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RIVIERA HOLDINGS CORP
Form 10-Q
May 10, 2007

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, 2007

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) 794-9527

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

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

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 ___

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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, 2007, there were 12,463,755 shares of Common Stock, \$.001 par value per share, outstanding.

RIVIERA HOLDINGS CORPORATION

INDEX

| | Page |
|--|------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| Condensed Consolidated Balance Sheets (Unaudited) at March 31, 2007 and December 31, 2006 | 3 |
| Condensed Consolidated Statements of Income (Unaudited) for the Three Months ended March 31, 2007 and 2006 | 4 |
| Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three Months ended March 31, 2007 and 2006 | 5 |
| Notes to Condensed Consolidated Financial Statements (Unaudited) | 6 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 12 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 19 |
| Item 4. Controls and Procedures | 20 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings | 20 |
| Item 1A. Risk Factors | 21 |
| Item 5. Other Information | 21 |
| Item 6. Exhibits | 21 |
| Signature Page | 22 |
| Exhibits | 23 |

1

PART I - FINANCIAL INFORMATION ITEM

1. Financial Statements

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The accompanying unaudited Condensed Consolidated Financial Statements of Riviera Holdings Corporation have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all information and notes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States. The results from the periods indicated are unaudited, but reflect all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of operating results.

The results of operations for the three months ended March 31, 2007 and 2006 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, 2006, included in our Annual Report on Form 10-K.

2

| RIVIERA HOLDINGS CORPORATION | | |
|--|-----------|--------------|
| CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited) | | |
| (In Thousands, except share amounts) | | |
| | March 31, | December 31, |
| | 2007 | 2006 |
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$33,960 | \$25,285 |
| Accounts receivable, net of allowances of \$171 and \$163, respectively | 4,116 | 3,063 |
| Inventories | 1,663 | 1,792 |
| Prepaid expenses and other assets | 3,352 | 4,002 |
| | ----- | ----- |
| Total current assets | 43,091 | 34,142 |
| PROPERTY AND EQUIPMENT, Net | 170,367 | 171,320 |
| OTHER ASSETS, Net | 5,428 | 5,774 |
| DEFERRED INCOME TAXES, Net | 2,446 | 2,446 |
| | ----- | ----- |
| TOTAL | \$221,332 | \$213,682 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$830 | \$879 |
| Current portion of obligation to officers | 1,000 | 1,000 |
| Accounts payable | 8,307 | 9,126 |
| Accrued interest | 6,968 | 1,063 |
| Accrued expenses | 13,376 | 13,167 |
| | ----- | ----- |
| Total current liabilities | 30,481 | 25,235 |

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| | | |
|--|-----------|-----------|
| OTHER LONG-TERM DEBT | 2,763 | 2,763 |
| OBLIGATION TO OFFICERS- net of current portion | 1,834 | 2,094 |
| LONG-TERM DEBT, net of current portion | 214,028 | 214,124 |
| | ----- | ----- |
| Total Liabilities | 249,106 | 244,216 |
| COMMITMENTS AND CONTINGENCIES (See Note 6) | | |
| STOCKHOLDERS' DEFICIENCY | | |
| Common stock (\$.001 par value; 60,000,000 shares authorized; 17,131,824 and 17,131,824 issued at March 31, 2007 and December 31, 2006, respectively) 12,463,755 and 12,369,431 shares outstanding | | |
| | 17 | 17 |
| Additional paid-in capital | 18,157 | 18,165 |
| Treasury stock (4,668,069 shares and 4,762,393 shares at March 31, 2007 and December 31, 2006, respectively) | (9,635) | (9,841) |
| Accumulated deficit | (36,313) | (38,875) |
| | ----- | ----- |
| Total stockholders' deficiency | (27,774) | (30,534) |
| | ----- | ----- |
| TOTAL | \$221,332 | \$213,682 |
| | ===== | ===== |

See notes to condensed consolidated financial statements

3

| RIVIERA HOLDINGS CORPORATION | | |
|---|----------|---------------------------------|
| CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited) | | |
| FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 | | |
| (In thousands, except per share amounts) | | Three Months Ended March 31, |
| | 2007 | 2006 |
| | ----- | ----- |
| REVENUES | | |
| Casino | \$28,119 | \$27,082 |
| Rooms | 16,314 | 14,843 |
| Food and beverage | 8,188 | 8,898 |
| Entertainment | 2,406 | 3,681 |
| Other | 1,712 | 1,703 |
| | ----- | ----- |
| Total revenues | 56,739 | 56,207 |
| Less-promotional allowances | 4,712 | 4,518 |
| | ----- | ----- |
| Net revenues | 52,027 | 51,689 |
| | ----- | ----- |
| COSTS AND EXPENSES | | |
| Direct costs and expenses of operating departments: | | |
| Casino | 14,252 | 13,820 |
| Rooms | 7,051 | 6,789 |

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| | | |
|--|---------|---------|
| Food and beverage | 6,141 | 6,332 |
| Entertainment | 1,626 | 2,642 |
| Other | 337 | 466 |
| Other operating expenses | | |
| Selling, general and administrative | 10,154 | 10,245 |
| Mergers, acquisitions and development costs | 50 | 117 |
| Share based compensation | 199 | 216 |
| Asset impairment | 0 | 13 |
| Depreciation and amortization | 3,256 | 3,260 |
| | ----- | ----- |
| Total costs and expenses | 43,066 | 43,900 |
| | ----- | ----- |
| INCOME FROM OPERATIONS | 8,961 | 7,789 |
| | ----- | ----- |
| Interest expense, net | (6,399) | (6,509) |
| | ----- | ----- |
| NET INCOME | \$2,562 | \$1,280 |
| | ===== | ===== |
| | | |
| INCOME PER SHARE DATA | | |
| Income per share | | |
| Basic | \$ 0.21 | \$ 0.11 |
| | ----- | ----- |
| Diluted | \$ 0.20 | \$ 0.10 |
| | ----- | ----- |
| Weighted-average common shares outstanding | 12,260 | 11,997 |
| | ----- | ----- |
| Weighted-average common and common equivalent shares | 12,509 | 12,258 |
| | ----- | ----- |

See notes to condensed consolidated financial statements

4

| | | |
|---|---------|--------------------|
| RIVIERA HOLDINGS CORPORATION | | |
| CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) | | |
| THREE MONTHS ENDED MARCH 31, 2007 AND 2006 | | |
| (in thousands) | | Three Months Ended |
| | | March 31, |
| | 2007 | 2006 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$2,562 | \$1,280 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,256 | 3,260 |
| Share based compensation - options | 30 | - |
| Share based compensation - restricted stock | 169 | 216 |
| Asset impairment | - | 13 |
| Provision for bad debts | 15 | 108 |
| Amortization of deferred loan fees | 399 | 399 |
| Increase in operating (assets) and liabilities: | | |
| Accounts receivable | (1,068) | (792) |
| Inventories | 129 | 341 |
| Other assets | 49 | 112 |
| Prepaid expenses | 650 | 363 |
| Accounts payable | (901) | (413) |
| Accrued interest | 5,905 | 5,884 |
| Accrued liabilities | 209 | 949 |

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| | | |
|--|----------|----------|
| Deferred compensation plan obligation | (10) | (13) |
| Obligation to officers | (250) | (250) |
| | ----- | ----- |
| Net cash provided by operating activities | 11,144 | 11,457 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures for property and equipment - Las Vegas, Nevada | (1,911) | (1,401) |
| Capital expenditures for property and equipment - Black Hawk, Colorado | (311) | (1,855) |
| | ----- | ----- |
| Net cash used in investing activities | (2,222) | (3,256) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on long-term borrowings | (247) | (236) |
| Proceeds from exercise of stock options | - | 115 |
| | ----- | ----- |
| Net cash used in financing activities | (247) | (121) |
| | ----- | ----- |
| INCREASE IN CASH AND CASH EQUIVALENTS | 8,675 | 8,080 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 25,285 | 20,571 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$33,960 | \$28,651 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES: | | |
| Property acquired with debt and accounts payable | \$82 | \$1,653 |
| Cash paid for interest | \$146 | \$168 |

See notes to condensed consolidated financial statements

5

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 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.

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 with the applicable regulations for supervising casino operations, recording casino and other revenues, and granting credit.

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Principles of Consolidation

The consolidated financial statements include the accounts of RHC and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

Earnings Per Share

Basic per share amounts are computed by dividing net income by weighted average shares outstanding during the period. Diluted net income per share amounts are computed by dividing net income by weighted average shares outstanding plus the dilutive effect of common share equivalents. No potentially dilutive options were excluded from the diluted shares outstanding calculation for the three months ended March 31, 2007 and 2006.

Income Taxes

The income tax provisions of \$833,000 and \$135,000 for the three months ended March 31, 2007 and 2006, 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, debt refinancing, changes in the labor market or economic changes in the areas where we operate.

6

We adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48") on January 1, 2007. There was no effect on our financial condition or results of operations as a result of implementing FIN 48. We do not believe there will be any material changes in our unrecognized tax positions over the next 12 months. We do not have any accrued interest or penalties associated with any unrecognized tax benefits.

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.

Mergers, Acquisitions and Development Costs

Mergers, acquisitions and development costs consist of legal fees and other expenses associated with the on-going potential sale of the company.

Recent Accounting Pronouncements

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 provides guidance on the financial statement recognition and measurement of a tax

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position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 on January 1, 2007 did not have an impact on the Condensed Consolidated Financial Statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 expands the use of fair value measurement by permitting entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement is effective for us beginning in January 2008. We have not yet determined the impact, if any, that SFAS 159 will have on our Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for us beginning in January 2008. We are evaluating the impact of adopting this statement as a result of any changes to our fair value measurements.

7

2. OTHER ASSETS

Other assets at March 31, 2007 and December 31, 2006 include deferred loan fees of approximately \$4.2 million and \$4.6 million respectively, associated with the refinancing of our debt in 2002. We are amortizing the costs over the life of the 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. The balance of the discount at March 31, 2007 was \$1.3 million.

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, 2007. We incurred loan fees of approximately \$1.5 million, which are being expensed over the life of the arrangement. A 0.5 percent annual fee is payable 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 purchased by our Deferred Compensation Plan for the three months ended March 31, 2007 or 2006. The Deferred Compensation Plan distributed to participants 94,324 and 96,698 shares for the three months ended March 31, 2007 and 2006, respectively.

5. SHARED-BASED PAYMENTS

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During the three months ended March 31, 2007 the company recorded share-based compensation of \$199,000; \$169,000 related to restricted stock and \$30,000 related to stock options. For the three months ended March 31, 2006 the company recorded share-based compensation of \$216,000 related to restricted stock. Such amounts have been included as a component of operating expenses.

No options were granted during the three months ended March 31, 2007 and 2006. As of March 31, 2007 there were exercisable options of 210,000 shares. No options were exercised during the three months ended March 31, 2007. No options were forfeited or canceled during the three months ended March 31, 2007.

COMMITMENTS AND CONTINGENCIES

Salary Continuation Agreements

Approximately 65 executive officers and certain other employees (excluding Mr. Westerman and Mr. Vannucci) of ROC and RBH have salary continuation agreements effective through December 2007, pursuant to which they will be entitled to receive (1) six months salary if their employment with the Company is terminated, without cause, within 12 months of a change of control of the Company; and (2) group health insurance for a period of 6 months. The base salary payments are payable in biweekly installments, subject to the employee's duty to mitigate by using his or her best efforts to find employment. In

8

addition, two officers and two significant employees have salary continuation agreements effective through December 31, 2007, pursuant to which each of them will be entitled to receive one year's base salary and health insurance benefits for two years, if their employment is terminated without cause within 24 months of a change of control of the Company. These four salary continuation agreements are not subject to a duty to mitigate. The estimated total amount payable under all such agreements was approximately \$3.6 million, which includes \$700,000 in benefits, as of March 31, 2007.

Topping Fee Related to the Merger Agreement

Under our April 5, 2006 Agreement and Plan of Merger ("the Merger Agreement"), we agreed to pay Riv Acquisition Holdings Inc. ("RAH") a "Topping Fee" of approximately \$7.9 million if: (i) the Merger Agreement is terminated because our shareholders did not approve it; (ii) prior to such termination, a competing "Takeover Proposal" (which includes a proposal for the acquisition of 30% or more of the Company's assets or more than 30% of the outstanding stock of RHC or any RHC subsidiary or for the acquisition of RHC or any RHC subsidiary through a merger or other business combination) had been announced and had not been withdrawn; and (iii) within 12 months after such termination (which occurred on August 29, 2006), we enter into a definitive agreement with a third party with respect to the consummation of a Takeover Proposal or any such Takeover Proposal is consummated.

On August 8, 2006, we announced that we had received a competing proposal to acquire all of RHC's outstanding stock through a merger. Prior to our termination of the Merger Agreement on August 29, 2006 due to disapproval by our shareholders, the competing proposal had not been withdrawn. Thereafter, our board of directors rejected the proposal.

Legal Proceedings

On May 2, 2007, an amended complaint (the "Complaint") filed by RAH; Flag Luxury Riv, LLC; Rivacq LLC; and RH1, LLC (collectively, the "Plaintiffs") was served

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upon RHC and its directors. The Complaint was filed in the District Court of Clark County, Nevada (Case No. A539614), as an amendment to a complaint filed on April 17, 2007, but not served on the defendants.

The Plaintiffs request, among other things, a declaratory judgment that RAH's entry into a March 21, 2007 Option Agreement with Triple Five Investco LLC and Dominion Financial LLC covering 1,147,500 RHC shares (the "Triple Five Shares") did not trigger the defensive provisions of the Nevada Business Combination Law (which, if triggered, would disqualify RAH and its related parties from entering into a merger or other business combination with RHC for a three-year period) and the defensive provisions of Riviera's articles of incorporation (which, if triggered, would substantially dilute RAH's and its related parties' voting rights as to the Triple Five Shares, if they acquire those shares).

We are also 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.

9

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 27, 2007 we signed a commitment letter with Wachovia Bank, National Association to use its best efforts to market and syndicate up to \$245 million of senior secured credit facilities, to be comprised of a new \$20 million five year revolving credit facility and a new \$225 million seven year term loan facility.

If we obtain these credit facilities, we intend to use the proceeds for, among other purposes, the refinancing of the 11% Notes.

Substantially all of the outstanding principal amount of the term loan would mature in the seventh year of the term. We would be permitted to prepay the facilities without premium or penalties, subject to our payment of any funding losses if we enter into swap arrangements related to any LIBOR based loan under the facilities.

If we obtain the credit facilities, we expect them to reduce interest costs and provide greater financial flexibility.

10

9. SEGMENT DISCLOSURES

We determine our segments based upon the two geographical markets that we

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operate Riviera Las Vegas and Riviera Black Hawk. The indicator reviewed by the chief- decision maker is earnings before interest, income taxes, depreciation and amortization ("EBITDA") as described below. All inter-segment revenues have been eliminated.

| (In thousands) | Three Months Ended March 31, 2007 ----- | Three Months Ended March 31, 2006 ----- |
|-----------------------------------|---|---|
| Net revenues | | |
| Riviera Las Vegas | \$38,472 | \$38,426 |
| Riviera Black Hawk | 13,555 | 13,263 |
| | ----- | ----- |
| Total net revenues | \$ 52,027 | \$ 51,689 |
| | ===== | ===== |
| EBITDA (1) | | |
| Riviera Las Vegas | \$8,607 | \$8,467 |
| Riviera Black Hawk | 4,815 | 4,188 |
| Other Costs and Expenses | | |
| Corporate Expenses | | |
| Equity Compensation | 199 | 216 |
| Other Corporate Expenses | 956 | 1,260 |
| Depreciation and Amortization | 3,256 | 3,260 |
| Mergers, Acquisitions and | | |
| Development Costs | 50 | 117 |
| Asset Impairment | - | 13 |
| Interest Expense, net | 6,399 | 6,509 |
| | ----- | ----- |
| Total Costs and Expenses | 10,860 | 11,375 |
| | ----- | ----- |
| Net Income | \$ 2,562 | \$ 1,280 |
| | ===== | ===== |
| Property and Equipment, net | | |
| | March 31, 2007 ----- | December 31, 2006 ----- |
| Las Vegas | \$ 107,956 | \$ 108,235 |
| Black Hawk | 62,411 | 63,085 |
| | ----- | ----- |
| Total Property and Equipment, net | \$ 170,367 | \$ 171,320 |
| | ===== | ===== |

(1) 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 our business segment properties performance, including the evaluation of operating personnel. EBITDA should not be construed as an alternative to

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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.

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

Overall Outlook and Recent Developments

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 Riviera 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 Black Hawk, the \$5 maximum bet restricts our ability to generate table games revenues. The Black Hawk market is basically a "locals" slot customer market. Our capital expenditures for Riviera Black Hawk are geared to maintain competitive slot machines compared to that market.

On March 26, 2007, we received a proposal from the investment group that owns Riv Acquisition Holdings Inc. ("RAH") to acquire all of our outstanding stock through a merger at a cash price of \$27 per share. On March 28, 2007, we notified RAH that we would not give further consideration to that proposal because, among other reasons, an Option Agreement that RAH entered into without our prior approval on March 21, 2007 (the "Option Agreement") with Triple Five Investco LLC and Dominion Financial LLC covering 1,147,550 shares of our stock (the "Triple Five Shares"), triggered the defensive provisions of Nevada's Business Combination Law (the "BCL") and Article III, Section 7 of our articles of incorporation ("Article III"). Consequently, RAH and its related parties were disqualified from engaging in a merger or other business combination with us for a three-year period and, to the extent that RAH or its related parties acquire voting rights as to the Triple Five shares, those voting rights will be substantially reduced. We also determined that even in the absence of the BCL and Article III issues, we considered RAH's \$27 per share merger proposal to be unsatisfactory. RAH and its related parties have disputed our position and on April 26, 2007 they notified us of their intent to present a competing slate of five nominees for election to our board of directors at our 2007 annual meeting of stockholders. On May 2, 2007, we were served with a complaint filed by RAH and related parties in the District Court of Clark County, Nevada, in which they are requesting a declaratory judgment that the Option Agreement did not trigger the defensive provisions of the BCL and Article III. (See Part II, Item 1 - Legal Proceedings.)

On April 27, 2007, we obtained a commitment from Wachovia Bank, National Association ("Wachovia") to use its best efforts to market and syndicate up to \$245 million of new senior secured credit facilities, which would consist of a \$20 million five-year revolving credit facility and a \$225 million seven-year term loan facility. If we obtain the credit facilities, we intend to use the proceeds for, among other purposes, the refinancing of our 11% Senior Secured

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Notes due June 15, 2010 in the original principal amount of \$215 million (the "11% Notes"). Interest on loans under the facilities would bear interest at a rate dependent in large part upon the rating we receive from the rating

12

agencies. The facilities would be guaranteed by all of our active subsidiaries and would be secured by the stock of those subsidiaries and all or substantially all of our and our subsidiaries' assets. Wachovia's commitment to use its best efforts to secure commitments from other lenders for the facilities is subject to various conditions precedent, including satisfactory completion of due diligence reviews, completion of a definitive credit agreement with us and related documentation for the facilities (which will contain, among other things, representations, warranties, covenants and events of default customarily found in similar financings) and the absence of material adverse changes on our part.

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

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.

| (In Thousands) | First Quarter | | Incr | Incr% |
|---------------------------------------|---------------|----------|---------|-------|
| | 2007 | 2006 | ----- | ----- |
| | ---- | ---- | | |
| Net revenues | | | | |
| Riviera Las Vegas | \$38,472 | \$38,426 | \$46 | 0.1% |
| Riviera Black Hawk | 13,555 | 13,263 | 292 | 2.2% |
| | ----- | ----- | --- | |
| Total Net Revenues | \$52,027 | \$51,689 | \$338 | 0.7% |
| | ===== | ===== | ===== | |
| Income from Operations | | | | |
| Riviera Las Vegas | \$6,910 | \$6,642 | \$268 | 4.0% |
| Riviera Black Hawk | 3,256 | 2,753 | 503 | 18.3% |
| | ----- | ----- | ----- | |
| Property Income from Operations | 10,166 | 9,395 | 771 | 8.2% |
| Corporate Expenses | | | | |
| Equity Compensation | (199) | (216) | 17 | 7.8% |
| Other Corporate Expenses | (956) | (1,260) | 304 | 24.2% |
| Mergers, Acquisitions and Development | | | | |
| Costs | (50) | (117) | 67 | 57.3% |
| Asset Impairment | - | (13) | 13 | NM |
| | ----- | ----- | --- | |
| Total Income from Operations | \$8,961 | \$7,789 | \$1,172 | 15.0% |
| | ===== | ===== | ===== | |
| Operating Margins (1) | | | | |
| Riviera Las Vegas | 18.0% | 17.3% | 0.7% | |
| Riviera Black Hawk | 24.0% | 20.8% | 3.2% | |

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

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Riviera Las Vegas

Revenues

Net revenues increased by approximately \$50,000, to \$38.5 million in 2007 due primarily to increased casino and hotel revenues offset by decreased food and beverage and entertainment revenues during the period.

13

Casino revenues increased by approximately \$690,000, or 4.9% for the quarter, from \$14.2 million during 2006 to \$14.9 million during 2007 due primarily to higher slot revenues. The slot revenues increased \$750,000 or 7.0% from \$10.7 million in 2006 to \$11.5 million in 2007, primarily due to higher coin-in and an increase in slot hold percentage. The slot coin-in increased by \$4.1 million and slot hold percentage increased 0.5% in the period, as we have begun to realize the effects of new lower denomination games which were installed in late 2006 and early 2007.

Room revenues increased \$1.5 million, or 9.9%, from \$14.8 million in 2006 to \$16.3 million in 2007 due to an increase in hotel occupancy and the average daily rate. Average daily room rate increased \$6.10 from \$83.60 in the first quarter of 2006 to \$89.70 in 2007 and hotel occupancy increased 2.3% to 93.2% in 2007 from 90.9% in 2006. Rev Par (revenue per available room) increased 10.0% or \$7.62 to \$83.61.

Food revenues for the quarter decreased \$610,000 or 8.0% from \$7.6 million in 2006 to \$7.0 million in 2007 due to lower banquet revenues, as certain large conventions in 2006 did not occur in 2007. Entertainment revenues decreased by approximately \$1.3 million, or 34.6%, from \$3.7 million during 2006 to \$2.4 million during 2007 due primarily to the closure of our show "Splash" in late 2006. A new show called "Ice - Direct from Russia" opened April 25, 2007.

Costs and Expenses

Rooms departmental expenses increased 3.9% from \$6.8 to \$7.1 million due primarily to increases in payroll and benefit costs related to our union contracts and the increase in occupied rooms.

Food and beverage departmental costs and expenses decreased 3.0% in the quarter due to lower volumes, as described above.

Entertainment departmental costs decreased 38.5% due to lower costs related to the \$1.3 million lower revenue for the quarter, primarily as a result of "Splash" closing in 2006.

General and administrative costs increased approximately \$490,000 or 8.1% from \$6.0 million in 2006 to \$6.5 million in 2007 due mainly to costs associated with our Information Technology department, which were charged to corporate in the past.

Income from Operations

Income from operations at Riviera Las Vegas increased \$270,000, or 4.0%, from \$6.6 million in 2006 to \$6.9 million in 2007 due primarily to the reduced expenses associated with food & beverage and other expenses.

Riviera Black Hawk

Revenues

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Net revenues increased \$290,000 or 2.2% from \$13.3 million in 2006 to \$13.6 million in 2007 due to increased slot hold percentage. Food and beverage revenues were approximately \$1.2 million in 2007, of which \$1.0 million was complimentary (promotional allowance).

14

Income from operations at Riviera Black Hawk increased \$500,000, or 18.3%, from \$2.8 million in the first quarter of 2006 to \$3.3 million in 2007 due to increased casino revenue, as explained above, and reduced general and administrative costs primarily due to reduced costs related to payroll benefits.

Consolidated Operations

Interest Expense, net

Interest on the 11% Notes of \$5.9 million plus related amortization of loan fees and other financing costs resulted in total net interest expense of approximately \$6.4 million in the first quarter of 2007 compared to \$6.5 million in 2006. Interest expense on equipment and other financing totaled approximately \$150,000 for the quarter, offset by interest income of \$170,000, which resulted in an approximate \$100,000 decrease in interest expense.

Corporate expenses decreased \$300,000 or 24.1% from \$1.3 million in the first quarter of 2006 to \$1.0 million 2007 primarily due to reduced cost to comply with the Sarbanes-Oxley Act of 2002 of approximately \$260,000.

Net Income

Net income increased \$1.3 million, or approximately 100.0%, from \$1.3 million in 2006 to \$2.6 million in 2007, due primarily to the \$1.2 million increase in operating income.

Liquidity and Capital Resources

At March 31, 2007, we had cash and cash equivalents of \$34.0 million. Our cash and cash equivalents increased \$8.7 million during the first three months of 2007, as a result of \$11.1 million of cash provided by operations primarily from operating income, \$2.2 million of cash outflow for investing activities primarily due to capital expenditures and approximately \$250,000 outflow for financing activities primarily for repayment of debt. Cash balances include amounts that could be required to pay our Chief Executive Officer's (William L. Westerman's) retirement account balance into a rabbi trust upon 5 days notice. We pay Mr. Westerman \$250,000 per quarter from his retirement account balance plus interest. In exchange for these payments, Mr. Westerman has agreed to forbear his right to receive full transfer of his retirement account 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 rabbi trust, under certain circumstances we may have to disburse this balance, which amounts to approximately \$2.8 million as of March 31, 2007, within a short period.

We believe that cash flow from operations, combined with the \$34.0 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 \$11.0 million for 2007 for both Riviera Las Vegas and Riviera Black Hawk. The revolver will expire in July 2007.

On June 26, 2002, we secured debt in the principal amount of \$215 million in the

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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 would be dependent upon our ability to refinance the 11% Notes. There can be no assurance that we would be able to refinance the principal amount of the 11% Notes at maturity. On or after June 15, 2007, we may redeem the 11% Notes from time to time at a premium of 103.667% and declining each subsequent year to par in 2009.

15

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 capital expenditure programs, 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 as its prime rate plus 0.75% or at the rate at which major international banks in London charge each other for borrowings in U.S. dollars ("LIBOR") plus 3.00%. However, the minimum interest rate we will be charged on outstanding cash advances is 4.50%.

As of March 31, 2007, we believe that we are in compliance with the covenants of the 11% notes and all of our credit facilities.

On April 27, 2007 we signed a commitment letter with Wachovia Bank, under which Wachovia agreed to use its best efforts to market and syndicate up to \$245 million of new senior secured credit facilities, to be comprised of a \$20 million five year revolving credit facility and a \$225 million seven year term loan facility. Substantially all of the outstanding principal amount of the term loan would mature in the seventh year of the term. We would be permitted to prepay the facilities without premium or penalties, subject to our payment of any funding losses if we enter into swap arrangements related to any LIBOR-based loan under the facilities. Interest on loans under the facilities would bear interest at a rate dependent in large part upon the rating we receive from the rating agencies.

If we obtain these senior secured credit facilities ("the facilities"), we

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intend to use the proceeds for, among other purposes, the refinancing of its 11% Senior Secured Notes due June 15, 2010 in the original principal amount of \$215 million.

16

If we obtain the new credit facilities, we expect them to reduce our interest costs and provide greater financial flexibility.

Critical Accounting Policies

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, 2006. 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.

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 as well as our acquisition, development and expansion plans, objectives or expectations and our liquidity projections. These forward-looking statements generally relate to our plans, objectives, prospects 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, prospects 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. Furthermore, there is no assurance that any positive trends suggested or referred to in this report will continue. 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 availability and adequacy of our cash flow to meet our requirements, funding and debt obligations;
- o our ability to obtain the new senior secured credit facilities discussed in this report, which would enable us to refinance the 11% Notes;
- o the results of the election contest initiated by RAH's related parties, in which they seek to replace our board of directors, and litigation initiated by RAH and related parties against us in connection with the dispute concerning their takeover attempts;
- 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;

17

- o retirement or other loss of any of our senior officers;
- o economic, competitive, demographic, business and other conditions in our local and regional markets;
- o changes or developments in laws, regulations or taxes in the gaming industry;
- o actions taken or not taken by third parties, such as our customers, suppliers, and competitors, as well as legislative, regulatory, judicial and other governmental authorities;
- o 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 the loss of any of our casino, hotel or convention 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 and uncertainties 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.

18

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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, 2007, we had \$214.9 million in borrowings. The borrowings include \$215 million in 11% Notes maturing in 2010 net of discount. 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 \$348,000 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, 2007, 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)

| | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter | Total | F | a |
|---|----------|----------|----------|------------|------|------------|------------|----|---|
| Long-Term Debt Including | | | | | | | | | |
| Current Portions | | | | | | | | | |
| Equipment loans and | | | | | | | | | |
| capital leases-Las Vegas | \$ 567 | \$ 187 | \$ 54 | | | | \$ 808 | | |
| Average interest rate | 5.8% | 5.8% | 5.8% | | | | | | |
| 11% Notes | | | | \$ 215,000 | | | \$ 215,000 | \$ | |
| Less unamortized discount | | | | (1,298) | | | (1,298) | | |
| Average interest rate | | | | 11.8% | | | | | |
| SID Bonds - | | | | | | | | | |
| Black Hawk, Colorado | \$ 66 | \$ 137 | \$ 145 | | | | \$ 348 | | |
| Average interest rate | 5.5% | 5.5% | 5.5% | | | | | | |
| Total all long-term debt, including current portions | \$ 633 | \$ 324 | \$ 199 | \$ 213,702 | \$ - | \$ - | \$ 214,858 | \$ | |
| Other Long-Term Liabilities including Current Portion | | | | | | | | | |
| CEO pension plan obligation | \$ 750 | \$ 1,000 | \$ 1,000 | \$ 84 | | | \$ 2,834 | | |
| Average interest rate | 11.8% | 11.8% | 11.8% | 11.8% | | | | | |
| Total all long-term obligations | \$ 1,383 | \$ 1,324 | \$ 1,199 | \$ 213,786 | \$ - | \$ - | \$ 217,692 | \$ | |

Item 4. Controls and Procedures

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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 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 Securities and Exchange Commission, 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, 2007, we carried out an evaluation, under the supervision and with the participation of 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

On May 2, 2007, RAH; Flag Luxury Riv, LLC; Rivacq LLC; and RH1 LLC served the Complaint upon RHC and its directors. The Complaint was filed in the District Court of Clark County, Nevada (Case No. A539614), as an amendment to a complaint filed on April 17, 2007, but not served on the defendants.

The Plaintiffs request, among other things, a declaratory judgment that RAH's entry into the Option Agreement did not trigger the defensive provisions of the BCL (which, if triggered, would disqualify RAH and its related parties from entering into a merger or other business combination with RHC for a three-year period) and Article III (which, if triggered, would substantially dilute RAH's and its related parties' voting rights as to the Triple Five Shares, if they acquire those shares).

We are also 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.

20

Item 1A. Risk Factors

Our annual report on Form 10-K (as amended) for the fiscal year ended December 31, 2006 (our "2006 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 2006 Form 10-K.

The Recently Announced Election Contest And Our Dispute With RAH And Related Parties About Their Actions In Furtherance Of Their Takeover Objectives Might

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Affect Our Ability To Obtain New Credit Facilities And Make It More Difficult For Us To Replace Any Key Personnel If We Lose Their Services.

We have a commitment but have not yet entered into binding agreements for the new senior secured credit facilities discussed in this Form 10-Q. Our agreement with Wachovia calls for Wachovia to use best efforts to secure commitments from other lenders for those facilities. We are seeking the new credit facilities in order to (1) reduce our interest costs substantially, (2) retire the 11% Notes, which we would likely be unable to pay on the June 15, 2010 maturity date without a refinancing and (3) provide us with greater overall financial flexibility. If prospective lenders view the election contest announced by RAH's related parties to replace our current board of directors and our disputes with RAH and those parties about their actions in furtherance of their takeover objectives as creating too much uncertainty about our future prospects, we may be unable to obtain the new credit facilities or other refinancing.

Those same uncertainties about our future prospects might add to our difficulties in finding suitable replacements for any of our executives or other key personnel if we lose their services.

Item 5. Other Information

Item 6. Exhibits.

See list of exhibits on page 23.

21

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

RIVIERA HOLDINGS CORPORATION

By: /s/ William L. Westerman
William L. Westerman
Chairman of the Board,
Chief Executive Officer
(Principle Executive Officer)

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By: /s/ Mark Lefever
Treasurer and Principal
Financial and Accounting Officer
(Principle Financial Officer)

Date: May 10, 2007

22

Exhibits

Exhibits:

- 31.1 Certification of the Principal Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a).
- 31.2 Certification of the Principal Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a).
- 32.1 Certification of the Principal Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. 1350.
- 32.2 Certification of the Principal Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. 1350.