RIVIERA HOLDINGS CORP
Form 10-Q
November 14, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from __________________ to __________________

Commission file number: 000-21430

Riviera Holdings Corporation
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	88-0296885 (I.R.S. Employer Identification No.)
2901 Las Vegas Boulevard South, Las Vegas, Nevada (Address of principal executive offices)	89109 (Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ý
(Do not check if smaller reporting company)

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 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 ý No ¨

As of November 14, 2011, there were 10 voting common Class A Shares, par value $.001 per share, and 9,039,035 non-voting common Class B Shares, par value $.001 per share, outstanding.

RIVIERA HOLDINGS CORPORATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited condensed consolidated financial statements of Riviera Holdings Corporation and subsidiaries 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 U.S. generally accepted accounting principles. 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 periods presented are not necessarily indicative of the results for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2010, included in our Form 10-K.

The unaudited condensed consolidated financial statements of Riviera Holdings Corporation and subsidiaries for prior periods have been restated to reflect the treatment of Riviera Black Hawk as discontinued operations.

RIVIERA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	Successor September 30, 2011	Predecessor December 31, 2010
ASSETS	(unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 24,542	$ 15,168
Restricted cash	272	272
Accounts receivable-net of allowances of $228 and $214, respectively	2,669	1,958
Due from stockholder	1,100	-
Inventories	562	517
Prepaid expenses and other assets	3,963	2,393
Assets of discontinued operations held for sale	57,914	64,081
Total current assets	91,022	84,389
PROPERTY AND EQUIPMENT-net	137,492	102,454
GOODWILL	24,826	-
INTANGIBLE ASSETS-net	5,997	-
OTHER ASSETS-net	2,129	1,894
TOTAL	$ 261,466	$ 188,737
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ -	$ -
Accounts payable	4,963	3,402
Accrued interest	1,040	-
Deferred tax liabilities	472	-
Accrued expenses	8,125	6,930
Liabilities of discontinued operations held for sale	4,962	5,730
Total current liabilities	19,562	16,062
CAPITAL LEASES-net of current portion	-	-
LONG-TERM DEBT	71,545	-
LONG-TERM DEFERRED TAX LIABILITIES	21,962	-
LIABILITIES SUBJECT TO COMPROMISE	-	276,471
Total liabilities	113,069	292,533
COMMITMENTS and CONTINGENCIES (Note 13)		
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Predecessor:		
COMMON STOCK ($.001 par value; 60,000,000 shares authorized, 17,115,624 shares issued at December 31, 2010, and 12,447,555 shares outstanding at December 31, 2010)	-	17
ADDITIONAL PAID-IN CAPITAL	-	17,028
TREASURY STOCK (4,668,069 shares at December 31, 2010)	-	(9,635)
ACCUMULATED DEFICIT	-	(111,206)
Successor:		
PREFERRED STOCK - 500,000 shares authorized, none issued		

and outstanding at September 30, 2011		-		-
COMMON STOCK - Class A Voting ($0.001 par value; 10 shares authorized, issued and outstanding at September 30, 2011) and Class B Non-Voting ($0.001 par value; 10,000,001 authorized, 9,039,035 issued and outstanding at September 30, 2011)		9		-
WARRANTS ISSUED		7,657		-
ADDITIONAL PAID-IN CAPITAL		150,267		-
ACCUMULATED DEFICIT		(9,536)		-
Total stockholders' equity (deficiency)		148,397		(103,796)
TOTAL	$	261,466	$	188,737

The accompanying notes are an integral part of these condensed consolidated financial statements.

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RIVIERA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share amounts)

	Successor		Predecessor		
	Three Months Ended September 30, 2011	Six Months Ended September 30, 2011	Three Months Ended March 31, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
REVENUES:					
Casino	$8,807	$ 19,009	$8,983	$ 7,821	$ 27,377
Rooms	8,692	17,967	9,288	8,188	25,153
Food and beverage	3,728	7,650	3,843	3,206	11,523
Entertainment	640	1,272	745	1,091	2,741
Other	1,034	2,041	1,088	1,013	3,179
Total revenues	22,901	47,939	23,947	21,319	69,973
Less-promotional allowances	(3,202)	(6,794)	(3,298)	(3,043)	(9,377)
Net revenues	19,699	41,145	20,649	18,276	60,596
COSTS AND EXPENSES:					
Direct costs and expenses of operating departments:					
Casino	6,398	12,710	5,779	4,553	14,729
Rooms	5,323	9,840	4,578	4,797	13,848
Food and beverage	3,155	6,827	3,498	3,190	10,335
Entertainment	573	1,105	425	535	1,519
Other	288	583	293	284	852
Other operating expenses:					
Share-based compensation	-	-	12	8	103
Other general and administrative	8,469	15,483	6,211	7,468	19,802
Emergence related expenses	100	1,602	-	-	-
Restructuring fees	-	-	-	228	1,245
Depreciation and amortization	1,122	2,178	2,388	2,433	7,388
Total costs and expenses	25,428	50,328	23,184	23,496	69,821
LOSS FROM OPERATIONS	(5,729)	(9,183)	(2,535)	(5,220)	(9,225)
OTHER (EXPENSE) INCOME:					
Interest income and expense, net (contractual interest expense for the three months ended March 31, 2011 was $3,507)	(1,960)	(3,866)	12	(457)	(8,316)
Total other (expense) income	(1,960)	(3,866)	12	(457)	(8,316)
LOSS FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS	(7,689)	(13,049)	(2,523)	(5,677)	(17,541)

Fresh-start accounting adjustment	-	-	37,530	-	-
Gain on reorganization of debt	-	-	47,500	-	-
Reorganization items	-	-	(1,383)	(2,175)	(2,175)
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX BENEFIT	(7,689)	(13,049)	81,124	(7,852)	(19,716)
Income tax benefit from continuing operations	1,419	1,992	-	336	1,496
(LOSS) INCOME FROM CONTINUING OPERATIONS	(6,270)	(11,057)	81,124	(7,516)	(18,220)
DISCONTINUED OPERATIONS					
Income from discontinued operations	2,104	3,693	1,678	959	4,157
Income tax expense	(758)	(1,331)	-	(336)	(1,496)
Income from discontinued operations	1,346	2,362	1,678	623	2,661
NET (LOSS) INCOME	$(4,924)	$ (8,695)	$82,802	$ (6,893)	$ (15,559)
NET (LOSS) INCOME PER SHARE DATA:					
Basic					
(Loss) Income from continuing operations	$(0.69)	$ (1.29)	$6.52	$ (0.60)	$ (1.46)
Income from discontinued operations	0.15	0.28	0.13	0.05	0.21
Net (Loss) Income, net	$(0.54)	$ (1.02)	$6.65	$ (0.55)	$ (1.25)
Diluted					
(Loss) Income from continuing operations	$(0.66)	$ (1.29)	$6.41	$ (0.60)	$ (1.46)
Income from discontinued operations	0.14	0.28	0.13	0.05	0.21
Net (Loss) Income, net	$(0.52)	$ (1.02)	$6.54	$ (0.55)	$ (1.25)
Basic-weighted average common shares outstanding	9,039	8,550	12,448	12,448	12,456
Diluted-weighted average common and common equivalent shares	9,500	8,550	12,652	12,448	12,456

The accompanying notes are an integral part of these condensed consolidated financial statements.

RIVIERA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Successor Six Months Ended September 30, 2011	Predecessor Three Months Ended March 31, 2011	Nine Months Ended September 30, 2010
OPERATING ACTIVITIES:			
Net (loss) income	$ (8,695)	$ 82,802	$ (15,559)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	4,007	3,278	10,113
Fresh-start accounting adjustment	-	(37,530)	-
Gain on reorganization of debt	-	(47,500)	-
Provision for bad debts	18	(8)	26
Stock-based compensation-restricted stock	-	-	67
Stock-based compensation-stock options	-	14	36
Income tax expense (benefit)	(661)	-	-
Interest expense – payment in kind	1,545	-	-
Reorganization items	-	1,383	2,175
Changes in operating assets and liabilities:			
Accounts receivable	(568)	(198)	344
Inventories	(31)	20	(44)
Prepaid expenses and other assets	(1,518)	(683)	43
Accounts payable	(733)	(220)	2,236
Accrued interest	1,040	-	8,159
Accrued expenses	(469)	1,990	903
Net cash (used in) provided by operating activities before emergence related and reorganization items	(6,065)	3,348	8,499
Net cash used for reorganization items	-	(1,101)	(1,322)
Net cash (used in) provided by operating activities	(6,065)	2,247	7,177
INVESTING ACTIVITIES:			
Capital expenditures	(4,762)	(599)	(2,364)
Due from stockholder	(1,100)	-	-
Restricted cash	-	-	2,500
Net cash used in investing activities	(5,862)	(599)	136
FINANCING ACTIVITIES:			
Payments on capitalized leases	(23)	(11)	(32)
Net cash from financing activities	(23)	(11)	(32)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(11,950)	1,637	7,281

(Increase) Decrease in cash from discontinued operations		164		(477)		(1,244)
CASH AND CASH EQUIVALENTS-BEGINNING OF PERIOD		36,328		15,168		14,115
CASH AND CASH EQUIVALENTS-END OF PERIOD	$	24,542	$	16,328	$	20,152
SUPPLEMENTAL DISCLOSURE OF NONCASH						
INVESTING AND FINANCING ACTIVITIES						
(including discontinued operations):						
Property acquired with debt and accounts payable	$	626	$	333	$	295
Cash paid for interest	$	1,285	$	-	$	49

The accompanying notes are an integral part of these condensed consolidated financial statements.

RIVIERA HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

Riviera Holdings Corporation (“RHC”) and its wholly-owned subsidiary, Riviera Operating Corporation (“ROC”) (RHC and 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 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.

As previously reported, on July 12, 2010 (the "Petition Date"), RHC, ROC and RBH (collectively, the “Debtors”) filed petitions (the "Chapter 11 Cases") for relief under the provisions of Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the District of Nevada (the “Bankruptcy Court”). On November 17, 2010, the Bankruptcy Court entered a written order confirming the Debtors’ Second Amended Joint Plan of Reorganization (as amended and supplemented, the “Plan”). On December 1, 2010, the Plan became effective.

On April 1, 2011 (the “Substantial Consummation Date”), the Debtors emerged from reorganization proceedings under the United States Bankruptcy Code (the “Reorganized Debtors”).

As of the Substantial Consummation Date, the Company adopted the “fresh-start” provisions in accordance with accounting guidance on reorganizations, which require that all assets and liabilities be recorded at their reorganization values and fair values, respectively, as of such Substantial Consummation Date. Certain of these values differed materially from the values recorded on the Predecessor’s (as defined below) balance sheets as of March 31, 2011. In addition, the Company’s accounting practices and policies may not be the same as that of the Predecessor’s. For all of these reasons, our condensed consolidated financial statements for periods subsequent to the Substantial Consummation Date are not comparable with the Predecessor’s prior periods.

References in this Form 10-Q to “Successor” refers to the Company on or after April 1, 2011. References to “Predecessor” refer to the Company prior to April 1, 2011. The accompanying condensed consolidated statements of operations, stockholders’ equity (deficit) and cash flows for the nine months ended September 30, 2011 are presented for two periods: January 1, 2011 through March 31, 2011 (the “Predecessor Period”) and April 1, 2011 through September 30, 2011 (the “Successor Period”). The Predecessor Period reflects the historical accounting basis in Predecessor’s assets and liabilities, while the Successor Period reflects assets and liabilities at fair value by allocating the Company’s enterprise value to its assets and liabilities pursuant to accounting guidance related to business combinations.

For the Predecessor Period, the accompanying condensed consolidated financial statements of Predecessor have been prepared in accordance with accounting guidance for financial reporting by entities in reorganization under the United States Bankruptcy Code. Accordingly, all pre-petition liabilities subject to compromise have been segregated in the accompanying condensed balance sheets as of December 31, 2010 and are classified as liabilities subject to compromise at the estimated amounts of allowable claims. Liabilities not subject to compromise are separately classified as current and non-current. Reorganization items include the expenses, realized gains and losses, and provisions for losses resulting from the reorganization under the United States Bankruptcy Code, and are reported separately as reorganization items in the accompanying condensed consolidated statements of operations. Cash received and payments for reorganization items are disclosed separately in the accompanying condensed consolidated statements of cash flows.

Further details about the Debtor's reorganization proceedings under the United States Bankruptcy Code, the emergence from reorganization of the Reorganized Debtors and the sale of RBH can be found in RHC's filings with the Securities and Exchange Commission, including RHC's Form 8-K filed on July 14, 2010, Form 8-K filed on December 7, 2010, Form 10-K filed on March 21, 2011, Form 8-K filed on April 7, 2011 and Form 8-K filed on September 30, 2011.

On September 29, 2011, RHC, ROC and RBH, entered into a Stock Purchase Agreement (the "SPA") with Monarch Casino and Resorts, Inc., a Nevada corporation, and its wholly-owned subsidiary Monarch Growth Inc., a Nevada corporation (collectively, the "Buyer"), pursuant to which the Buyer agreed to purchase the Company's casino in Black Hawk, Colorado by acquiring all of the issued and outstanding shares of common stock of RBH. The Buyer would pay $76 million for the stock, subject to certain post-closing working capital adjustments. At the closing, the ROC would pay or satisfy substantially all of RBH's indebtedness and would leave at least $2.1 million of working capital, including at least $2.1 million of "cage cash" (as defined in the SPA). This transaction is expected to close in the second quarter of 2012.

Casino operations are subject to extensive regulation in the states of Nevada and Colorado by agencies with jurisdiction over gaming activities 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.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of RHC and its direct and indirect wholly-owned subsidiaries. With the presentation of RBH as a discontinued operation (as discussed further in Note 2 and Note 11), the Company has one reporting segment. All material intercompany accounts and transactions have been eliminated.

In preparing the accompanying condensed consolidated financial statements, the Company's management reviewed events that occurred from December 31, 2010 until the issuance of the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications

Certain reclassifications, having no effect on net loss, have been made to the previously issued condensed consolidated financial statements to conform to the current period's presentation of the Company's condensed consolidated financial statements.

Fresh-Start Reporting

The adoption of fresh-start reporting results in a new reporting entity. Under fresh-start reporting, all assets and liabilities are recorded at their estimated fair values and Predecessor's accumulated deficit is eliminated. In adopting fresh-start reporting, the Company is required to determine its enterprise value, which represents the fair value of the entity before considering its interest bearing debt.

Assets Held For Sale

As discussed in Note 1, on September 29, 2011 the Company entered into an agreement to sell all of the issued and outstanding shares of common stock of RBH. As a result, as discussed above, RBH is presented as discontinued operations in the accompanying condensed consolidated statements of operations with the assets and liabilities of RBH presented as held for sale in the accompanying condensed consolidated balance sheets. Cash flows of the discontinued operations have not been segregated from the cash flows of continuing operations on the accompanying condensed consolidated statements of cash flows.

Earnings Per Share (Predecessor)

Diluted earnings per share assume exercise of in-the-money stock options (those options with exercise prices at or below the weighted average market price for the periods presented) outstanding at the beginning of the period or at the date of the issuance. The effect of dilutive securities was calculated using the treasury stock method.

Earnings Per Share (Successor)

Diluted earnings per share assume exercise of Class B Warrants (as defined in Note 3). The effect of dilutive securities was calculated using the treasury stock method.

Income Taxes

The Company is subject to income taxes in the United States. Authoritative guidance for accounting for income taxes requires that we account for income taxes by recognizing deferred tax assets, net of applicable reserves, and liabilities for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on the income tax provision and deferred tax assets and liabilities is recognized in the results of operations in the period that includes the enactment date.

Authoritative guidance for accounting for income taxes also requires that we perform an assessment of positive and negative evidence regarding the realization of the deferred tax assets. This assessment included the evaluation of the reversal of future temporary differences. As a result, we have concluded that it is more likely than not that the net deferred tax assets, excluding the deferred tax liability related to the step up in land recorded in fresh start accounting, will not be realized, and, thus, we have provided an allowance against our net deferred tax asset balance. Deferred tax liabilities and related indefinite life assets are not available to be considered as a future source of income for purposes of evaluating the recognition of deferred tax assets. Accordingly, a deferred tax liability related to the step up in land has been recognized on the Company’s balance sheet.

Because the Company is subject to a valuation allowance, historically the effective tax rate has been 0%. However, our effective tax rate for the three and six months ended September 30, 2011 was 18.5% and 15.3%, respectively. Our effective tax rate for those periods in 2011 was attributable to tax benefit recorded in continuing operations related to income in discontinued operations and a decrease in the deferred tax liability recorded for the difference in tax and book basis recorded in fresh start accounting. Our effective tax rate for the three and nine months ended September 30, 2010 was 4.4% and 7.6%, respectively. Our effective tax rate for those periods in 2010 was attributable to a tax benefit recorded in continuing operations related to income in discontinued operations.

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The Company has not recorded a reserve for uncertain tax positions and does not anticipate that this will change over the next twelve months. Our income tax returns are subject to examination by the Internal Revenue Service (“IRS”) and other tax authorities in the locations where we operate. The statute of limitations varies by jurisdiction. Generally, because the Company has losses from prior years, the statute of limitations remains open until the statute of limitations for the tax year in which the losses are utilized expires.

Estimates and Assumptions

The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates used by the Company include estimated useful lives for depreciable and amortizable assets, certain accrued liabilities and the estimated allowances for receivables, estimated fair value for stock-based compensation, estimated fair value of derivative instruments and deferred tax assets. Actual results may differ from estimates.

Restricted Cash

As of September 30, 2011, a security deposit in the amount of $272,000 remains held for the benefit of the State of Nevada Workers’ Compensation Division as a requirement of our being self-insured for workers’ compensation.

Interest Rate Swaps – Subject to Compromise (Predecessor)

From time to time, the Company enters into interest rate swap agreements. The Company’s objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. We do not use derivative financial instruments for trading or speculative purposes. As such, the Company has adopted Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") Topic 815, Derivatives and Hedging to account for interest rate swaps. The pronouncement requires us to recognize the interest rate swaps as either assets or liabilities in the condensed consolidated balance sheets at fair value. The accounting for changes in fair value (i.e., gains or losses) of the interest rate swap agreements depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. Additionally, the difference between amounts received and paid under such agreements, as well as any costs or fees, is recorded as a reduction of, or an addition to, interest expense as incurred over the life of the swap.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss), and the ineffective portion, if any, is recorded in the condensed consolidated statement of operations.

Derivative instruments that are designated as fair value hedges and qualify for the “shortcut” method allow for an assumption of no ineffectiveness. Accordingly, there is no impact on the condensed consolidated statement of operations from the changes in the fair value of the hedging instrument. Instead, the fair value of the instrument is recorded as an asset or liability on our condensed balance sheet with an offsetting adjustment to the carrying value of the related debt.

On July 28, 2009, the Company received an early termination notice which claims a termination amount due and payable under the Swap Agreement (as defined in Note 6 under the caption "The Credit Facility – Subject to Compromise") equal to $22.1 million, plus $4.4 million in accrued interest. As of March 31, 2011, the Company reflected a $27.8 million liability related to the Swap Agreement, which included $5.7 million in accrued interest ($5.7 million in accrued interest includes $1.3 million in accrued default interest). The Company determined that the interest rate swap under the Swap Agreement did not meet the requirements to qualify for hedge accounting.

As previously announced by the Company, any default under the Swap Agreement automatically resulted in an additional default interest of 1% on any overdue amounts under the Swap Agreement. This default rate was in addition to the interest rate that would otherwise be applicable under the Swap Agreement. The Company accrued default interest on the overdue amounts through the Petition Date (see Note 6 below).

Accounting for Reorganization (Predecessor)

ASC Topic 852, Reorganizations provides accounting guidance for financial reporting by entities in reorganization under the United States Bankruptcy Code, including companies in Chapter 11 reorganization, and generally does not change the manner in which financial statements are prepared. However, ASC Topic 852 requires that the financial statements for periods subsequent to the filing of the Chapter 11 Cases distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, realized gains and losses and provisions for losses that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the statement of operations. Predecessor incurred $1.4 million in reorganization items through March 31, 2011. ASC Topic 852 also requires that the balance sheet must distinguish pre-petition liabilities subject to compromise from both those pre-petition liabilities that are not subject to compromise and from post-petition liabilities and requires that cash used for reorganization items must be disclosed separately in the statement of cash flows. Predecessor adopted ASC Topic 852 on July 12, 2010 and has segregated, and Successor will segregate, those items as documented above for all reporting periods subsequent to such date.

Restructuring Costs (Predecessor)

Restructuring costs are comprised of expenses related to the evaluation of financial and strategic alternatives and include special legal and other advisor fees associated with the Company’s reorganization efforts prior to July 12, 2010, the Petition Date, including preparation of the bankruptcy filing. As a result, there were no restructuring costs recorded during the three months ended September 30, 2011. During the nine months ended September 30, 2010, the Company incurred restructuring fees of $1.2 million.

Goodwill and Intangible Assets

Goodwill represents the excess of purchase price over fair value of assets acquired and liabilities assumed in business combinations. In accordance with accounting guidance related to goodwill and other intangible assets, we test for impairment of goodwill and indefinite-lived intangible assets annually in the fourth quarter of each year and in certain situations between those annual dates.

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Goodwill for relevant reporting units is tested for impairment using a discounted cash flow model based on the estimated future results of the Company's reporting units, discounted using the Company's weighted-average cost of capital and market indicators of terminal year capitalization rates. The implied fair value of a reporting unit's goodwill is compared to the carrying value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to its assets and liabilities, and the amount remaining, if any, is the implied fair value of goodwill. If the implied fair value of the goodwill is less than its carrying value, then it is written down to its implied fair value.

Indefinite-lived intangible assets are not subject to compromise, but are tested for impairment using a discounted cash flow approach. Intangible assets with a definite life are amortized over their useful life, which is the period over which the asset is expected to contribute directly or indirectly to future cash flows. Management periodically assesses the amortization period of intangible assets with definite lives based upon estimated future cash flows from related operations.

Inherent in the reviews of the carrying amounts of goodwill and intangible assets are various estimates. Future cash flow estimates are, by their nature, subjective, and actual results may differ materially from our estimates. If our ongoing estimates of future cash flows are not met, we may have to record additional impairment charges in future accounting periods. Our estimates of cash flows are based on the current regulatory, political and economic climates, recent operating information and budgets of the various properties where we conduct operations. These estimates could be negatively impacted by changes in federal, state or local regulations, economic downturns, or other events affecting various forms of travel and access to our properties.

Fair Value of Financial Instruments

The carrying values of our cash and cash equivalents, restricted cash, receivables and accounts payable approximate fair value because of the short term maturities of these instruments.

Predecessor's debt instruments incurred prior to the Petition Date were stayed and subject to compromise as further discussed in Note 6. As such, Predecessor believed that it was impracticable to determine the fair value of those pre-petition debt instruments.

Recently Issued Accounting Standards

In December 2010, the FASB issued guidance to improve disclosures of supplementary pro forma information for business combinations. The guidance specifies that if an entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance also expands the supplemental pro forma disclosures required to include a description of the nature and amount of material nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. In the event that the Company acquires companies significant to its operations in the future, the Company expects that the adoption of the guidance will have an impact on its condensed consolidated financial statements.

In April 2010, the FASB issued guidance on accruing for jackpot liabilities. The guidance clarifies that an entity should not accrue jackpot liabilities (or portions thereof) before a jackpot is won if the entity can legally avoid paying that jackpot (for example, by removing the gaming machine from the casino floor). Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. This guidance applies to both base jackpots and the incremental portion of progressive jackpots. However, the guidance is expected to affect the accounting for base jackpots only, as the guidance uses the same principle that is currently applied by the Company to the incremental portion of progressive jackpots. The guidance was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. This guidance should be applied by recording a cumulative-effect adjustment to opening retained earnings in the period of adoption. The Company adopted the guidance as of January 1, 2011, which did not have a material impact on the Company's condensed consolidated financial statements.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRs", which amends Topic 820 in the ASC and relates to a major convergence project of the FASB and the International Accountings Standards Board to improve International Financial Reporting Standards ("IFRs") and U.S. generally accepted accounting principles. This new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between IFRs and U.S. generally accepted accounting principles. The new guidance also changes some fair value measurement principles and enhances disclosure requirements related to activities in Level 3 of the fair value hierarchy. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. The Company is currently evaluating the guidance and has not yet determined the impact on its condensed consolidated financial statements.

A variety of proposed or otherwise potential accounting standards are currently under review and study by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, we have not yet determined the effect, if any, that the implementation of any such proposed or revised standards would have on our condensed consolidated financial statements.

3. FRESH-START REPORTING

Fresh-Start Balance Sheet

In accordance with accounting guidance related to financial reporting by entities in reorganization under the United States Bankruptcy Code, the Company adopted fresh-start reporting upon the Substantial Consummation Date. The Company was required to apply the provisions of fresh-start reporting to its financial statements because (i) the reorganization value of the assets of the emerging entity immediately before the Substantial Consummation Date was less than the total of all post-petition liabilities and allowed claims and (ii) the holders of the existing voting shares of Predecessor common stock immediately before confirmation (i.e., the holders of shares of the common stock of Predecessor that were issued and outstanding prior to the commencement of the Chapter 11 Cases) received less than 50 percent of the voting shares of the emerging entity. Under the accounting guidance, fresh-start reporting was required on the date on which the Plan was confirmed by the Bankruptcy Court, but further provides that fresh-start reporting should not be applied until all material conditions to the Plan were satisfied. All material conditions to the Plan were satisfied as of April 1, 2011, the Substantial Consummation Date.

Fresh-start reporting generally requires resetting the historical net book value of assets and liabilities to fair value by allocating the entity's enterprise value as set forth in the Plan to its assets and liabilities pursuant to accounting guidance related to business combinations as of the Substantial Consummation Date. As set forth in the disclosure statement, relating to the Plan, as confirmed by the Bankruptcy Court on November 17, 2010, the enterprise value of Predecessor was estimated to be in the range of $208 million to $231 million. Successor's enterprise value was estimated using various valuation methods, including (i) a comparison of the Predecessor and its projected performance to the market values of comparable companies, and (ii) a calculation of the present value of the future cash flows of Successor based on financial projections.

The enterprise value for each property was determined using various valuation methods, including the cost method and the discounted cash flow method, a form of the income approach. Under the cost method, assets were valued at the cost to acquire a similar or substitute asset. Under the discounted cash flow method, value was determined using projected future cash flows. For future cash flows, financial projections for the period 2011 through 2015 were used with a composite annual growth rate for the four years after 2011 of 3%. The average marginal tax rate was assumed to be 35% for RHC and 38% for RBH and included federal, state and local taxes. The discount rate applied for assets valued using the discounted cash flow method was 15%, which was calculated using a weighted average cost of capital analysis based on comparable statistics of the Company's peer group. The present value of all cash flows after 2015 were calculated using terminal values which were calculated by applying 3% growth to the 2015 financial projections which were then discounted in the range of 16% to 17%.

Based upon a reevaluation of relevant factors used in determining the range of enterprise value and updated expected future cash flow projections, the Company concluded that $226.7 million should be used for fresh-start reporting purposes, as it most closely approximated fair value. After deducting the fair value of debt and adding the excess cash received, this resulted in a post-emergence equity value of $157.9 million.

In accordance with fresh-start reporting, the Company's enterprise value has been allocated to existing assets using the measurement guidance provided in accounting guidance related to business combinations. In addition, liabilities have been recorded at the present value of amounts estimated to be paid. Finally, Predecessor's accumulated deficit has been eliminated, and the Company's new debt and equity have been recorded in accordance with the Plan.

Estimates of fair value represent the Company's best estimates, which are based on industry data and trends, and by reference to relevant market rates and transactions and discounted cash flow valuation methods, among other factors. The determination of the fair value of assets and liabilities is subject to significant estimation and assumptions, there can be no assurance that the estimates, assumptions and values reflected in the valuations will be realized, and actual results could vary materially.

The April 1, 2011 balance sheet presented below summarizes the impact of the adoption of the Plan and fresh-start accounting as of the Substantial Consummation Date (amounts in thousands):

	Predecessor March 31, 2011 (unaudited)		Reorganization items (a)		Fresh-start		Successor April 1, 2011 (unaudited)
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$22,793		$ 20,000	(b)	$-		$42,793
Restricted cash	272		-		-		272
Accounts receivable-net of allowances	2,292		-		-		2,292
Inventories	611		-		-		611
Prepaid expenses and other assets	3,105		-		-		3,105
Total current assets	29,073		20,000		-		49,073
PROPERTY AND EQUIPMENT-net	157,435		-		19,969	(f)	177,404
OTHER ASSETS-net	2,385		-		-		2,385
INTANGIBLE ASSETS	-		-		14,400	(g)	14,400
GOODWILL	-		-		26,256	(h)	26,256
TOTAL	$188,893		$ 20,000		$60,625		$269,518
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)							
CURRENT LIABILITIES:							
Current portion of long-term debt	$44		$ -		$-		$44
Accounts payable	7,353		-		-		7,353
Accrued expenses	11,033		-		497	(h)	11,530
Total current liabilities	18,430		-		497		18,927
LONG-TERM DEBT-net current portion	-		70,000	(c)	-		70,000
CAPITAL LEASES-net current portion	60				-		60
LONG-TERM TAX LIABILITY	-		-		22,598	(j)	22,598
Total liabilities not subject to compromise	18,490		70,000		23,095		111,585
Liabilities subject to compromise	276,416		(276,416	) (d)	-		-
TOTAL LIABILITIES	294,906		(206,416	)	23,095		111,585
STOCKHOLDERS' EQUITY (DEFICIENCY):							
Common stock	17		(8	)	-		9
Additional paid-in capital	20,526		121,080		-		141,606
Treasury stock	(9,635	)	9,635		-		-
Issued warrants	-		16,318		-		16,318
Accumulated deficit	(116,921	)	79,391	(e)	37,530	(i)	-
Total stockholders' equity (deficiency)	(106,013	)	226,416		37,530		157,933

TOTAL	$188,893	$ 20,000	$60,625	$269,518

Fresh-Start Accounting Explanatory Notes

Reorganization Items

(a)Represents amounts recorded as of the Substantial Consummation Date for the consummation of the Plan, including the settlement of liabilities subject to compromise, elimination of affiliate activity amongst Predecessor, the issuance of new indebtedness, the cancellation of Predecessor's equity, and the issuance of new common stock.

(b) Reflects proceeds received from the Series B Term Loan (as defined in Note 6 under the caption "Successor – Series B Credit Agreement").

(c) Reflects the Series A Credit Agreement (as defined in Note 6 under the caption "Successor – Series A Credit Agreement") and the Series B Credit Agreement (as defined in Note 6 under the caption "Successor – Series B Credit Agreement") as provided in the Plan.

(d) Reflects the discharge of Predecessor's liabilities subject to compromise in accordance with the Plan.

(e) Reflects the cumulative impact of the reorganization adjustments as follows (in thousands):

Discharge of liabilities subject to compromise	$276,416
Elimination of Predecessor equity	10,909
Proceeds from long term debt	20,000
Issuance long term debt	(70,000)
Issuance of Class B Warrants (1)	(16,318)
Issuance of common stock at emergence value	(141,616)
	$79,391

(1) Pursuant to the terms of the Plan, the Company issued Class B Non-Voting Common Stock (as defined in Note 9) with attached warrants exercisable into shares of Class B Non-Voting Common Stock (the "Class B Warrants") to its former creditors in partial or full and final satisfaction of their claims on the Substantial Consummation Date. The Company valued the shares of Class B Non-Voting Common Stock with attached Class B Warrants using the Chaffee option valuation model assuming a life of 1 and 1.5 years, volatility factors of 48.5% and 53.18%, risk free rates of .27% and .54% and implied discounts for lack of marketability of 20% and 25%, respectively. The resulting value of the Class B Warrants with attached shares of Class A Voting Common Stock (as defined in Note 9) or Class B Non-Voting Common Stock with attached Class A Warrants is $17.72 and $16.61 per share, respectively, for a total value of $16.3 million.

Fresh-Start Adjustments

(f) Reflects the fair value of property and equipment and intangible assets in connection with fresh-start reporting. The following table summarizes the components of property and equipment, net as a result of the application of fresh-start reporting (in thousands):

	Estimated Life (Years)	Successor April 1, 2011	Predecessor March 31, 2011
Land and land improvements		$ 95,625	$ 40,752
Building and building improvements	3-25	56,559	145,374
Equipment, furniture, and fixtures	3-8	25,220	177,439
Total cost		177,404	363,565
Less accumulated depreciation		—	(206,130)
		$ 177,404	$ 157,435

Fair value estimates were based on various valuation methods. Personal property related to assets with active secondary markets, such as slot machines, were valued using market prices of similar assets. Other personal property such as furniture, fixtures and other equipment, were valued using a depreciated replacement cost method. Land was valued using market comparable data. Where applicable, the income approach was utilized to estimate the fair value of the income producing land, buildings, building improvements and land improvements either by direct capitalization or discounted cash flow analysis. For specific real property assets that were valued using the cost approach, the income and/or sales comparison approach was utilized to support the value conclusion of the cost approach.

(g) Reflects the fair value of intangible assets in connection with fresh-start reporting. The following table summarizes the components of intangible assets as a result of the application of fresh-start reporting (in thousands):

	Estimated Life (Years)	Successor April 1, 2011	Predecessor March 31, 2011
Customer lists	3	$ 8,200	$ —
Trade name	15	3,700	—
Software	15	2,500	—
		$ 14,400	$ —

(h)Reflects the establishment of $3.2 million of goodwill as a result of fresh-start reporting. In addition, $23.1 million is included in goodwill as a result of income tax consequences of asset sales related to the Plan. Of the $23.1 million deferred tax liability, $0.5 million is included in current liabilities.

(i)Reflects the adjustment of assets and liabilities to fair value, or other measurement as specified in accounting guidance related to business combinations as follows (in thousands):

Property and equipment adjustment	$19,969
Successor goodwill	3,161
Intangibles adjustment	14,400
Fresh-start accounting adjustment	$37,530

(j) In connection with the adoption of fresh-start reporting, the Company recognized a deferred tax liability related to the step up of land which is considered an indefinite life asset. In the future, changes in this liability due to changes in the Colorado state tax rate or settlement of the liability may cause the Company to record an income tax provision.

The Company is subject to limitations upon the use of net operating loss ("NOL") carryforwards under Section 382 (the "Section 382 Limitation") of the Internal Revenue Code (the "IRC") as a result of changes in ownership in the current quarter and prior years. NOLs have been reduced to the amount that is more likely than not to be utilized in future years due to the Section 382 Limitation. A valuation allowance has been recorded for these NOLs. The amount of NOLs we are able to utilize in future years could change should we engage in certain transactions such as the sale of assets and potentially impact the Company's tax provision in the period it occurs.

For federal and state income tax reporting purposes, the Company is not subject to income tax upon debt forgiveness income. Instead, we may reduce our tax attributes for the amount of debt forgiveness income that would otherwise be realized. The order in which tax attributes are reduced is prescribed by the IRC and can vary based upon elections allowed. Currently, we anticipate electing to reduce the basis in our depreciable property before reducing basis in NOLs. However, upon filing our federal income tax return for the current year, we may alternatively elect to reduce our NOLs prior to reducing basis in depreciable property. The choice between these alternatives would cause a difference from the current presentation of deferred tax assets and liabilities on the Successor balance sheet and the activity shown in the Fresh Start Balance Sheet disclosure as well as the tax provision in future years. Notwithstanding the foregoing, the terms of the SPA for the sale of RBH requires the Company to take positions, for federal income tax purposes, that will be contrary to the foregoing, both on a consolidated and separate company basis. However, the Company does not expect that doing so would have any material effect on the foregoing matters on a consolidated basis.

4. GOODWILLL AND INTANGIBLE ASSETS

Goodwill represents the excess of total acquisition costs over the fair market value of net assets acquired and liabilities assumed in a business combination. The Company recorded goodwill of $26.3 million upon the application of fresh-start reporting.

Intangible assets consist of the following (in thousands):

	Successor	
	Estimated life (years)	As of September 30, 2011 (unaudited)
Trade name	15	$ 3,700
Customer lists	3	8,200
Software	15	2,500
Total intangible assets		14,400
Less accumulated amortization:		
Trade name		(123)
Customer lists		(820)
Software		(83)
Total accumulated amortization		(1,026)
Intangible assets, net		$ 13,374

In connection with the adoption of fresh-start reporting, the Company recognized $3.7 million in a trade name related to the Riviera name, which will be amortized on a straight-line basis over fifteen years. Customer lists were valued at $8.2 million, representing the value associated with our customers under our customer loyalty programs and are being amortized on a straight-line basis over three years. Other intangibles of $2.5 million include the value of software which is amortized on a straight-line basis over fifteen years.

Intangible assets related to the Plan were valued using income and cost based methods as appropriate. The Riviera trade name was valued based on the relief from royalty method which is a function of projected revenue, the royalty rate that would hypothetically be charged by a licensor of an asset to unrelated licensee and a discount rate. The royalty rate was based on factors such as age, market competition, absolute and relative profitability, market share and prevailing rates for similar assets to reach a 1% royalty rate. The discount rate applied was 16%, based on the weighted average cost of capital of the properties benefiting from the trade name. The value assigned to customer lists is based on the present value of future earnings using the replacement cost method based on internally developed estimates.

Amortization expense for the Successor Period for those assets amortized was $1.0 million. Estimated annual amortization expense for the intangible assets of the Company for the years ended December 31, 2011 is $1.5 million and for 2012 through 2015 annual amortization expense is anticipated to be $2.1 million for each such year.

5. DEFERRED FINANCING COSTS

In accordance with ASC Topic 852, the unamortized deferred loan fee balance with respect to the Predecessor Credit Facility as of the Petition Date was written-off to expense. The unamortized deferred loan fee balance as of the Petition Date was $853 thousand.

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6. LONG TERM DEBT AND COMMITMENTS

Debt consists of the following (in thousands):

	Successor September 30 2011 (unaudited)	Predecessor December 31, 2010
Series A Term Loan, due April 1, 2016, interest at LIBOR plus 5%, 7% at September 30, 2011	$ 50,000	$ —
Working Capital Facility, due April 1, 2016, interest at LIBOR plus 5%, 7% at September 30, 2011	—	—
Series B Term Loan, due April 1, 2019 at LIBOR plus 3% and LIBOR plus 13% PIK, 5% and 15% respectively at September 30, 2011	21,545	—
Predecessor Term Loan (subject to compromise)	—	225,000
Predecessor Revolving Credit Facility (subject to compromise)	—	2,500
Interest Rate Swap (subject to compromise)	—	22,148
Capital lease obligations	81	115
Total debt	71,626	249,763
Less amounts subject to compromise	—	(249,648)
Less current portion of debt not subject to compromise	(44)	(44)
Total long-term debt, net	$ 71,582	$ 71

Successor

Series A Credit Agreement

On the Substantial Consummation Date, pursuant to the Plan, RHC entered into a first lien credit agreement (the "Series A Credit Agreement") with ROC and RBH, as guarantors, Cantor Fitzgerald Securities, as administrative agent, and the lenders from time to time party thereto. The Series A Credit Agreement provides for initial aggregate lender commitments of $60 million, including a $50 million term loan facility (the "Series A Term Loan") and a $10 million revolving loan (the "Working Capital Facility"). The Working Capital Facility provides for a letter of credit facility and a swingline loan facility with sublimits of $5 million and $2 million respectively. The Series A Credit Agreement has a maturity date of April 1, 2016. Availability of the revolving loans under the Working Capital Facility are subject to certain conditions provided for in the Series A Credit Agreement. The proceeds of extensions of credit under the Series A Credit Agreement can be used by RHC for working capital and other general corporate purposes.

Interest will accrue at a LIBOR Rate (as defined in the Series A Credit Agreement) for a specified interest period (with a floor of 2.0%) plus a margin rate of 5.0% per annum or the Alternate Base Rate (as defined below) plus a margin rate of 4.0% per annum. Alternate base rate ("Alternate Base Rate") interest is an alternate base rate equal to the highest of (i) the prime rate, as defined in the Series A Credit Agreement, (ii) the Federal Funds Effective rate (as defined in the Series A Credit Agreement) in effect on such day plus 1/2 of 1% and (iii) the LIBOR Rate that would be payable on such day for LIBOR Rate Loan (as defined in the Series A Credit Agreement) with one month interest period plus 1.00%.

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RHC is required to pay a quarterly unused commitment fee and customary fees to the administrative agent. RHC is also required to pay quarterly participation and fronting fees based on the amount of the letter of credit exposure of the applicable lenders and letter of credit issuers, respectively.

The obligations under the Series A Credit Agreement are guaranteed by RHC's Domestic Subsidiaries (as defined in the Series A Credit Agreement) pursuant to the terms of the Series A Credit Agreement and are secured by a first priority security interest on substantially all of RHC's and its Domestic Subsidiaries' assets, other than a deposit account into which the proceeds of the Series B Term Loan (as defined below) was deposited on the Substantial Consummation Date (the "Series B Term Loan Controlled Account"). Proceeds deposited in the Series B Term Loan Controlled Account are earmarked primarily for capital improvements.

The Series A Credit Agreement subjects RHC to certain customary affirmative covenants, including the delivery of financial statements and annual operating budgets. In addition, the Series A Credit Agreement contains customary restrictive covenants, including, but not limited to, restrictions on RHC's ability to incur additional indebtedness, create liens, make investments, pay dividends, and merge. As of September 30, 2011, the company is in compliance with all restrictive covenants related to the Series A and Series B Term Loans.

In addition, the Series A Credit Agreement contains provisions concerning customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults, certain events of bankruptcy and insolvency, judgment defaults, failure of any guarantee of the loan obligations or any loan document to be in full force and effect, the occurrence of a Change of Control (as defined in the Series A Credit Agreement), certain ERISA defaults and failure to keep any necessary casino licenses in full force and effect. If an event of default occurs and is continuing, amounts due under the Series A Credit Agreement may be accelerated, and the rights and remedies of the lenders under the Series A Credit Agreement may be exercised, including rights with respect to the collateral securing obligations under the Series A Credit Agreement.

Series B Credit Agreement

On the Substantial Consummation Date, pursuant to the Plan, RHC entered into a second lien credit agreement (the "Series B Credit Agreement") with ROC and RBH, as guarantors, Cantor Fitzgerald Securities, as administrative agent, and the lenders from time to time party thereto. The Series B Credit Agreement provides for, and governs the terms of, a $20 million term loan facility (the "Series B Term Loan").

The Series B Term Loan bears interest at a per annum rate equal to the sum of the LIBOR Rate (as defined in the Series B Credit Agreement) plus 3.0%, payable in cash, and the LIBOR Rate plus 13.00%, payable in kind in interest that will be recapitalized as principal. The Series B Credit Agreement has a maturity date of April 1, 2019.

RHC is required to pay a customary fee to the administrative agent. The obligations under the Series B Credit Agreement are guaranteed by RHC's Domestic Subsidiaries (as defined in the Series B Credit Agreement) pursuant to the terms of the Series B Credit Agreement and are secured by (i) a first priority security interest on Series B Term Loan Controlled Account and (ii) a second priority security interest on substantially all of RHC's and its Domestic Subsidiaries' other assets.

The Series B Credit Agreement subjects RHC to certain customary affirmative covenants, including the delivery of financial statements and annual operating budgets. In addition, the Series B Credit Agreement contains customary restrictive covenants, including, but not limited to, restrictions on RHC's ability to incur additional indebtedness, create liens, make investments, pay dividends, and merge. As of September 30, 2011, the company is in compliance with all restrictive covenants related to the Series A and Series B Term Loans.

In addition, the Series B Credit Agreement contains provisions concerning customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults, certain events of bankruptcy and insolvency, judgment defaults, failure of any guarantee of the loan obligations or any loan document to be in full force and effect, the occurrence of a Change of Control (as defined in the Series B Credit Agreement), certain ERISA defaults and failure to keep any necessary casino licenses in full force and effect. If an event of default occurs and is continuing, amounts due under the Series B Credit Agreement may be accelerated and the rights and remedies of the lenders under the Series B Credit Agreement may be exercised, including rights with respect to the collateral securing obligations under the Series B Credit Agreement.

Predecessor

The Predecessor Credit Facility – Subject to Compromise

On June 8, 2007, RHC and its restricted subsidiaries, namely ROC, Riviera Gaming Management of Colorado, Inc. and RBH (collectively, the "Subsidiaries"), entered into a $245 million Credit Agreement (the "Credit Agreement," together with related security agreements and other credit-related agreements, the "Predecessor Credit Facility") with Wachovia Bank, National Association ("Wachovia"), as administrative agent. On February 22, 2010, the Company received a notice from Wachovia informing the Company that Wachovia was resigning as administrative agent. The Company executed a Successor Agent Agreement with Cantor Fitzgerald Securities, a new administrative agent, effective April 12, 2010.

The Predecessor Credit Facility included a $225 million seven-year term loan ("Predecessor Term Loan") which had no amortization for the first three years, a one percent amortization for years four through nine, and a full payoff in year seven, in addition to an annual mandatory pay down during the term of 50% of excess cash flows, as defined therein. The Predecessor Credit Facility also included a $20 million five-year revolving credit facility ("Predecessor Revolving Credit Facility") under which RHC could obtain extensions of credit in the form of cash loans or standby letters of credit ("Standby L/Cs"). Pursuant to Section 2.6 of the Credit Agreement, on June 5, 2009, the Company voluntarily reduced the Predecessor Revolving Credit Facility commitment from $20 million to $3 million. RHC was permitted to prepay the Predecessor Credit Facility without premium or penalties, except for payment of any funding losses resulting from prepayment of LIBOR Rate Loans (as defined in the Credit Agreement). The rate for the Predecessor Term Loan and Predecessor Revolving Credit Facility was LIBOR plus 2.0%. Pursuant to a floating rate to fixed rate swap agreement (the "Swap Agreement") that became effective June 29, 2007 and that the Company entered into under the Predecessor Credit Facility, substantially the entire Predecessor Term Loan portion of the Predecessor Credit facility, with quarterly step-downs, bore interest at an effective fixed rate of 7.485% per annum (2.0% above the LIBOR Rate in effect on the lock-in date of the Swap Agreement). The Swap Agreement specified that the Company paid an annual interest rate spread on a notional balance that approximates the Predecessor Term Loan balance and steps down quarterly. The interest rate spread was the difference between the LIBOR rate and 5.485%, and the notional balance was $186.5 million as of September 30, 2010. The Predecessor Credit Facility was guaranteed by the Subsidiaries and was secured by a first priority lien on substantially all of the Company's assets.

RHC used substantially all of the proceeds of the Predecessor Term Loan to discharge its obligations under the Indenture, dated June 26, 2002 (the "Indenture"), with The Bank of New York as trustee (the "Trustee"), governing the Senior Secured Notes issued by the Company on June 26, 2002 (the "11% Notes"). On June 8, 2007, RHC deposited these funds with the Trustee and issued to the Trustee a notice of redemption of the 11% Notes, which was finalized on July 9, 2007.

Prior to the credit defaults described below under the caption “Credit Defaults” (the “2009 Credit Defaults”), the interest rate on loans under the Predecessor Revolving Credit Facility depended on whether they were in the form of revolving loans or swingline loans (“Swingline Loans”). Prior to the 2009 Credit Defaults, the interest rate for each revolving loan depended on whether RHC elected to treat the loan as an “Alternate Base Rate” loan (“ABR Loan”) or a LIBOR Rate Loan, and Swingline Loans bore interest at a per annum rate equal to the Alternative Base Rate (as defined in the Credit Agreement), plus the Applicable Percentage for revolving loans that were ABR Loans. As a result of the 2009 Credit Defaults, the Company no longer had the option to request the LIBOR Rate Loans. As of March 31, 2011, the Company had $2.5 million outstanding against the Predecessor Revolving Credit Facility.

The Company also paid fees under the Predecessor Revolving Credit Facility as follows: (i) a commitment fee in an amount equal to either 0.50% or 0.375% (depending on the Consolidated Leverage Ratio (as defined in the Credit Agreement)) per annum on the average daily unused amount of the Predecessor Revolving Credit Facility, (ii) Standby L/C (as defined in the Predecessor Credit Agreement) fees equal to between 2.00% and 1.50% (depending on the Consolidated Leverage Ratio) per annum on the average daily maximum amount available to be drawn under each Standby L/C issued and outstanding from the date of issuance to the date of expiration, and (iii) a Standby L/C facing fee in the amount of 0.25% per annum on the average daily maximum amount available to be drawn under each Standby L/C. In addition to the Predecessor Revolving Credit Facility fees, the Company paid Cantor Fitzgerald Securities an annual administrative fee of $50,000.

Predecessor Credit Facility contained affirmative and negative covenants customary for financings of this nature including, but not limited to, restrictions on incurrence of other indebtedness.

The Predecessor Credit Facility contained provisions concerning events of default customary for financings of this nature, including, but not limited to, nonpayment of principal, interest, fees or other amounts when due; violation of covenants; failure of any representation or warranty to be true in all material respects; cross-default and cross-acceleration under our other indebtedness or certain other material obligations; certain events under federal law governing employee benefit plans; a “change of control” of RHC; dissolution; insolvency; bankruptcy events; material judgments; uninsured losses; actual or asserted invalidity of the guarantees or the security documents; and loss of any gaming licenses. Some of these events of default provided for grace periods and materiality thresholds. For purposes of these default provisions, a “change in control” included: a person’s acquisition of beneficial ownership of 35% or more of RHC’s stock, coupled with a gaming license and/or approval to direct any of our gaming operations, a change in a majority of the members of our Board of Directors (the “Board”) other than as a result of changes supported by its current Board members or by successors who did not stand for election in opposition to our current Board, or our failure to maintain 100% ownership of the Subsidiaries.

The Predecessor Credit Facility was guaranteed by the Subsidiaries, which comprise all of the Company’s restricted subsidiaries. These guaranties were full, unconditional, and joint and several. RHC’s unrestricted subsidiaries, which have no operations and do not significantly contribute to the Company’s financial position or results of operations, were not guarantors of the Predecessor Credit Facility.

Credit Defaults

As previously disclosed on a Form 8-K filed with the SEC on March 4, 2009, the Company received a notice of default on February 26, 2009 (the "February Notice") from Wachovia with respect to the Predecessor Credit Facility in connection with the Company's failure to provide a Deposit Account Control Agreement, or DACA, from each of the Company's depository banks per a request made by Wachovia to the Company on October 14, 2008. The DACA that Wachovia requested the Company to execute was in a form that the Company ultimately determined to contain unreasonable terms and conditions as it would enable Wachovia to access all of the Company's operating cash and order it to be transferred to a bank account specified by Wachovia. The February Notice further provided that, as a result of the default, the Company would no longer have the option to request the LIBOR Rate Loans described above. Consequently, the Predecessor Term Loan was converted to an ABR Loan effective March 31, 2009.

On March 25, 2009, the Company engaged XRoads Solution Group LLC as our financial advisor. Based on an extensive analysis of our current and projected liquidity, and with our financial advisor's input, we determined it was in the best interests of the Company to not pay the Predecessor Credit Facility and Swap Agreement accrued interest. Consequently, we elected not to make these payments during 2009 and for the nine months ended September 30, 2010. The Company's failure to pay interest due on any loan within the Predecessor Credit Facility within a three-day grace period from the due date was an event of default under the Predecessor Credit Facility. As a result of this event of default, the Company's lenders had the right to seek to charge additional default interest on the Company's outstanding principal and interest under the Credit Agreement, and automatically charge additional default interest on any overdue amounts under the Swap Agreement. These default rates were in addition to the interest rates that would otherwise be applicable under the Credit Agreement and Swap Agreement.

As previously disclosed on a Form 8-K filed with the SEC on April 6, 2009, the Company received an additional notice of default on April 1, 2009 (the "April Default Notice") from Wachovia. The April Default Notice alleged that, subsequent to the Company's receipt of the February Notice, additional defaults and events of default had occurred and were continuing under the terms of the Credit Agreement, including, but not limited to: (i) the Company's failure to deliver to Wachovia audited financial statements without a "going concern" modification; (ii) the Company's failure to deliver Wachovia a certificate of an independent certified public accountant in conjunction with the Company's financial statement; and (iii) the occurrence of a default or breach under a secured hedging agreement. The April Default Notice also stated that, in addition to the foregoing events of default, that there were additional potential events of default as a result of, among other things, the Company's failure to pay: (i) accrued interest on the Company's LIBOR Rate Loan on March 30, 2009 (the "LIBOR Payment"), (ii) the commitment fee on March 31, 2009 (the "Commitment Fee Payment"), and (iii) accrued interest on the Company's ABR Loans on March 31, 2009 (the "ABR Payment" and, together with the LIBOR Payment and Commitment Fee Payment, the "March 31st Payments"). The Company did not pay the March 31st Payments, and the applicable grace period to make these payments expired. The April Default Notice stated that as a result of these events of defaults, (a) all amounts owing under the Credit Agreement thereafter would bear interest, payable on demand, at a rate equal to: (i) in the case of principal, 2% above the otherwise applicable rate; and (ii) in the case of interest, fees and other amounts, the ABR Default Rate (as defined in the Credit Agreement), which as of April 1, 2009 was 6.25%; and (b) neither Swingline Loans nor additional Revolving Loans were available to the Company at the time.

As a result of the February Notice and the April Default Notice, effective March 31, 2009, the Predecessor Term Loan interest rate increased to approximately 10.5% per annum, and effective, April 1, 2009, the Predecessor Revolving Credit Facility interest rate was approximately 6.25% per annum.

On April 1, 2009, we also received Notice of Event of Default and Reservation of Rights (the “Swap Default Notice”) in connection with an alleged event of default under our Swap Agreement. Receipt of the Swap Default Notice was previously disclosed on a Form 8-K filed with the SEC on April 6, 2009. The Swap Default Notice alleged that (i) an event of default existed due to the occurrence of an event of default(s) under the Credit Agreement and (ii) that the Company failed to make payments to Wachovia with respect to one or more transactions under the Swap Agreement. The Company did not pay the overdue amount, and the applicable grace period to make this payment expired. As previously announced by the Company, any default under the Swap Agreement automatically resulted in an additional default interest of 1% on any overdue amounts under the Swap Agreement. This default rate was in addition to the interest rate that would otherwise be applicable under the Swap Agreement.

On July 23, 2009, the Company received a Notice of Early Termination for Event of Default (the “Early Termination Notice”) from Wachovia in connection with an alleged event of default that occurred under the Swap Agreement. Receipt of the Early Termination Notice was previously disclosed on a Form 8-K filed with the SEC on July 29, 2009. The Early Termination Notice alleged that an event of default had occurred and was continuing pursuant to Sections 5(a)(i) and 5(a)(vi)(1) of the Swap Agreement. Section 5(a)(i) of the Swap Agreement addressed payments and deliveries specified under the Swap Agreement, and Section 5(a)(vi)(1) of the Swap Agreement addressed cross defaults. The Early Termination Notice provided that Wachovia designated an early termination date of July 27, 2009 in respect of all remaining transactions governed by the Swap Agreement, including an interest rate swap transaction with a trade date of May 31, 2007.

On July 28, 2009, in connection with the Early Termination Notice, the Company received a Notice of Amount Due Following Early Termination from Wachovia that claimed the amount due and payable to Wachovia under the Swap Agreement was $26.6 million, which included $4.4 million in accrued interest. As a result of the Early Termination Notice, the interest rates for the Predecessor Term Loan and Predecessor Revolving Credit Facility balances were no longer locked and became subject to changes in underlying LIBOR rates and varied based on fluctuations in the Alternative Base Rate and Applicable Margins (as defined in the Credit Agreement). As of March 31, 2011, the Predecessor Term Loan and Predecessor Revolving Credit Facility bore interest at approximately 6.25%. As of March 31, 2011, the interest rate swap liability was $22.1 million, which equaled the mark-to-market amount reflected as due and payable on the Notice of Amount Due Following Early Termination described above.   Additionally, accrued interest as of March 31, 2011 included $5.7 million in accrued interest related to the interest rate swap comprised of $4.4 million in accrued interest as reflected on the Notice of Amount Due Following Early Termination, plus $1.3 million in default interest pursuant to the Swap Agreement termination.

Bankruptcy Proceedings

On the Substantial Consummation Date, the Predecessor Credit Facility and the Swap Agreement were terminated upon the Company's emergence from reorganization proceedings under the United States Bankruptcy Code. The Company's reorganization proceedings are further described in Note 1. Also, upon the Substantial Consummation Date, the Company entered into the Series A Credit Agreement and the Series B Credit Agreement. The terms of the Series A Credit Agreement and the Series B Credit Agreement are described above in this Note 6 under the captions "Successor – Series A Credit Agreement" and "Successor – Series B Credit Agreement," respectively.

Guarantor Information

The Predecessor Credit Facility was guaranteed by the Subsidiaries, which are all of the restricted subsidiaries. These guaranties were full, unconditional, and joint and several. RHC's unrestricted subsidiaries, which have no operations and do not significantly contribute to the financial position or results of operations, were not guarantors of the Predecessor Credit Facility.

7. LIABILITIES SUBJECT TO COMPROMISE (PREDECESSOR)

Under bankruptcy law, actions by creditors to collect upon liabilities of the Debtors incurred prior to the Petition Date were stayed, and certain other pre-petition contractual obligations were not allowed to be enforced against the Debtors without approval of the Bankruptcy Court. In accordance with ASC Topic 852, these liabilities were classified as liabilities subject to compromise in our condensed consolidated balance sheet as of December 31, 2010 and were adjusted to the expected amount of the allowed claims, even if they may be settled for lesser amounts. Adjustments to the claims may result from negotiations, payments authorized by the Bankruptcy Court, interest accruals, or other events. Liabilities subject to compromise were classified separately from long-term obligations and current liabilities in the accompanying condensed consolidated balance sheets.

In accordance with ASC Topic 852, interest expense was recognized only to the extent it would be paid during the bankruptcy proceedings or that it would be an allowed claim. As a result, the Company accrued interest on the Predecessor Credit Facility and interest rate swap under the Swap Agreement through the Petition Date. No interest was accrued on the Predecessor Credit Facility or the interest rate swap after the Petition Date.

Liabilities subject to compromise consist of the following (in thousands):

		Predecessor As of December 31, 2010
Predecessor Term Loan	$	225,000
Predecessor Revolving Credit Facility		2,500
Interest Rate Swap		22,148
Accrued Interest		25,985
Accounts Payable		949
Total Liabilities Subject to Compromise	$	276,582

8. SHARE-BASED PAYMENTS (PREDECESSOR)

Predecessor estimated the fair value of each director or employee option grant on the date of the grant using the Black-Scholes option pricing model. Predecessor recognized the fair value of option grants as share-based compensation expense in conjunction with the option vesting period.

Restricted stock was issued to several key management team members and directors in 2005 and was recognized on a straight-line basis over a five-year vesting period. The vesting period commenced on the issuance date and ended during the first quarter of 2010. As a result, the Company recorded no expense for restricted stock during the three months ended September 30, 2011. The Company expensed $67,000 for restricted stock during the nine months ended September 30, 2010. The activity for all stock options outstanding as of March 31, 2011 was as follows:

	Shares	Weighted Average Share Exercise Price	Remaining Life	Aggregate Intrinsic Value
Outstanding as of December 31, 2010	204,000	$ 7.93		
Options Granted	-	-		
Options Exercised	-	-		
Options Forfeited	-	-		
Outstanding as of March 31, 2011	204,000	$ 7.93	5.09 years	$-0-

All share-based payment arrangements were terminated upon the Substantial Consummation Date.

9. STOCKHOLDERS EQUITY (SUCCESSOR)

Common Stock

On the Substantial Consummation Date, RHC amended and restated its articles of incorporation and changed its authorized capital. As a result, the Company is authorized to issue up to 10,000,011 shares of common stock, consisting of (i) 10 Class A Shares, par value $0.001 per share (the “Class A Voting Common Stock”), and (ii) 10,000,001 Class B Shares, par value $0.001 per share (the “Class B Non-Voting Common Stock”), of which 10 shares of Class A Voting common stock, and 9,039,035 shares of Class B Non-Voting Common Stock were issued and outstanding as of September 30, 2011.

On the Substantial Consummation Date, pursuant to the Plan, the Company, Riviera Voteco, L.L.C. (“Voteco”), the stockholder holding 100% of the Class A Voting Common Stock, and certain stockholders holding a majority of the Class B Non-Voting Common Stock entered into a Stockholders Agreement (the “Stockholders Agreement”). The Stockholders Agreement, among other things, contemplates an agreed composition of the Company’s Board of Directors and prohibits the transfer of the Class A Voting Common Stock and Class B Non-Voting Common Stock unless Voteco determines that such transfer is not to a person who is a competitor of, or otherwise adverse to, the Company, and the Company is reasonably satisfied that such transfer will comply with certain requirements relating to securities, regulatory and other specified laws. Any purported transfer of the Class A Voting Common Stock and Class B Non-Voting Common Stock will be null and void if not made in compliance with all applicable gaming laws and following receipt of all required gaming approvals. The Stockholders Agreement also subjects transfers of Class B Non-Voting Common Stock, other than to certain affiliated transferees, to specified tag-along rights, drag-along rights, and a right of first offer. In addition, the Stockholders Agreement contains agreements among the parties with respect to certain governance matters, including director appointment and board observer rights, restrictions on the issuance of shares of Class A Voting Common Stock, Class B Non-Voting Common Stock and other equity securities of the Company or other rights convertible to or to acquire such securities, restrictions on distributions, repurchases and pledges of Class B Non-Voting Common Stock, registration rights with respect to holders of Class B Non-Voting Common Stock, rights to indemnification and contribution and provisions related to conflicts of interests and transactions with affiliates.

Preferred Stock

We are authorized to issue up to 500,000 shares of preferred stock, $0.01 par value per share, of which none were issued as of September 30, 2011. The Board, without further action by the holders of common stock, may issue shares of preferred stock in one or more classes or series and to fix for each such class or series such voting powers, preferences and relative participating, optional or other special rights, and such qualifications, limitations or restrictions thereof. The Board of Directors, without further stockholder approval, may issue shares of preferred stock with rights that could adversely affect the rights of the holders of common stock.

Warrants

In accordance with the Plan, holders of the Predecessor Credit Facility who elected to participate in the designated new money investment and Working Capital Facility received Class B Warrants to purchase an aggregate of 950,000 shares of our Class B Non-Voting Common Stock. The Class B Warrants do not have a stated term; the stated exercise price is $0.01 per share. The Company evaluated the Class B Warrants under current accounting pronouncements and determined they were properly classified as equity on the accompanying condensed consolidated balance sheet. The Company valued the shares of Class B Non-Voting Common Stock with attached Class B Warrants using the Chaffee option valuation model assuming a life of 1 and 1.5 years, volatility factors of 48.5% and 53.18%, risk free rates of .27% and .54% and implied discounts for lack of marketability of 20% and 25%, respectively. The resulting value of the Class B Warrants with attached shares of Class A Voting Common Stock or Class B Non-Voting Common Stock with attached Class A Warrants is $17.72 and $16.61 per share, respectively, for a total value of $16.3 million.

On August 2, 2011, 489,035 warrants were exercised for Class B shares at the stated exercise price of $0.01 per share. The holders received 489,035 shares of Class B Non-Voting Common Stock as a result.

10. FAIR VALUE MEASUREMENT

The fair values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate carrying values due to the short maturity of these items.

Fair value is defined in the authoritative guidance as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a framework for measuring fair value and expands disclosures about fair value measurements. The fair value framework requires the categorization of assets and liabilities into three levels based upon assumptions (inputs) used to price the assets and liabilities. Level 1 provides the most reliable measure of fair value, whereas, Level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

On July 27, 2009, the Company received from Wachovia a Notice of Amount Due Following Early Termination of the Swap Agreement (see “Credit Defaults” within Note 4). As a result, the mark-to-market interest rate swap liability was adjusted to $22.1 million which is the balance as of December 31, 2010 and reflects the amount due and payable pursuant to the Notice of Amount Due Following Early Termination. In accordance with ASC Topic 852, the interest rate swap liability was classified as a liability subject to compromise in our condensed consolidated balance sheets as of December 31, 2010.

As of September 30, 2011, the Company had assets and/or liabilities required to be measured at fair value on a recurring basis. These assets were measured at fair value on the Substantial Consummation Date based on Level 2 inputs which approximates the fair value as of September 30, 2011.

11. DISCONTINUED OPERATIONS

RBH is presented as discontinued operations in the accompanying statement of operations for the Successor Period while the assets and liabilities are presented as held for sale in the accompanying balance sheet as of September 30, 2011 due to the pending sale, as discussed in Note 1.

Assets and liabilities of RBH are summarized as follows:

(In thousands)	Successor September 30, 2011 (unaudited)
Cash and cash equivalents	$