 1993 under our 1993 Employee Stock Option Plan (the "1993 Option Plan"). The 1993 Option Plan expired on July 1, 2003, rendering those options null and void. The grant of restricted Common Stock was intended to compensate those executives for the value of the options that we attempted to grant. The restricted shares are subject to a five-year vesting schedule, vesting 20% each March 10, commencing March 10, 2006. The Company is amortizing the \$4,584,000 fair market value of those shares over the vesting period of 60 months and \$216,000 was charged to expense in the first quarter of 2006. We have \$3,687,875 remaining to be amortized. The restricted shares immediately vest upon death, disability, retirement at age 62, termination of employment other than for

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cause, or in the event of a change in control of the Company.

At March 31, 2006, we had two active stock option plans and two expired stock option plans, which are described below. Options granted prior to the adoption of SFAS No. 123(R) on January 1, 2006 were accounted for in accordance with Accounting Principles Board Opinion No. 25. Under the 1993 Option Plan, we were authorized to grant options to employees for up to one million shares of Common Stock. Under the Non-Qualified Stock Option Plan for Non-Employee Directors (the "1996 Option Plan"), we were authorized to grant options to non-employee directors for up to 150,000 shares of Common Stock. Under these plans, the exercise price of each option equaled the market price of our stock on the date of grant (110% of market value in the case of an incentive option granted to an owner of more than 10% of our Common Stock) and an option's maximum term was 10 years (5 years in the case of an incentive option granted to a an owner of more than 10% of our Common Stock). Under the 1993 Option Plan, options vest 25% on the date of grant and 25% each subsequent year. All options have become vested under the 1996 Option Plan. Although the 1993 Option Plan and 1996 Option Plan have expired, some options granted under these plans are still outstanding.

Effective May 17, 2005, we implemented two new stock option plans and reserved a total of 1,150,000 shares for options issuable under the plans. We allocated 150,000 shares to a new option plan for non-employee directors. We will grant options for 6,000 shares to each non-employee director on each anniversary of the effective date of the plan. Also, we will grant options for 6,000 shares to each person who becomes a non-employee director after May 17, 2005. The option exercise price will be the closing market price of our stock on the date of the option grant. The options will vest over five years at 20% per year, commencing on the first anniversary of the grant.

We allocated one million shares to a new incentive stock option plan for our officers and key employees. Our Stock Option Committee will have discretion as to whom those options will be granted and the number of shares to be allocated to each option grant. The option exercise price will be the closing market price of our Common Stock (110% of market value in the case of an incentive option granted to an owner of more than 10% of our Common Stock) on the date of the option grant. The options will vest over four years, with 20% vesting on the date of grant, and an additional 20% on each anniversary of the grant.

9

No options were granted during the three months ended March 31, 2005 and 2006. All outstanding options were exercisable as of March 31, 2006. Accordingly there are no amounts to amortize to expense. The total intrinsic value of options exercised during the three months ended March 31, 2006 was \$474,345. The following table summarizes information about options outstanding as of March 31, 2006.

The activity of the 1993 Option Plan and the 1996 Option Plan is as follows:

1993 Option Plan	Shares	Weighted Average Per Share Exercise Price	Remaining Life	Aggregate Intrinsic Value
Outstanding, December 31, 2005	226,500	\$ 2.41		
Exercised	(37,500)	\$ 3.07		
Expired	(3,000)	\$ 2.45		

Outstanding, March 31, 2006	186,000	\$ 2.35	4.94 years	\$2,697,000
	=====			

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1996 Option Plan

Outstanding, December 31, 2005	84,000	\$	2.54	

Outstanding, March 31, 2006	84,000	\$	2.54	4.33 years \$1,202,040
	=====			

6. COMMITMENTS AND CONTINGENCIES

Salary Continuation Agreements

Approximately 60 officers and significant employees (excluding Mr. Westerman and Mr. Vannucci) of ROC have salary continuation agreements effective through December 31, 2006, pursuant to which each of them will be entitled to receive (1) either six months' or one year's base salary if his or her employment is terminated, without cause, within 12 or 24 months of a change of control of the Company or ROC; and (2) certain benefits for periods of either one or two years. The base salary is payable in bi-weekly installments subject to the employee's duty to mitigate by using his or her best efforts to find other employment. In addition, four officers and significant employees have salary continuation agreements effective through December 31, 2006, pursuant to which each of them will be entitled to receive two years' base salary and certain benefits for two years, if their employment is terminated without cause within 24 months of a change of control of RHC or ROC. These four salary continuation agreements are not subject to a duty to mitigate. As of March 31, 2006, the total amount that would be payable under all such agreements if all payment obligations were to be triggered was approximately \$5.9 million, including \$1.4 million in benefits.

Legal Proceedings

We are a party to routine lawsuits, either as plaintiff or as defendant, arising from the normal operations of a hotel or casino. We do not believe that the outcome of such litigation, in the aggregate, will have a material adverse effect on our financial position or results of our operations.

10

7. GUARANTOR INFORMATION

The 11% Notes and the \$30 million revolving credit arrangement are guaranteed by all of our restricted subsidiaries. These guaranties are full, unconditional, and joint and several. Riviera Gaming Management of Missouri, Inc. ("RGMM") and Riviera Gaming Management of New Mexico, Inc. ("RGMMN") are unrestricted subsidiaries of RHC and are not guarantors of the 11% Notes and the revolving credit arrangement. RGMM and RGMMN do not have operations and do not significantly contribute to our financial position or results of operations.

8. SUBSEQUENT EVENTS

On April 6, 2006, RHC and Riv Acquisition Holdings Inc., a company owned by a private investment group, announced they entered into a definitive merger agreement under which all of the outstanding shares of Riviera Holdings Corporation will be acquired for \$17.00 per share in cash, other than shares owned by William L. Westerman, RHC's chief executive officer. Mr. Westerman had entered into a previous personal agreement to sell his shares to the investment group for \$15 per share in cash and to vote his shares in favor of the acquisition. The transaction is expected to be complete sometime in the first

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half of 2007, subject to shareholder approval and licensing by gaming authorities.

Between April 6, 2006 and April 25, 2006, five class action complaints were filed in the District Court of Clark County, Nevada against us and our directors, each on behalf of a named plaintiff shareholder and all others similarly situated. The named plaintiffs in the complaints are: Thomas A. Trozzi (Case No. A520076, filed on April 6, 2006); Phillip LaBarbara (Case No. A520100, filed on April 7, 2006); Todd Veeck (Case No. A520136, filed on April 7, 2006); Norberto Silva (Case No. A520638, filed on April 19, 2006); and Robert Strougo (Case No. A520911, filed on April 25, 2006). Plaintiff Thomas A. Trozzi notified us on April 10, 2006, that he did not agree to be a party to a lawsuit filed against us or to have such a lawsuit filed in his name. On April 17, 2006, the Trozzi complaint against us was voluntarily dismissed without prejudice.

The plaintiffs in each of the four remaining lawsuits allege, among other things, that the defendants breached their fiduciary duties owed to our shareholders by entering into the Agreement and Plan of Merger, dated April 5, 2006 (the "Merger Agreement"), among Riv Acquisition Holdings Inc., Riv Acquisition Inc. and Riviera Holdings Corporation at a price the plaintiffs considered to be inadequate.

In the complaints the plaintiffs request the court to do the following, among other things: (i) certify all Company shareholders, other than the defendants and persons or entities related to or affiliated with any defendants, as a class for purposes of a class action lawsuit, (ii) enjoin consummation of the transactions contemplated by the Merger Agreement and (iii) rescind the Merger Agreement.

We believe the plaintiffs' allegations are without merit and intend to vigorously defend against them.

11

9. SEGMENT DISCLOSURES

We determine our segments based upon the review process of our chief decision-maker who reviews by geographic gaming market segments: Riviera Las Vegas and Riviera Black Hawk. The key indicator reviewed by the chief-decision maker is EBITDA, as described below. All inter-segment revenues have been eliminated. Three Months Three Months

(In thousands)	Ended March 31, 2006	Ended March 31, 2005
Net revenues:		
Riviera Las Vegas	\$38,426	\$39,347
Riviera Black Hawk	13,263	13,117
	-----	-----
Total net revenues	\$ 51,689	\$ 52,464
	=====	=====
EBITDA (1):		
Riviera Las Vegas	\$8,467	\$8,853
Riviera Black Hawk	4,188	3,939
	-----	-----
Total property EBITDA	\$12,655	\$12,792
	=====	=====
Other Costs and Expenses		

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Corporate Expenses		
Equity Compensation -		
Restricted Stock	216	53
Other Corporate Expenses	1,032	1,157
Depreciation and Amortization	3,260	3,294
Mergers, Acquisitions and		
Development Costs, net	117	(667)
Sarbanes-Oxley Act Costs	228	
Asset Impairment	13	198
Interest Expense	6,590	6,659
Interest Income	(81)	(40)
	-----	-----
Total Costs and Expenses	11,375	10,654
	-----	-----
Net Income	\$ 1,280	\$ 2,138
	=====	=====

(1) EBITDA consists of earnings before interest, income taxes and depreciation and amortization. EBITDA is presented solely as a supplemental disclosure because we believe that it is 1) a widely used measure of operating performance in the gaming industry and 2) a principal basis for valuation of gaming companies by certain analysts and investors. We use property-level EBITDA (earnings before interest, income taxes, depreciation amortization and corporate expense) as the primary measure of the Company's business segment properties' performance, including the evaluation of operating personnel. EBITDA should not be construed as an alternative to operating income, as an indicator of our operating performance, as an alternative to cash flows from operating activities, as a measure of liquidity, or as any other measure determined in accordance with generally accepted accounting principles. We have significant uses of cash flows, including capital expenditures, interest payments and debt principal repayments, which are not reflected in EBITDA. Also, other companies that report EBITDA may calculate it in a different manner than we do.

12

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

Overall Outlook

We own and operate the Riviera Hotel and Casino on the Las Vegas Strip in Las Vegas, Nevada ("Riviera Las Vegas"), and the Riviera Black Hawk Casino in Black Hawk Colorado ("Riviera Black Hawk").

Our capital expenditures for Las Vegas are geared to maintain the hotel rooms and amenities in sufficient condition to compete for customers in the convention market and the mature adult customer. Room rates and slot revenues are the primary factors driving our operating margins. We use technology to maintain labor costs at a reasonable level, including kiosks for hotel check-in and slot club redemptions. In addition, we are in the process of updating our gaming monitoring computer systems, including the capability for "ticket-in/ticket-out" ("TITO") on our slot machines. At March 31, 2006 approximately 757 (67%) of our slot machines were on the TITO system. By the end of 2006 we anticipate that we will have 950 slot machines, or approximately 84% of our slot machines in Las Vegas, on TITO. Depending upon the success of these conversions, we may accelerate the conversion of the remaining machines or we may convert them based on normal replacement schedules.

In Black Hawk, the \$5 maximum bet restricts our ability to generate table games revenues; the area is basically a "locals" slot customer market. Our capital

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expenditures in Black Hawk are geared to maintain competitive slot machines compared to the market. The gaming authorities approved TITO systems in Colorado for Riviera Black Hawk on December 16, 2003 and we had 751 (80%) of our slot machines on the TITO system as of March 31, 2006. We do not intend to add any additional slot machines to our TITO system for the remainder of 2006.

On April 6, 2006, we announced that we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Riv Acquisition Holdings Inc. ("Riv Acquisition"), a company owned by a private investment group comprised principally of four real estate developers and investors. Upon consummation of the merger as contemplated by the Merger Agreement (the "Merger"), our shareholders would receive \$17 in cash for each share of Riviera Holdings Corporation common stock ("Common Stock") they hold, except for shares held by William L. Westerman, our Chairman of the Board and Chief Executive Officer ("CEO"). Pursuant to a pre-existing agreement, Mr. Westerman would receive \$15 in cash for his shares of Common Stock. Also, holders of options under our stock option plans would receive a cash payment equal to the excess of \$17 over the per-share exercise price of their options, multiplied by the number of shares subject to the options.

The Merger Agreement provides for Riv Acquisition Inc. ("Merger Sub"), which is a wholly-owned subsidiary of Riv Acquisition and is also a party to the Merger Agreement, to merge into Riviera Holdings Corporation (the "Company"), whereupon the separate existence of Merger Sub would cease and the Company would become a wholly-owned subsidiary of Riv Acquisition. The Merger Agreement further provides for Riv Acquisition and Merger Sub to (1) acquire a majority of our outstanding 11% Senior Secured Notes (the "11% Notes") and grant the necessary consents of the holders of the 11% Notes to allow for consummation of the Merger contemplated by the Merger Agreement (the "Merger") or (2) deposit funds necessary to redeem the 11% Notes prior to the Merger. Parent has made a \$15 million escrow deposit to secure its obligations under the Merger Agreement to consummate the Merger.

13

Consummation of the Merger is subject to approval by holders of at least 60% of the outstanding Common Stock and various other closing conditions, including approval or clearance by Nevada and Colorado gaming regulators and other governmental authorities.

The deadline for consummation of the Merger is the later of (1) April 5, 2007 and (2) eight months after the date on which our shareholders approve the Merger. However this deadline may be extended for one three-month period if Riv Acquisition and Merger Sub are still awaiting the gaming approvals required to consummate the Merger and have a reasonable expectation of obtaining those approvals by the extended deadline. If Riv Acquisition and Merger Sub wish to extend the deadline for that three-month period, they are required to increase the amount of their escrow deposit by \$3 million and deliver to us a financing commitment from a reputable financial institution for the funds needed to consummate the Merger.

The above description of the Merger Agreement is not complete and is qualified in its entirety by reference to the Merger Agreement, which is in Exhibit 99.1 of the Form 8-K that we filed with the SEC on April 7, 2006. The Merger Agreement contains representations and warranties which the parties made to, and solely for, the benefit of each other. Those representations and warranties are qualified by information contained in a confidential disclosure schedule that the parties exchanged in connection with signing the Merger Agreement and that modifies, qualifies and creates exceptions to the representations and warranties.

On May 2, 2006, Duane R. Krohn, our Treasurer and Chief Financial Officer

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("CFO"), retired and we appointed Mr. Westerman on an interim basis to fill the positions that Mr. Krohn held with us (including his positions with Riviera Operating Corporation ("ROC")). During this interim period, Mr. Westerman is also continuing in his other positions with us.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

The following table sets forth, for the periods indicated, certain operating data for Riviera Las Vegas and Riviera Black Hawk. Income from Operations includes intercompany management fees.

14

(In Thousands)	First 2006	Quarter 2005	Incr (Decr)	Incr (Decr)%
	----	----	-----	-----
Net revenues:				
Riviera Las Vegas	\$38,426	\$39,347	(\$921)	-2.3%
Riviera Black Hawk	13,263	13,117	146	1.1%
	-----	-----	---	
Total Net Revenues	\$51,689	\$52,464	(\$775)	-1.5%
	=====	=====	=====	
Income (Loss) from Operations				
Riviera Las Vegas	\$6,642	\$7,108	(\$466)	-6.6%
Riviera Black Hawk	2,753	2,390	363	15.2%
	-----	-----	-----	
Property Income from Operations	9,395	9,498	(103)	-1.1%
Corporate Expenses				
Equity Compensation - Restricted Stock	(216)	(53)	(163)	307.5%
Other Corporate Expenses	(1,032)	(1,157)	125	10.8%
Mergers, Acquisitions and Development				
Costs, net	(117)	667	(784)	-117.5%
Asset Impairment	(13)	(198)	185	-93.4%
	-----	-----	---	
Total Income from Operations	\$7,789	\$8,757	(\$968)	-11.1%
	=====	=====	=====	
Operating Margins (1)				
Riviera Las Vegas	17.3%	18.1%	-0.8%	
Riviera Black Hawk	20.8%	18.2%	2.6%	

(1) Operating margins represent income from operations as percentage of net revenues by property.

Riviera Las Vegas

Revenues

Net revenues decreased by approximately \$921,000, or 2.3%, from \$39.3 million in 2005 to \$38.4 million in 2006 due primarily to decreased casino, entertainment and other revenues offset by an increased in hotel revenues during the period.

Casino revenues decreased by approximately \$565,000, or 3.8% for the quarter, from \$14.8 million during 2005 to \$14.2 million during 2006 due primarily to lower table game and slot revenues. The \$447,000 or 11.3% decrease in table game revenues from \$3.9 million in 2005 to \$3.5 million in 2006 was due primarily to decreased drop for our table games. Gross slot revenues decreased \$338,000 or 3.3% from \$10.2 million in 2005 to \$9.9 million in 2006, primarily due to lower

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coin-in.

The reduction in gaming revenues can be attributed to soft results from the Super Bowl, an increase in convention room nights mix, a decline in leisure room nights and fewer entertainment covers (tickets sold).

Room revenues increased \$1.4 million, or 10.6%, from \$13.4 million in 2005 to \$14.8 million in 2006 due to a \$1.2 million increase in convention room revenue or 21% over the same period last year and accounted for 47% of total room revenue. Convention room rates are typically higher than Internet or vacation room rates. Average daily room rate increased \$10.77 from \$72.83 in the first quarter of 2005 to \$83.60 in 2006 while hotel occupancy decreased to 90.89% in 2006 from 93.97% in 2005. Rev Par (revenue per available room) increased 11.0% or \$7.55 to \$75.99.

15

Food revenues for the quarter were up \$172,000 or 2.3% from 7.4 million in 2005 to \$7.6 million in 2006 due to a 2.0% increase in average check and a 1% increase in covers. Entertainment revenues decreased by approximately \$1.2 million, or 24.6%, from \$4.9 million during 2005 to \$3.7 million during 2006 due primarily to the cancellation of The Amazing Johnathan and Keyboard Cabaret shows.

Costs and Expenses

Rooms departmental expenses increased 3.5% from \$6.6 to \$6.8 million due primarily to payroll and benefit costs under union contracts. Departmental margin for the quarter increased from 45.7% in 2005 to 48.8% in 2006 due to the increase in revenues.

Food and beverage departmental costs and expenses increased 5.1% in the quarter due to higher payroll costs and increased expense for cost of food sold.

Entertainment departmental costs decreased 28.0% due to lower costs related to the \$1.2 million lower revenue for the quarter. Margins decreased from 75.2% in 2005 to 71.8% in 2006.

General and Administrative costs remained constant at approximately \$6.0 million for 2005 and 2006.

Income from Operations

Income from operations at Riviera Las Vegas decreased \$466,000, or 6.6%, from \$7.1 million in 2005 to \$6.6 million in 2006 due to the 2.3% decrease in net revenues as explained above.

Riviera Black Hawk

Revenues

Net revenues increased \$146,000 or 1.1% from \$13.1 million in 2005 to \$13.3 million in 2006. Food and beverage revenues were approximately \$1.3 million in 2005, of which \$1.0 million was complimentary (promotional allowance).

The Black Hawk/Central City market showed gaming revenue growth of 2.8% in the first quarter. The City of Black Hawk itself experienced a healthy 4.1% growth in gaming revenue. The City of Black Hawk is showing signs of recovering some of the market share it lost to Central City after the opening of Central City Parkway in November 2004.

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Income from operations at Riviera Black Hawk increased \$363,000, or 15.2%, from \$2.4 million in the first quarter of 2005 to \$2.8 million in 2006 due to decreased casino marketing and promotional expense.

Consolidated Operations

Other Income (Expense)

16

Interest on the 11% Notes of \$5.9 million plus related amortization of loan fees and other financing costs resulted in total interest expense of approximately \$6.3 million in the first quarter of 2006. Interest expense on equipment and other financing totaled approximately \$300,000 for the quarter. Total interest expense decreased \$69,000 due to the maturity of a capital lease in 2005.

Corporate expenses remained relatively unchanged between the first quarters of 2005 and 2006.

In 2004, we entered into confidential discussions regarding a potential sale of our company. Discussions with one prospective buyer, which commenced in 2004, ended in 2005 without a sale agreement and we retained a \$1 million fee paid to us by that prospective buyer for an exclusivity arrangement. That amount is reflected in mergers, acquisitions and developments costs, net for the three months ended March 31, 2005.

In the first quarter of 2005 we determined that our remaining investment associated with a Las Vegas monorail extension to Riviera Las Vegas' location was impaired and we recognized an impairment loss of \$198,000.

We are amortizing the fair market value of our Common Stock granted under our Restricted Stock Plan of \$4,584,000 over the vesting period of 60 months. Effective as of March 10, 2005, we authorized the grant of that Common Stock, subject to the recipients' execution of appropriate acceptances. The related charge was \$53,000 and \$216,000 for the three months ended March 31, 2005 and 2006, respectively.

Net Income

Net income decreased \$858,000, or approximately 40.1%, from \$2.1 million in 2005 to \$1.3 million in 2006, due primarily to the \$968,000 decrease in operating income.

Liquidity and Capital Resources

At March 31, 2006, we had cash and cash equivalents of \$28.7 million. Our cash and cash equivalents increased \$8.1 million during the first three months of 2006 compared to the first three months of 2005, as a result of \$11.4 million of cash provided by operations primarily from operating income, \$3.2 million of cash outflow for investing activities primarily due to capital expenditures and \$121,000 outflow for financing activities primarily for repayment of debt. Cash balances include amounts that could be required to fund the Chief Executive Officer's (William L. Westerman's) pension obligation into a rabbi trust upon 5 days notice. (See Note 7 to our 2005 annual financial statements (Other Long-Term Liabilities). Included in our Form 10-K filed with the Securities and Exchange Commission ("SEC"). We continue to pay Mr. Westerman \$250,000 per quarter from his pension plan plus interest. In exchange for these payments, Mr. Westerman has agreed to continue his forbearance of his right to receive full transfer of his pension fund balance to the rabbi trust. This does not limit his ability to give the five-day notice at any time. Although we are aware of no current intention on the part of Mr. Westerman to require this funding into a

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rabbi trust, under certain circumstances we would have to disburse this balance, which amounts to approximately \$3.9 million as of March 31, 2006, within a short period.

We believe that cash flow from operations, combined with the \$28.6 million cash and cash equivalents and the \$30 million revolving credit facility, will be sufficient to cover our debt service requirements and enable investment in budgeted capital expenditures of \$14.4 million for 2006 for both Riviera Las Vegas and Riviera Black Hawk.

17

On June 26, 2002, we secured new debt in the principal amount of \$215 million in the form of the 11% Notes with a maturity date of June 15, 2010. Interest on the 11% Notes is at the annual rate of 11%, paid semiannually on each June 15 and December 15. Our cash flow from operations is not expected to be sufficient to pay 100% of the principal of the 11% Notes at maturity. Accordingly, our ability to repay the 11% Notes at maturity will be dependent upon our ability to refinance the 11% Notes. There can be no assurance that we will be able to refinance the principal amount of the 11% Notes at maturity. On or after June 15, 2006, we may redeem the 11% Notes from time to time at a premium beginning at 105.5% and declining each subsequent year to par in 2009.

The Indenture governing the 11% Notes (the "Note Indenture") provides that, in certain circumstances, we must offer to repurchase the 11% Notes upon the occurrence of a change of control or certain other events. In the event of such mandatory redemption or repurchase prior to maturity, we would be unable to pay the principal amount of the 11% Notes without a refinancing.

The Note indenture contains certain covenants, which limit our ability, subject to certain exceptions, to: (1) incur additional indebtedness; (2) pay dividends or other distributions, repurchase capital stock or other equity interests or subordinated indebtedness; (3) enter into certain transactions with affiliates; (4) create certain liens; (5) sell certain assets; and (6) enter into certain mergers and consolidations. As a result of these restrictions, our ability to incur additional indebtedness to fund operations or to make capital expenditures is limited. In the event that cash flow from operations is insufficient to cover cash requirements, we would be required to curtail or defer certain of their capital expenditure programs under these circumstances, which could have an adverse effect on operations.

On July 26, 2002, we entered into a \$30 million, five-year senior secured credit facility. The credit facility is secured by substantially the same collateral that secures the 11% Notes. The lien on the collateral securing the credit facility is senior to the lien on the collateral securing the 11% Notes. The credit facility contains customary conditions to borrowing and certain representations and warranties customary in gaming-related finance. The credit facility also contains financial covenants and restrictions regarding, among other things, indebtedness, distributions and changes in control. Under the credit facility, we can obtain extensions of credit in the forms of cash and letters of credit. We are required to pay interest on all outstanding cash advances at the rate of interest announced by Wells Fargo at its principal office in San Francisco at its prime rate plus 0.75% or at the rate at which major international banks in London charge each other for borrowings in U.S. dollars plus 3.00%. However, the minimum interest rate we will be charged on outstanding cash advances is 4.50%.

As of March 31, 2006, we believe that we are in compliance with the covenants of the 11% Notes and all of our credit facilities.

Critical Accounting Policies

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A description of our critical accounting policies and estimates can be found in Item 7 of our Form 10-K for the year ended December 31, 2005. For a more extensive discussion of our accounting policies, see Note 1, Summary of Significant Accounting Policies, in the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q.

18

Forward-Looking Statements

Throughout this report we make "forward-looking statements," as that term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include the words "may," "would," "could," "likely," "estimate," "intend," "plan," "continue," "believe," "expect" or "anticipate" and similar words and include all discussions about the Merger Agreement, as well as our acquisition, development and expansion plans, objectives or expectations. We do not guarantee that the Merger will be consummated or that any of the other transactions or events described in this report will happen as described or that any positive trends suggested or referred to in this report will continue. These forward-looking statements generally relate to our plans, objectives and expectations for future operations and results and are based upon what we consider to be reasonable future estimates. Although we believe that our plans, objectives and expectations reflected in, or suggested by, such forward-looking statements are reasonable at the present time, we may not achieve or we may modify them from time to time. You should read this report thoroughly and with the understanding that actual future results may be materially different from what we expect. We do not plan to update forward-looking statements even though our situation or plans may change in the future, unless applicable law requires us to do so.

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

- o the possibility that our Merger will not be consummated due to our failure to obtain shareholder approval or due to other factors beyond our control;
- o the difficulties associated with finding a new CFO to replace our CFO who retired May 2, 2006, while we are awaiting the requisite approvals and satisfaction of other conditions precedent to consummation of our Merger;
- o retirement or other loss of our other senior officers;
- o the availability and adequacy of our cash flow to meet our requirements, including payment of amounts due under our debt instruments;
- o our substantial indebtedness, debt service requirements and liquidity constraints;
- o the availability of additional capital to support capital improvements and development;
- o fluctuations in the value of our real estate, particularly in Las Vegas;

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- o competition in the gaming industry, including the availability and success of alternative gaming venues and other entertainment attractions;
- o Sarbanes-Oxley Act - related costs associated with becoming an accelerated filer as of December 31, 2005, including costs relating to internal control evaluation and reporting;
- o economic, competitive, demographic, business and other conditions in our local and regional markets;

19

- o changes or developments in laws, regulations or taxes in the gaming industry;
- o actions taken or not taken by third parties, such as our customers, suppliers, and competitors, as well as legislative, regulatory, judicial and other governmental authorities;
- o other changes in our personnel or their compensation, including those resulting from changes in minimum wage requirements;
- o our failure to obtain, delays in obtaining, or the loss of, any licenses, permits or approvals, including gaming and liquor licenses, or the limitation, conditioning, suspension or revocation of any such licenses, permits or approvals, or our failure to obtain an unconditional renewal of any of our licenses, permits or approvals on a timely basis;
- o a decline in the public acceptance of gaming;
- o the loss of any of our casino facilities due to terrorist acts, casualty, weather, mechanical failure or any extended or extraordinary maintenance or inspection that may be required;
- o other adverse conditions, such as economic downturns, changes in general customer confidence or spending, increased transportation costs, travel concerns or weather-related factors, that may adversely affect the economy in general or the casino industry in particular;
- o changes in our business strategy, capital improvements or development plans;
- o the consequences of the war in Iraq and other military conflicts in the Middle East and any future security alerts or terrorist attacks such as the attacks that occurred on September 11, 2001; and
- o other risk factors discussed elsewhere in this report.

All future written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. In light of these and other risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

20

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

As of March 31, 2006, we had \$215.3 million in borrowings. The borrowings include \$215 million in 11% Notes maturing in 2010, and capital leases maturing at various dates through 2005. Interest under the 11% Notes is based on a fixed rate of 11%. The equipment loans and capital leases have fixed interest rates ranging from 5.5% to 6.0%. The borrowings also include \$473,000 in a special improvement district bond offering ("SID Bonds") with the City of Black Hawk. Our share of the debt on the SID Bonds of \$1.2 million, is payable over 10 years beginning in 2000. The SID Bonds bear interest at 5.5%. We are not susceptible to interest rate risk because our outstanding debt is at fixed rates. Our \$30 million senior secured revolving credit facility is at prime plus three-quarters of one percent and would not subject us to a material interest rate fluctuation. As of March 31, 2006, we had no borrowing outstanding under our senior secured credit facility.

Interest Rate Sensitivity

Principal (Notational Amount by Expected Maturity)

Average Interest Rate

(Dollars in

thousands)

	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value at
Long-Term Debt Including								
Current Portions								
Equipment loans and								
capital leases-Las Vegas	\$ 534	\$ 751	\$ 187	\$ 54			\$ 1,526	\$
Average interest rate	5.8%	5.8%	5.8%	5.5%				
11% Notes					\$215,000		\$ 215,000	\$ 22
Less unamortized discount					(1,702)		(1,702)	(
Average interest rate					11.8%			
SID Bonds -								
Black Hawk, Colorado	\$ 62	\$ 129	\$ 137	\$ 145			\$ 473	\$
Average interest rate	5.5%	5.5%	5.5%	5.5%				
Total all long-term debt, including current portions	\$ 596	\$ 880	\$ 324	\$ 199	\$213,298	\$ -	\$ 215,297	\$ 22
Other Long-Term Liabilities including Current Portion								
CEO pension plan obligation	\$ 750	\$ 1,000	\$ 1,000	\$ 1,000	\$ 113		\$ 3,863	\$
Average interest rate	11.8%	11.8%	11.8%	11.8%	11.8%			
Total all long-term obligations	\$ 1,346	\$ 1,880	\$ 1,324	\$ 1,199	\$213,411	\$ -	\$ 219,160	\$ 22

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required

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to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of March 31, 2006, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective.

During our last fiscal quarter there were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to routine lawsuits, either as plaintiff or as defendant, arising from the normal operations of a hotel or casino. Also, in the second quarter of 2006, lawsuits were filed against us and our directors regarding the Merger Agreement, as described in Note 8 to our consolidated financial statements included in this Form 10-Q. We do not believe that the outcome of such litigation, in the aggregate, will have a material adverse effect on our financial position or results of our operations.

Item 1A. Risk Factors

Our annual report on Form 10-K (as amended) for the fiscal year ended December 31, 2005 (our "2005 Form 10-K") contains a detailed discussion of our risk factors. The information below updates and should be read in conjunction with the risk factors and other information disclosed in our 2005 Form 10-K.

Our Common Stock Has Been Trading At Prices That Exceed The Merger Price.

As reported in Part I, Item 2 of this Form 10-Q ("Management's Discussion and Analysis of Financial Condition and Results of Operations - Overall Outlook"), and as we reported publicly in filings with the SEC on April 6, April 7 and May 2, 2006, we have entered into the Merger Agreement, which provides for our shareholders to receive \$17.00 in cash in the Merger for each share of Common Stock they hold. Our Common Stock has been trading on the American Stock Exchange ("Amex") at prices higher than \$17.00. On May 9, 2006, the closing price of the Common Stock on Amex was \$21.36.

If the conditions precedent to consummation of the Merger, including approval of the Merger by holders of at least 60% of our outstanding Common Stock, are satisfied and the Merger is consummated, then shareholders who purchase our Common Stock prior to the merger at a price that exceeds \$17.00 per share will incur a loss on their investment.

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The Merger Agreement Makes It More Difficult For Us To Hire A New CFO, To Replace Any Other Key Personnel If We Lose Them, And To Fill Other Job Openings.

Since Duane R. Krohn retired as our CFO on May 2, 2006, we have been searching for a qualified replacement. Before he retired, Mr. Krohn had served as our CFO since 1993 and had served in a similar capacity with our predecessor company beginning in 1990.

As explained in our discussion of risk factors in our 2005 Form 10-K, the shortage of skilled management-level employees in the gaming industry, combined with our relatively limited financial and marketing resources, competitive position and market perceptions about our future prospects, makes it generally difficult for us to attract and retain qualified executives and other key personnel. The pendency of the Merger, which would result in our company becoming a wholly-owned subsidiary of a recently-formed entity owned by a private investment group, and perceptions about our future if the Merger is not consummated have made it even more difficult for us to find a new, qualified CFO. (In the meantime, Mr. Westerman has assumed that position on an interim basis, in addition to his positions as our Chairman and CEO.) If we lose the services of any other executives or other key personnel, those same uncertainties associated with the Merger Agreement would likely add to our difficulties in finding suitable replacements for them, too.

Furthermore, as part of our normal operations, we are seeking to fill various positions throughout our organization where openings have occurred due to attrition, promotions, reassignments or the creation of new positions. As mentioned above, we are at a disadvantage compared to larger companies within our industry when it comes to personnel recruiting, due to our relatively limited resources, competitive position and market perceptions about our future. Since the public reports about the Westerman Agreement, followed by the public reports about our discussions with the owners of Riv Acquisition and our entry into the Merger Agreement, we have experienced even more difficulty in recruiting qualified candidates to fill our positions. We expect this difficulty to continue as long as the public perceives us as having an uncertain future because of the Merger Agreement.

Item 5. Other Information

After we entered into the Merger Agreement, we determined that we would hold our 2006 annual meeting of stockholders ("Annual Meeting") later than May 16, 2006, which was the 2006 Annual Meeting date that we had projected in last year's proxy statement. We expect to hold the Annual Meeting on June 29, 2006. Assuming we hold the 2006 Annual Meeting on that date, it is already too late for stockholders to submit to us proposals that they intend to present at that Annual Meeting and that they wish to include in our proxy statement for that Annual Meeting. Stockholders who intend to present a proposal at our 2006 Annual Meeting without including that proposal in our proxy statement must notify us of the proposal by not later than May 19, 2006 (assuming a 2006 Annual Meeting date of June 29, 2006). Otherwise, the proposal will be deemed untimely.

Item 6. Exhibits.

See list of exhibits on page 25.

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

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RIVIERA HOLDINGS CORPORATION

By: /s/ William L. Westerman
William L. Westerman
Chairman of the Board,
Chief Executive Officer and
interim Treasurer (Principal
Executive Officer and Principal
Financial and Accounting Officer)

Date: May 10, 2006

24

Exhibits

Exhibits:

- 15.1 Letter of Deloitte & Touche LLP, Independent Registered Public Accounting Firm, re unaudited interim financial information.
- 31.1 Certification of the Principal Executive Officer and Principal Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a).
- 32.1 Certification of the Principal Executive Officer and Principal Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. 1350.

25