RIVIERA HOLDINGS CORP
Form 10-Q
November 10, 2008

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Mark One
[X]QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

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) |

(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 X 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 _X_

Non-accelerated filer ___ (Do not check if smaller reporting company)

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 _X__

As of November 4, 2008, there were 12,498,555 shares of Common Stock, $.001 par value 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 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 generally accepted accounting principles 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 and nine months ended September 30, 2008 and 2007 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, 2007, included in our Annual Report on Form 10-K.



RIVIERA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| (In thousands, except share amounts) | September 30 2008 (unaudited) | December 31 2007 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 20,532 | $ 28,819 |
| Restricted cash and investments | 2,772 | 2,772 |
| Accounts receivable, net of allowances of $277 and $437, respectively | 2,516 | 3,563 |
| Inventories | 968 | 1,455 |
| Prepaid expenses and other assets | 3,039 | 3,602 |
| Total current assets | 29,827 | 40,211 |
| PROPERTY AND EQUIPMENT, net | 183,283 | 172,865 |
| OTHER ASSETS, net | 2,710 | 2,940 |
| DEFERRED INCOME TAXES, net | 2,446 | 2,446 |
| TOTAL | $ 218,266 | $ 218,462 |
| LIABILITIES AND SHAREHOLDERS' DEFICIENCY | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | $ 297 | $ 226 |
| Current portion of obligation to officers | 1,000 | 1,000 |
| Notes payable | 2,500 | - |
| Accounts payable | 11,529 | 10,972 |
| Accrued interest | 69 | 188 |
| Accrued expenses | 11,890 | 14,279 |
| Total current liabilities | 27,285 | 26,665 |
| OBLIGATION TO OFFICER - net of current portion | 285 | 1,063 |
| OBLIGATION UNDER SWAP AGREEMENT | 11,655 | 13,272 |
| LONG-TERM DEBT - Net of current portion | 225,320 | 225,288 |
| Total liabilities | 264,545 | 266,288 |

| | | |
|---|---|---|
| COMMITMENTS and CONTINGENCIES (Note 7) | | |
| SHAREHOLDERS' DEFICIENCY: | | |
| Common stock ($.001 par value; 60,000,000 shares authorized, 17,166,624 and 17,124,624 shares issued at September 30, 2008 and December 31, 2007, respectively, and 12,498,555 and 12,456,555 shares outstanding at September 30, 2008 and December 31, 2007, respectively) | 17 | 17 |
| Additional paid-in capital | 19,646 | 18,925 |
| Treasury stock (4,668,069 shares at September 30, 2008 and December 31, 2007, respectively) | (9,635) | (9,635) |
| Accumulated deficit | (56,307) | (57,133) |
| Total shareholders' deficiency | (46,279) | (47,826) |
| TOTAL | $ 218,266 | $ 218,462 |

See notes to condensed consolidated financial statements



RIVIERA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2008 AND 2007

| (In thousands, except per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| REVENUES: | 2008 | 2007 | 2008 | 2007 |
| Casino | $ 21,516 | $ 28,935 | $ 71,062 | $ 87,941 |
| Rooms | 12,138 | 14,812 | 41,561 | 46,276 |
| Food and beverage | 6,939 | 7,976 | 22,487 | 24,937 |
| Entertainment | 3,549 | 4,102 | 10,182 | 9,959 |
| Other | 1,657 | 1,684 | 5,136 | 5,041 |
| Total revenues | 45,799 | 57,509 | 150,428 | 174,154 |
| Less - promotional allowances | (5,591) | (5,129) | (16,643) | (16,082) |
| Net revenues | 40,208 | 52,380 | 133,785 | 158,072 |
| COSTS AND EXPENSES: | | | | |
| Direct costs and expenses of operating departments: | | | | |
| Casino | 11,494 | 13,849 | 36,333 | 42,460 |
| Rooms | 6,377 | 7,520 | 19,645 | 21,619 |
| Food and beverage | 5,007 | 6,129 | 16,349 | 18,608 |
| Entertainment | 2,023 | 2,684 | 6,384 | 6,353 |
| Other | 315 | 368 | 971 | 1,043 |
| Other operating expenses: | | | | |
| General and administrative: | | | | |
| Share-based compensation | 188 | 206 | 620 | 759 |
| Selling, general and adminstrative | 10,631 | 11,496 | 30,561 | 31,924 |
| Mergers, acquisitions and development costs | 59 | 160 | 104 | 448 |
| Depreciation and amortization | 3,919 | 3,304 | 10,879 | 9,794 |

| | | | | |
|---|---|---|---|---|
| Total costs and expenses | 40,013 | 45,716 | 121,846 | 133,008 |
| INCOME FROM OPERATIONS | 195 | 6,664 | 11,939 | 25,064 |
| OTHER INCOME (EXPENSE) | | | | |
| Unrealized gain (loss) on derivatives | 615 | (7,471) | 1,617 | (6,644) |
| Loss on retirement of debt | - | (12,878) | - | (12,878) |
| Interest expense, net | (4,274) | (4,569) | (12,730) | (17,660) |
| Other income (expense), net | (3,659) | (24,918) | (11,113) | (37,182) |
| NET INCOME (LOSS) | $ (3,464) | $ (18,254) | $ 826 | $ (12,118) |
| INCOME (LOSS) PER SHARE DATA: | | | | |
| Income (loss) per share: | | | | |
| Basic | $ (0.28) | $ (1.48) | $ 0.07 | $ (0.98) |
| Diluted | $ (0.28) | $ (1.48) | $ 0.07 | $ (0.98) |
| Weighted-average common shares outstanding | 12,412 | 12,326 | 12,387 | 12,303 |
| Weighted-average common and common equivalent shares | 12,412 | 12,326 | 12,547 | 12,303 |

See notes to condensed consolidated financial statements



RIVIERA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(in thousands)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | $ 826 | $(12,118) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 10,879 | 9,794 |
| Provision for bad debts, net | 222 | 214 |
| Stock Compensation - Restricted Stock | 462 | 588 |
| Stock Compensation - Stock Options | 158 | 171 |
| Loss on retirement of debt | - | 12,878 |
| Amortization of deferred loan fees | 255 | 868 |
| (Increase)Decrease on swap fair value | (1,617) | 6,644 |
| Changes in operating (assets) and liabilities: | | |
| Accounts receivable | 825 | (1,586) |
| Inventories | 487 | 313 |
| Prepaid expenses and other assets | 539 | 241 |
| Accounts payable | (2,551) | (980) |
| Accrued interest | (119) | (910) |
| Accrued expenses | (2,389) | 1,910 |
| Deferred compensation plan liability | (28) | (24) |

| | | |
|---|---|---|
| Obligation to officers | (750) | (750) |
| Net cash provided by operating activities | 7,199 | 17,253 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures - Las Vegas, Nevada | (16,349) | (4,530) |
| Capital expenditures - Black Hawk, Colorado | (1,610) | (1,561) |
| Restricted cash and investments | - | (2,772) |
| Net cash used in investing activities | (17,959) | (8,863) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on long-term borrowings | (127) | (223,798) |
| Increase in deferred loan costs | - | (1,902) |
| Proceeds from exercise of stock options | 100 | - |
| Proceeds from line of credit | 2,500 | - |
| Proceeds from issuance of long-term debt | - | 225,000 |
| Net cash provided by (used in) financing activities | 2,473 | (700) |
| (DECREASE)INCREASE IN CASH AND CASH EQUIVALENTS | (8,287) | 7,690 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 28,819 | 25,285 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 20,532 | $ 32,975 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES: | | |
| Property acquired with debt and accounts payable | $ 3,338 | $ 439 |
| Cash paid for interest | $ 12,759 | $ 17,958 |

See notes to condensed consolidated financial statements



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 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.

Principles of Consolidation

The consolidated financial statements include the accounts of RHC and its direct and indirect wholly-owned subsidiaries. All material intercompany accounts and

transactions have been eliminated.

Reclassifications

Certain reclassifications, having no effect on net income 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.

Earnings Per Share

Basic net income (loss) per share amounts are computed by dividing net income (loss) by weighted average shares outstanding during the period. Diluted net income (loss) per share amounts are computed by dividing net income (loss) by weighted average shares outstanding, plus, the dilutive effect of common share equivalents during the period. The Company incurred a loss during the three month periods ended September 30, 2008 and 2007 and the nine month periods ended September 30, 2007 and, as a result 128,373, 267,801 and 266,385 of potentially dilutive options and non-vested restricted shares, respectively, were excluded from the diluted net loss per share calculation as the effect would be anti-dilutive. Additionally, there were 72,000 and 24,000 potentially dilutive non-employee, director options that were excluded from the diluted net income (loss) per share calculation for the three and nine months ended September 30, 2008 and September 30, 2007, respectively, as the options' strike price exceeded the underlying stock price as of September 30, 2008.



Income Taxes

The income tax provision, if any, for the three and nine months ended September 30, 2008 and 2007, were fully offset by the utilization of loss carryforwards for which a valuation allowance had been previously provided. Based on the history of net operating losses, and current year losses, it is more likely than not that the Company will not be able to recognize the deferred assets. As such, a valuation allowance has been established and the current year tax benefit has not been recognized.

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. The Company does not believe there will be any material changes in our unrecognized tax positions over the next 12 months. The Company does 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 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

This cash is held as a certificate of deposit for the benefit of the State of Nevada Workers Compensation Division as a requirement of our being self-insured for Workers Compensation. The cash is held in a one-year certificate of deposit, which matures in 2009. We do not believe this certificate of deposit will be required after it matures in 2009 and as such the certificate of deposit is held as a current asset.

Mergers, Acquisitions and Development Costs

Mergers, acquisitions and development costs consist of associated legal fees.

Derivative Instruments

The Company accounts for derivative instruments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and all amendments and interpretations thereto. SFAS No. 133 requires that all derivative instruments be recognized in the financial statements at fair value. Any changes in fair value are recorded in the statements of operations, depending on whether the derivative is designated and qualifies for hedge accounting, the type of hedge transaction and the effectiveness of the hedge. The estimated fair value of our derivative instruments is based on Level 2 market prices obtained from dealer quotes. Such



quotes represent the estimated amounts we would receive or pay to terminate the contracts. The Company uses an interest rate swap to manage the mix of our debt between fixed and variable rate instruments, which were entered into on June 8, 2007. As of September 30, 2008, the Company has one interest rate swap agreement for the notional amount of $215 million. The Company has determined that the interest rate swap does not meet the requirements to qualify for hedge accounting and have therefore recorded a $615,000 gain and a $7.5 million loss for the change in fair value of this derivative instrument in the condensed consolidated statements of operations for the three month period ended September 30, 2008 and 2007, respectively. The Company has recorded a $1.6 million gain and a $6.6 million loss for the change in fair value of this derivative instrument in the condensed consolidated statements of operations for the nine month period ended September 30, 2008 and 2007, respectively.

Recent Accounting Pronouncements

In May 2008, the FASB issued SFAS 162, "The Hierarchy of Generally Accepted Accounting Principles", which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS 162 will become effective sixty days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The adoption of the provisions of SFAS 162 is not anticipated to materially impact our consolidated financial statements.

In March 2008, the Financial Accounting Standards Board ("FASB") released ("SFAS") No. 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS No. 161 requires additional disclosures related to the use of derivative instruments, the accounting for derivatives and the financial statement impact of derivatives. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. The Company is currently assessing the impact the adoption of SFAS No. 161 will have on the condensed consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, which defers

the effective date of SFAS 157 for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the entity's financial statements on a recurring basis to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We are evaluating SFAS 157 as it relates to nonfinancial assets and have not yet determined the impact the adoption will have on our consolidated financial statements.

In December 2007, FASB released SFAS No. 141(R), "Business Combinations," to establish accounting and reporting standards to improve the relevance, comparability and transparency of financial information that an acquirer would provide in its consolidated financial statements from a business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact the adoption of SFAS No. 141(R) will have on the Company's consolidated financial position and results of operations.

In December 2007, FASB also released SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements -- an amendment of Accounting Research Bulletin No. 51," to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact the adoption of SFAS No. 160 will have on the Company's consolidated financial position and results of operations and does not believe it will have a material impact.



2. OTHER ASSETS

Other assets included deferred loan fees of $1.5 million and $1.7 million as of September 30, 2008 and December 31, 2007, respectively. The deferred loan fees were associated with refinancing our debt on June 8, 2007. The Company is amortizing the deferred loan fees over the term of the loan.

3. LONG TERM DEBT AND COMMITMENTS

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 "New Credit Facility") with Wachovia Bank, National Association ("Wachovia"), as administrative agent.

The New Credit Facility includes a $225 million seven-year term loan ("Term Loan"), with no amortization for the first three years, a one percent amortization for each of years four through six, and a full payoff in year seven, in addition to an annual mandatory pay down of 50% of excess cash flows, as defined. The New Credit Facility also includes a $20 million five-year revolving credit facility ("Revolving Credit Facility") under which RHC can obtain extensions of credit in the form of cash loans or standby letters of credit ("Standby L/Cs"). RHC is permitted to prepay the New Credit Facility without premium or penalties except for payment of any funding losses resulting from prepayment of any LIBOR rate loans. The rate for the Term Loan was LIBOR plus 2.0%. Pursuant to a floating rate to fixed rate swap agreement that became effective June 29, 2007 that RHC entered into under the New Credit Facility, substantially the entire Term Loan, with quarterly step-downs, bears interest at an effective fixed rate of 7.485% (7.405% for 2008) per annum (2.0% above the LIBOR Rate in effect on the lock-in date of the swap agreement). The New Credit Facility is guaranteed by the Subsidiaries and is secured by a first priority lien on substantially all of the Company's assets.

The Company used substantially all of the proceeds of the 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 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 executed on July 9, 2007.

The interest rate on loans under the Revolving Credit Facility will depend on whether they are in the form of revolving loans or swing line loans. For each revolving loan, the interest rate will depend on whether RHC elects to treat the loan as an "Alternate Base Rate" loan ("ABR Loan") or a LIBOR Rate loan. Swing line loans will bear interest at a per annum rate equal to the Alternative Base Rate plus the Applicable Percentage for revolving loans that are ABR Loans. The applicable percentage for swing line loans ranges from 0.50% to 1% depending on the Consolidated Leverage Ratio as defined in our New Credit Facility Credit Agreement.

RHC will also pay fees under the Revolving Credit Facility as follows: (i) a commitment fee in an amount equal to either .50% or 0.375% (depending on the Consolidated Leverage Ratio) per annum on the average daily unused amount of the Revolving Credit Facility; (ii) Standby L/C 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 Revolving Credit Facility fees, RHC will pay an annual administrative fee of $35,000.



The New Credit Facility contains affirmative and negative covenants customary for financings of this nature including, but not limited to, restrictions on RHC's incurrence of other indebtedness.

The New Credit Facility contains 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 RHC's 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 provide for grace periods and materiality thresholds. For purposes of these default provisions, a "change in control" of RHC includes: 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 RHC's gaming operations, a change in a majority of the members of RHC's board of directors other than as a result of changes supported by RHC's current board members or by successors who did not stand for election in opposition to RHC's current board, or RHC's failure to maintain 100% ownership of the Subsidiaries.

Guarantor Information

The New Credit Facility is guaranteed by the Subsidiaries, which are all of the restricted subsidiaries. These guaranties are 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, are not guarantors of the New Credit Facility.

4. STOCK REPURCHASES

There were no shares of RHC common stock purchased by the Deferred Compensation Plan for the three months ended September 30, 2008 or 2007. The Deferred Compensation Plan distributed to participants 94,324 shares for the nine months ended September 30, 2007. No distribution was made for the nine months ended September 30, 2008.

5. SHARE-BASED PAYMENTS

The Company expensed $34,000 and $158,000 for options during the three and nine months ended September 30, 2008, respectively. The Company expensed $45,000 and $171,000 for options during the three and nine months ended September 30, 2007, respectively. To recognize the cost of option grants, the Company estimates the fair value of each director or employee option grant on the date of the grant using the Black-Scholes option pricing model. 24,000 options were granted solely to directors during the three months ended June 30, 2008. For the valuation of options granted in 2008, we assumed that the dividend yield was 0%. Three of the directors have reached the age of 62. The options for these directors were valued based on an options life expectancy of one year, a risk expected volatility of 55% and a risk-free interest rate of 2%. The options for the remaining director were valued based on an options life expectancy of 6.75 years, a risk expected volatility of 66% and a risk-free interest rate of 3.23%.



Additionally, the Company amortized $154,000 and $462,000 in restricted stock for the three and nine months ended September 30, 2008, respectively. The Company amortized $160,000 and $588,000 in restricted stock for the three and nine months ended September 30, 2007, respectively. Restricted stock was issued to several key management team members and directors in 2005. The restricted stock is amortized over a five year vesting period commencing on the date of issuance.

The activity for all stock options currently outstanding is as follows;

| | Shares | Weighted Average Share Exercise Price | Weighted Average Remaining Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, June 30, 2008 | 240,000 | $ 8.99 | | |
| No Activity | | | | |
| Outstanding, September 30, 2008 | 240,000 | $ 8.99 | 6.75 years | $-0- |
| Exercisable September 30, 2008 | 168,000 | $ 2.34 | 3.57 years | $841,680 |

6. FAIR VALUE MEASUREMENT

During the nine months ended September 30, 2008, we adopted SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115", and have not made any fair value elections with respect to any eligible assets or liabilities as permitted under the provisions of SFAS 159 to date. We also adopted SFAS 157, "Fair Value Measurements" during the nine months ended September 30, 2008, for financial and nonfinancial assets and liabilities measured on a recurring basis. We currently do not have any nonfinancial assets or liabilities measured at fair value on a

recurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather applies to other accounting pronouncements that require or permit fair value measurements. This standard utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Level 2 inputs include inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable, and include situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The following table presents information about our financial liabilities measured at fair value on a recurring basis at September 30, 2008, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (amounts in thousands, unaudited):

| | Quoted prices in Active Markets For Identical Assets (Level 1) | Significant Other Observable (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at September 30, 2008 Inputs |
|---|---|---|---|---|
| Liabilities: | | | | |
| Interest rate swaps | - | $11,655 | - | $11,655 |



The fair value of the interest rate swap is based on quoted market prices from a major commercial bank for similar instruments. These quoted market prices are based on relevant factors such as the contractual terms of our interest rate swap agreement and interest rate curves and are adjusted for the non-performance risk of either us or our counterparties, as applicable.

7. COMMITMENTS AND CONTINGENCIES

Salary Continuation Agreements

RHC, ROC and RBH, entered into Salary Continuation Agreements (the "2008 Agreements") with three named executive officers and 59 other significant employees. The 2008 Agreements entitle such officers and employees certain compensation and benefits if ROC or RBH, as applicable, terminates their employment without cause (a "Company Termination") within a specified time period after a change in control of RHC, as follows:

(i) The Agreements ROC and RHC entered into with 53 significant ROC employees entitle 51 such employees to six months of base salary and health insurance benefits, subject to such employees' duty to mitigate by obtaining similar employment elsewhere, in the event of a Company Termination within 12 months after a change in control. Two employees are entitled to 12 months of base salary and 24 months of health insurance benefits in the event of a Company

Termination within 24 months after a change in control of RHC, with no duty to mitigate. Substantially similar Agreements were also entered into with 6 RBH employees, which include in such Agreements' definition of a "change in control" the sale of RBH by RHC and/or ROC to a non-affiliate of either the Company or ROC.

(ii) The Agreement ROC and RHC entered into with William L Westerman, RHC's Chief Executive Officer, President and Chairman of the Board and Tullio J. Marchionne, RHC's Secretary and General Counsel and ROC's Secretary and Executive Vice President, entitle Mr. Westerman and Mr. Marchionne to 24 months of base salary and 24 months of health insurance benefits in the event of a Company Termination within 24 months after a change in control of RHC. The Agreement ROC and RHC entered into with Mr. Simons, RHC's Treasurer and CFO and ROC's Vice President of Finance, entitles Mr. Simons to 12 months of base salary and 24 months of health insurance benefits in the event of a Company Termination within 24 months after a change in control of RHC.

The estimated total amount payable under all such agreements was approximately $5.7 million, which includes $710,000 in benefits, as of September 30, 2008.

Legal Proceedings and Related Events

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



8. SEGMENT DISCLOSURES

The Company determines our segments based upon the review process of the Company's Chief Financial Officer who reviews by geographic gaming market segments: Riviera Las Vegas and Riviera Black Hawk. The key indicator reviewed by the Company's Chief Financial Officer is "property EBITDA", as defined below. All intersegment revenues and expenses have been eliminated.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2008 | 2007 | 2008 | 2007 |
| Net Revenues: | | | | |
| Riviera Las Vegas | $ 30,231 | $ 37,940 | $101,206 | $ 116,597 |
| Riviera Black Hawk | 9,977 | 14,440 | 32,579 | 41,475 |
| Total net revenues | $ 40,208 | $ 52,380 | $133,785 | $ 158,072 |
| Property EBITDA (1): | | | | |
| Riviera Las Vegas | $ 2,931 | $ 6,131 | $ 16,551 | $ 24,143 |
| Riviera Black Hawk | 2,458 | 5,440 | 9,891 | 15,132 |
| Other Costs and Expenses | | | | |
| Corporate Expenses | | | | |
| Equity-based compensation | 188 | 206 | 620 | 759 |
| Other corporate expenses | 1,028 | 1,237 | 2,900 | 3,210 |
| Depreciation and amortization | 3,919 | 3,304 | 10,879 | 9,794 |

| | | | | |
|---|---|---|---|---|
| Mergers, acquitions and development costs | 59 | 160 | 104 | 448 |
| Interest Expense, net | 4,274 | 4,569 | 12,730 | 17,660 |
| Loss on retirement of debt | - | 12,878 | - | 12,878 |
| Decrease(Increase) in value of deriviatives | (615) | 7,471 | (1,617) | 6,644 |
| Total Other Costs and Expenses | 8,853 | 29,825 | 25,616 | 51,393 |
| Net Income | $ (3,464) | $ (18,254) | $ 826 | $ (12,118) |

| Property and Equipment, net | September 30 2008 | December 31 2007 |
|---|---|---|
| Las Vegas | $ 121,587 | $ 109,885 |
| Black Hawk | 61,696 | 62,980 |
| Total Property and Equipment, net | $ 183,283 | $ 172,865 |

| Capital Expenditures | |
|---|---|
| Las Vegas | $ 19,358 |
| Black Hawk | 1,939 |
| Total Capital Expenditures | $ 21,297 |

(1)Property EBITDA consists of earnings before interest, income taxes, depreciation, and amortization. Property 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 (property EBITDA before corporate expense) as the primary measure of our business segment properties' performance, including the evaluation of operating personnel. Property EBITDA should not be construed as an alternative to operating income, as an indicator of our operating performance, as an alternative to cash flows from operating activities, as a measure of liquidity, or as any other measure determined in accordance with generally accepted accounting principles. We have significant uses of cash flows, including capital expenditures, interest payments and debt principal repayments, which are not reflected in property EBITDA. Also, other companies that report property EBITDA information may calculate property EBITDA in a different manner than we do. A reconcillation of property EBITDA to net income (loss) is included in these financial schedules.



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

Overall Outlook and Recent Developments

General

We own and operate the Riviera Hotel and Casino on the 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 and mature adult markets. Room rental 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, slot club activities and slot ticket redemptions.

In Black Hawk, the $5 maximum bet restricts our ability to generate table games revenue, and the area is basically a "locals" slot customer market. Our capital expenditures in Black Hawk are geared toward maintaining competitive slot machines in comparison to the market.

Results of Operations

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

The following table sets forth, for the periods indicated, certain operating data for Riviera Las Vegas and Riviera Black Hawk. Income from operations does not include intercompany management fees.

| | Third Quarter | | | |
|---|---|---|---|---|
| (In Thousands) | 2008 | 2007 | Incr/ $ (Decr) | Incr/ %(Decr) |
| Net Revenues | | | | |
| Riviera Las Vegas | $30,231 | $37,940 | $ (7,709) | (20.3%) |
| Riviera Black Hawk | 9,977 | 14,440 | (4,463) | (30.9%) |
| Total Net Revenues | $40,208 | $52,380 | $(12,172) | (23.2%) |
| Property Income from Operations | | | | |
| Riviera Las Vegas | $229 | $4,572 | $(4,343) | (95.0%) |
| Riviera Black Hawk | 1,241 | 3,695 | (2,454) | (66.4%) |
| Property Income from Operations | $1,470 | $8,267 | $(6,797) | (82.2%) |
| Corporate Expenses | | | | |
| Equity Compensation | (188) | (206) | 18 | 8.7% |
| Other Corporate Expense | (1,028) | (1,237) | 209 | 16.9% |
| Mergers Acquisitions and Development Costs | (59) | (160) | 101 | 63.1% |
| Total Income from Operations | $195 | $6,664 | $(6,469) | (97.1%) |
| Operating Margins (1) | | | | |
| Riviera Las Vegas | 0.8% | 12.1% | | (11.3%) |
| Riviera Black Hawk | 12.4% | 25.6% | | (13.2%) |



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

Riviera Las Vegas

Revenues

Net revenues for the three months ended September 30, 2008 were $30.2 million, a decrease of $7.7 million, or 20.3%, from $37.9 million for the comparable period in the prior year.

Casino revenues for the three months ended September 30, 2008 were $11.8 million, a decrease of $3.1 million, or 20.5%, from $14.9 million for the comparable period in the prior year. Casino revenues are comprised primarily of slot machine and table game revenues. In comparison to the same period in the prior year, slot machine revenue was $9.1 million, a decrease of $1.8 million, or 18.3%, from $10.9 million and table game revenue was $2.4 million, a decrease of $0.7 million, or 22.7% from $3.1 million. Slot machine and table game revenues decreased primarily due to lower slot machine and table game amounts wagered as a result of less hotel occupancy, the effects of the slow economy on consumer spending and encumbered access due to construction at neighboring projects. Slot machine win per unit per day for the three months ended September 30, 2008 was $107.88, a decrease of $18.66, or 14.8%, from $126.34 for the comparable period in the prior year.

Room rental revenues for the three months ended September 30, 2008 were $12.1 million, a decrease of $2.7 million, or 18.1%, from $14.8 million for the comparable period in the prior year. The decrease in room rental revenues was primarily due to a 12.9% decrease in occupied rooms and a 5.0% decrease in average daily room rates. The decrease in occupancy was primarily the result of lower leisure and convention segment occupancy due to weaker economic conditions and higher travel costs. The decrease in average daily room rates was due to lower leisure segment room rates. This was due to increased room supply at competing Las Vegas hotel and casino properties resulting in significant downward market pressure on hotel room rental rates.

Hotel room occupancy percentage for the three months ended September 30, 2008, was 87.1% compared to 93.9% for the same period in the prior year. The hotel room occupancy percentage is calculated by dividing total occupied rooms by total rooms available for sale. Room renovations were the primary reason that 7.3% of the hotel rooms were unavailable during the third quarter of 2008. During the third quarter of 2008, 50.1% and 34.7% of the occupied rooms were leisure and convention segment rooms, respectively. Average daily room rental rate, or ADR, was $75.17, a decrease of $3.96, or 5.0%, from $79.13 for the comparable period in the prior year. The decrease in ADR was due primarily to a $16.85, or 24.6%, decrease in leisure segment room rental rates to $51.58 from $68.43 for the comparable period in the prior year. Revenue per available room, or RevPar, was $65.47, a decrease of $8.81, or 11.9%, from $74.28 for the comparable period in the prior year. The decrease in RevPar was the result of decreases in occupied rooms and average daily room rental rates as described above.

Food and beverage revenues for the three months ended September 30, 2008 was $5.6 million, a decrease of $0.9 million, or 14.6%, from $6.5 million for the comparable period in the prior year. The decrease in food and beverage revenue was due primarily to a $0.8 million decrease in food revenue. Food covers decreased 9.7% and the average check decreased 5.8% from the comparable period in the prior year as a result of the weak economy, reduced hotel occupancy and strategic closure of select food and beverage outlets during low volume periods. Food and beverage revenues include $1.3 million in revenues related to items offered to high-value guests on a complimentary basis.

Entertainment revenues for the three months ended September 30, 2008 were $3.5 million, a decrease of $0.6 million, or 13.5%, from $4.1 million for the comparable period in the prior year. The decrease in entertainment revenue is due to lower ticket sales in all our entertainment venues primarily as a result of lower occupancy and the weaker economy.

Promotional allowances for the three months ended September 30, 2008 were $4.4 million, an increase of $0.5 million, or 12.4%, from $3.9 million for the comparable period in the prior year. Promotional allowances are comprised of food, beverage, hotel room nights and other items provided on a complimentary basis primarily to our high-value casino players. The increase in promotional allowances is due primarily to more aggressive offerings designed to increase casino and hotel room rental revenues.

Costs and Expenses

Casino costs and expenses for the three months ended September 30, 2008 were $6.7 million, a decrease of $1.2 million, or 14.8%, from $7.9 million for the comparable period in the prior year. The decrease in casino expenses is primarily due to a reduction in slot and table game payroll and related costs which partially offset the $3.1 million decrease in casino revenue.

Room rental costs and expenses for the three months ended September 30, 2008 were $6.4 million, a decrease of $1.1 million, or 15.2%, from $7.5 million for the comparable period in the prior year. The decrease in room rental expenses partially offsets the $2.7 million decrease in room rental revenues and is primarily due to reduced payroll and related costs in conjunction with a 12.9% decrease in occupied rooms.

Food and Beverage costs and expenses for the three months ended September 30, 2008 were $4.6 million, a decrease of $1.1 million, or 19.1%, from $5.7 million for the comparable period in the prior year. The decrease in food and beverage costs and expenses was due to reduced food and beverage cost of sales, less payroll and related costs and less food and beverage operating expenses to partially offset the $0.9 million decrease in food and beverage revenues. Plus, to manage costs, several food and beverage outlets were closed during lower occupancy periods.

Entertainment department costs and expenses for the three months ended September 30, 2008 were $2.0 million, a decrease of $0.7 million, or 24.6%, from $2.7 million for the comparable period in the prior year. The decrease in entertainment department costs and expenses is primarily due to $0.4 million reduction in contractual payments to the entertainment producers as a result of less ticket sales and entertainment revenues.

Income from Operations

Income from operations for the three months ended September 30, 2008 were $0.2 million, a decrease of $4.4 million, or 95.0%, from $4.6 million for the comparable period in the prior year. The decrease is principally due to decreased casino, room rental and food and beverage revenues without offsetting costs and expenses reductions.



Operating margins were 0.8% for the three months ended September 30, 2008 in comparison to 12.1% for the comparable period in the prior year. Operating margins decreased primarily due to revenue decreases in the high margin slot and room rental operations without correlating decreases in costs and expenses. Slot revenues decreased $1.8 million, or 18.3% and room revenues decreased $2.7 million, or 18.1%. Occupied rooms decreased by 12.9% and the

average daily room rental rate decreased by 5.0%.

Riviera Black Hawk

Revenues

Net revenues for the three months ended September 30, 2008 were $10.0 million, a decrease of $4.4 million, or 30.9%, from $14.4 million for the comparable period in the prior year. The decrease was primarily due to a slot machine revenue decrease of $4.2 million, or 31.1%, to $9.5 million from $13.7 million for the comparable period in the prior year. Slot machine revenue per unit per day was $125.24, a decrease of $41.60, or 24.9%, from $166.84 for the comparable period in the prior year. The decrease in slot machine revenues was primarily the result of less slot machine wagering due to increased fuel costs, weak economic conditions and the effects of the smoking ban in Colorado which went into effect January 1, 2008.

Food and beverage revenues for the three months ended September 30, 2008 were $1.4 million, a decrease of $0.1 million, or 6.0%, from $1.5 million for the comparable period in the prior year. The decrease was due primarily to less customer redemption of player points earned and coupons for complimentary food and beverage items. Food and beverage revenues include revenues related to items offered to high-value guests on a complimentary basis. These revenues represent approximately 70% of total food and beverage revenues.

Costs and Expenses

Casino expenses for the three months ended September 30, 2008 were $4.8 million, a decrease of $1.2 million, or 19.9%, from $6.0 million for the comparable period in the prior year. The decrease in casino expenses is due primarily to a reduction in slot machine related labor costs to partially offset the $4.2 million decrease in slot machine revenue.

General and administrative expenses for the three months ended September 30, 2008 were $2.4 million, a decrease of $0.2 million, or 10.0%, from $2.6 million for the comparable period in the prior year. The decrease in general and administrative expenses was primarily due to payroll and related costs reductions to offset the $4.4 million reduction in net revenues.

Income from Operations

Income from operations for the three months ended September 30, 2008 were $1.2 million, a decrease of $2.5 million, or 66.4%, from $3.7 million for the comparable period in the prior year. The decrease is related primarily to the decreased slot revenues as described above.

Operating margins were 12.4% for the three months ended September 30, 2008 in comparison to 25.6% for the comparable period in the prior year. Operating margins decreased primarily due to a $4.2 million decrease in slot machine revenues within our high operating margin slot operation without correlating reductions in costs and expenses.



Consolidated Operations

Other Expense

Other expense for the three months ended September 30, 2008 was $3.7 million, a decrease of $21.2 million, or 85.3%, from $24.9 million for the comparable period in the prior year. The decrease is primarily due to a

$12.9 million loss on retirement of debt recorded during the third quarter of 2007 and a decrease of $8.1 million in the amount recorded for unrealized loss on derivatives. The loss on retirement of debt was related to the retirement of our 11% Notes as described below under Liquidity and Capital Resources. Unrealized gain on derivatives for the three months ended September 30, 2008 were $0.6 million compared to a loss of $7.5 million for the comparable period in the prior year. The gain and loss on derivatives is the result of changes in the valuation of our interest rate swap agreement which is referenced in the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q.

Net Loss

Net Loss for the three months ended September 30, 2008 was $3.5 million, a decrease of $14.8 million, from $18.3 million for the comparable period in the prior year. The decrease in net loss is primarily due to the $21.2 million decrease in other expense as described above partially offset by a $6.5 million decrease in consolidated income from operations.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

The following table sets forth certain operating data for Riviera Las Vegas and Riviera Black Hawk for the periods indicated. Income from operations does not include intercompany management fees.

| | Nine Months | | | |
|---|---|---|---|---|
| (In Thousands) | 2008 | 2007 | Incr/ (Decr) | Incr/ (Decr)% |
| Net Revenues | | | | |
| Riviera Las Vegas | $101,206 | $116,597 | $(15,391) | (13.2%) |
| Riviera Black Hawk | 32,579 | 41,475 | (8,896) | (21.4%) |
| Total Net Revenues | $133,785 | $158,072 | $(24,287) | (15.4%) |
| Income from Operations | | | | |
| Riviera Las Vegas | $9,983 | $19,277 | $(9,294) | (48.2%) |
| Riviera Black Hawk | 5,580 | 10,204 | (4,624) | (45.3%) |
| Property Income from Operations | 15,563 | 29,481 | (13,918) | (47.2%) |
| Corporate Expenses | | | | |
| Equity Compensation | 620 | 759 | 139 | 18.3% |
| Other Corporate Expenses | 2,900 | 3,210 | 310 | 9.7% |
| Mergers, Acquisitions and Development Costs | 104 | 448 | 344 | 76.8% |
| Total Income from Operations | $11,939 | $25,064 | $(13,125) | (52.4%) |
| Operating Margins (1) | | | | |
| Riviera Las Vegas | 9.9% | 16.5% | | (6.6%) |
| Riviera Black Hawk | 17.1% | 24.6% | | (7.5%) |

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

Riviera Las Vegas

Revenues

Net revenues for the nine months ended September 30, 2008 were $101.2 million, a decrease of $15.4 million, or 13.2%, from $116.6 million for the comparable period in the prior year.

Casino revenues for the nine months ended September 30, 2008 were $39.3 million, a decrease of $8.3 million, or 17.3%, from $47.6 million for the comparable period in the prior year. Casino revenues are primarily comprised of slot machine and table game revenues. In comparison to the same period in the prior year, slot machine revenue was $29.5 million, a decrease of $5.0 million, or 16.6%, from $34.5 million and table game revenue was $8.2 million, a decrease of $1.9 million, or 19.1% from $10.1 million. Slot machine win per unit per day was $117.86, a decrease of $17.49, or 12.9%, from $135.35 for the comparable period in the prior year. Slot machine and table game revenues decreased primarily due to lower slot machine and table game amounts wagered as a result of reduced hotel occupancy, the effect of a weak economy on consumer spending and encumbered access due to construction at neighboring projects.

Room rental revenues for the nine months ended September 30, 2008 were $41.6 million, a decrease of $4.7 million, or 10.2%, from $46.3 million for the comparable period in the prior year. The decrease in room rental revenue was primarily due to a 25.3% decrease in leisure segment occupied rooms due to higher travel costs and the weaker economy. Hotel room occupancy percentage for the nine months ended September 30, 2008, was 84.4% in comparison to 94.1% for the comparable period in the prior year. The hotel room occupancy percentage is calculated by dividing total occupied rooms by total rooms available for sale. Room renovations were the primary reason that 6.5% of hotel rooms were unavailable in 2008. For the nine months ended September 30, 2008, 41.3% and 40.2% of occupied rooms were leisure and convention segment rooms, respectively. Average daily room rental rate, or ADR, was $88.29, an increase of $5.16, or 6.2%, from $83.13 for the comparable period in the prior year. The increase in ADR was due primarily to an $8.40, or 8.5%, increase in convention room rates. Revenue per available room, or RevPar, was $74.51, a decrease of $3.73, or 4.8%, from $78.24 for the comparable period in the prior year. The decrease in RevPar was due to lower occupancy as described above.

Food and beverage revenues for the nine months ended September 30, 2008 were $18.6 million, a decrease of $2.4 million, or 11.4%, from $21.0 million for the comparable period in the prior year. The decrease is due to a $1.8 million food revenue and $0.6 million beverage revenue reduction primarily as a result of the weak economy, reduced hotel occupancy, less gaming customers and strategic closure of select food and beverage outlets during low volume periods. Food covers decreased primarily in the buffet, coffee shop and the sports book delicatessen and drinks served decreased primarily in the casino bars. Food and beverage revenues include items offered to high-value guests on a complimentary basis.

Entertainment revenues for the nine months ended September 30, 2008 were $10.2 million, an increase of $0.2 million, or 2.3%, from $10.0 million for the comparable period in the prior year. The increase is due to additional ticket sales at our show in the Versailles Theater ("ICE"), which opened April 23, 2007. Ticket sales decreased in all other entertainment venues.

Costs and Expenses

Casino costs and expenses for the nine months ended September 30, 2008 were $21.6 million, a decrease of $3.4 million, or 13.6%, from $25.0 million for the comparable period in the prior year. The decrease in casino costs and expenses is due primarily to a reduction in slot and table game payroll and related costs in order to partially offset the $8.3 million decrease in casino revenue.

Room rental costs and expenses for the nine months ended September 30, 2008 were $19.6 million, a decrease of $2.0 million, or 9.1%, from $21.6 million for the comparable period in the prior year. The decrease in room rental costs and expenses was due primarily to reduced payroll and related costs and less operating expenses in order to partially offset a $4.7 million decrease in room rental revenues.

Food and beverage costs and expenses for the nine months ended September 30, 2008 were $15.3 million, a decrease of $2.1 million, or 12.2%, from $17.4 million for the comparable period in the prior year. The decrease in food and beverage cost and expenses is due primarily to a reduction in food and beverage cost of goods, payroll and related costs and other expenses to offset a $2.4 million food and beverage revenue decrease. Additionally, several food and beverage outlets have been closed during low volume periods to reduce costs and expenses.

Income from Operations

Income from operations for the nine months ended September 30, 2008 was $10.0 million, a decrease of $9.3 million, or 48.2%, from $19.3 million for the comparable period in the prior year. The decrease is primarily due to lower casino and room rental revenues without offsetting reductions in costs and expenses.

Operating margins were 9.9% for the nine months ended September 30, 2008 in comparison to 16.5% for the comparable period in the prior year. Operating margins decreased primarily due to a $5.0 million revenue decrease in our high margin slot operations resulting in a $17.49, or 12.9%, reduction in slot machine win per unit per day and a $4.7 million decrease in room rental revenues resulting in a $3.73, or 4.8% reduction in RevPar.

Riviera Black Hawk

Revenues

Net revenues for the nine months ended September 30, 2008 were $32.6 million, a decrease of $8.9 million, or 21.4%, from $41.5 million for the comparable period in the prior year.

Casino revenues for the nine months ended September 30, 2008 were $31.7 million, a decrease of $8.7 million, or 21.4%, from $40.4 million for the comparable period in the prior year. The decrease was primarily due to a slot machine revenue decrease of $8.5 million, or 21.5%, to $30.9 million from $39.4 million for the comparable period in the prior year. Slot machine revenue per unit per day was $131.34, a decrease of $27.82, or 17.5%, from $159.16 for the comparable period in the prior year. The decrease in slot machine revenue was primarily the result of less slot machine wagering due to the effects of high fuel costs, a weak economy and the smoking ban in Colorado which went into effect January 1, 2008.

Costs and Expenses

Casino costs and expenses for the nine months ended September 30, 2008 were $14.7 million, a decrease of $2.7 million, or 15.5%, from $17.4 million for the comparable period in the prior year. The decrease in casino expenses is primarily due to a reduction in slot and table game payroll and related costs which partially offset the $8.7 million decrease in casino revenue.

General and administrative expenses for the nine months ended September 30, 2008 were $7.0 million, a decrease of $0.8 million, or 10.4%, from $7.8 million for the comparable period in the prior year. The decrease in general and administrative expenses was due to a credit adjustment of $0.4 million for employee benefits and a reduction in accrued management incentives of $0.4 million.

Income from Operations

Income from operations for the nine months ended September 30, 2008 were $5.6 million, a decrease of $4.6 million, or 45.3%, from $10.2 million for the comparable period in the prior year. The decrease is primarily due to the decrease in slot machine revenue without offsetting reductions in costs and expenses.

Operating margins were 17.1% for the nine months ended September 30, 2008 in comparison to 24.6% for the comparable period in the prior year. Operating margins decreased primarily due to an $8.5 million slot machine revenue decrease in our high margin slot operations.

Consolidated Operations

Other Expense

Other expenses for the nine months ended September 30, 2008 were $11.1 million, a decrease of $26.1 million, or 70.1%, from $37.2 million for the comparable period in the prior year. The decrease is primarily due to a $12.9 million loss on retirement of debt, a decrease of $8.2 million in the amount recorded for unrealized gain (loss) on derivatives and a decrease of $4.9 million in interest expense, net of interest income. The loss on retirement of debt was related to the retirement of our 11% Notes as described below under Liquidity and Capital Resources. Unrealized gain on derivatives was $1.6 million for the nine months ended September 30, 2008 compared to an unrealized loss on derivatives of $6.6 million for the comparable period in the prior year. The gain and loss on derivatives is the result of changes in the valuation of our interest rate swap agreement which is referenced in the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q. Interest expense decreased as a result of reduced borrowing costs associated with our New Credit Facility executed June 2007.

Net Income

Net income for the nine months ended September 30, 2008 was $0.8 million, an increase of $12.9 million, or 108.8%, from a $12.1 million net loss for the comparable period in the prior year. The increase is due primarily to a $26.1 million reduction in other expenses partially offset by a $13.1 million decrease in consolidated income from operations.



Liquidity and Capital Resources

At September 30, 2008 we had cash and cash equivalents of $20.5 million.

Our cash and cash equivalents decreased by $8.3 million during the nine months ended September 30, 2008 due to $18.0 million in net cash used in investing activities partially offset by $7.2 million in net cash provided by operating activities and $2.5 million in net cash provided by financing activities. Cash and cash equivalents increased $7.7 million during the nine months ended September 30, 2007 due to $17.3 million in net cash from provided by operating activities partially offset by $8.9 million in net cash used in investing activities and $0.7 million in net cash used in financing activities. Net cash used in investing activities includes $14.4 million and $1.5 million in capital expenditures related to our Las Vegas hotel room renovation project for the nine months ended September 30, 2008 and 2007, respectively. Additionally, net cash used in investing activities for the nine months ended September 30, 2007 included a $2.7 million reduction for restricted cash set aside for our workers compensation self insurance program. Net cash provided by operating activities included $4.0 million and $1.8 million in cash reductions due to changes in operating assets and liabilities for the nine months ended September 30, 2008 and 2007, respectively. The cash reductions due to changes in operating assets and liabilities for the nine months ended September 30, 2008 were due primarily to a $4.9 million decrease in accounts payable and accrued expenses principally due to payment timing differences. The cash reductions due to changes in operating assets and liabilities for the nine months ended September 30, 2007 were due primarily to a $1.8 million decrease in operating inventories. Net cash provided by financing activities for the nine months ended September 30, 2008 included $2.5 million drawn against our Revolving Credit Facility and net cash used in financing activities for the nine months ended September 30, 2007 included a $215.9 million payment to retire our 11% Notes described below and $225.0 million in proceeds from our New Credit Facility.

Our cash balances include amounts that could be required, upon five days' notice, to fund our CEO's (Mr. Westerman's) pension obligation in a rabbi trust. We pay Mr. Westerman $250,000 per quarter from his pension plan. In exchange for these payments, Mr. Westerman has agreed to forbear on his right to receive full transfer of his pension fund balance to the rabbi trust. This does not limit his ability to give the five-day notice at any time. Although Mr. Westerman has expressed no current intention to require this funding, under certain circumstances, we may be required to disburse approximately $1.3 million for this purpose in a short period.

On June 8, 2007, RHC and the Subsidiaries entered into the New Credit Facility. The New Credit Facility includes a $225 million seven-year term loan ("Term Loan"), and has no amortization for the first three years, and a one percent amortization for years four through six, 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. The New Credit Facility also includes a $20 million five-year revolving credit facility ("Revolving Credit Facility") under which we can obtain extensions of credit in the form of cash loans or standby letters of credit ("Standby L/Cs"). We are permitted to prepay the New Credit Facility without premium or penalties except for payment of any funding losses resulting from prepayment of LIBOR rate loans. The rate for the Term Loan and Revolving Credit Facility is LIBOR plus 2.0%. Pursuant to a floating rate to fixed rate swap agreement that became effective June 29, 2007 that we entered into under the New Credit Facility, substantially the entire Term Loan portion of the New Credit facility, with quarterly step-downs, bears 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 New Credit Facility is guaranteed by the Subsidiaries and is secured by a first priority lien on substantially all of our assets.



We used substantially all of the proceeds of the Term Loan to discharge our

obligations under the Indenture, dated June 26, 2002 (the "Indenture"), with The Bank of New York as trustee (the "Trustee"), governing the 11% Notes. On June 8, 2007 we 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.

We utilize derivative instruments for a substantial portion of our Term Loan to manage certain interest rate risk. Our interest rate swap agreement has a rate of 5.41% compared to the one month LIBOR rate of 3.28% effective through September 30, 2008.

The interest rate on loans under the Revolving Credit Facility will depend on whether they are in the form of revolving loans or swing line loans. For each revolving loan, the interest rate will depend on whether we elect to treat the loan as an "Alternate Base Rate" loan ("ABR Loan") or a LIBOR Rate loan. Swing line loans will bear interest at a per annum rate equal to the Alternative Base Rate plus the Applicable Percentage for revolving loans that are ABR Loans. The applicable percentage for swing line loans ranges from 0.50% to 1% depending on the consolidated leverage ratio.

We will also pay fees under the Revolving Credit Facility as follows: (i) a commitment fee in an amount equal to either .50% or 0.375% (depending on the Consolidated Leverage Ratio) per annum on the average daily unused amount of the Revolving Credit Facility; (ii) Standby L/C 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 Revolving Credit Facility fees, we will pay an annual administrative fee of $35,000.

The New Credit Facility contains affirmative and negative covenants customary for financings of this nature including, but not limited to, restrictions on our incurrence of other indebtedness. The New Credit Facility contains 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"; 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 provide for grace periods and materiality thresholds. For purposes of these default provisions, a "change in control" includes: a person's acquisition of beneficial ownership of 35% or more of our 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 other than as a result of changes supported by our 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.

As of September 30, 2008, we are in compliance with the covenants of the $225 million Term Loan and all of our credit facilities. Our Consolidated Leverage Ratio was 7.1 for the four quarters ending September 30, 2008. The maximum allowable Consolidated Leverage Ratio pursuant to the Revolving Credit Facility is 6.5. However, the maximum Consolidated Leverage Ratio of 6.5 is only applicable if RHC has outstanding borrowings against its Revolving Credit Facility exceeding $2.5 million as of the end of the applicable quarter. As of September 30, 2008, RHC has $2.5 million outstanding on its Revolving Credit Facility.

Current Economic and Operating Environment

We believe that due to a number of factors affecting consumers, including but not limited to a slowdown in global economies, contracting credit markets and reduced consumer spending, the outlook for the gaming and hospitality industries remains highly uncertain. High travel costs have resulted in fewer visitors coming to the Las Vegas and Black Hawk markets, resulting in lower casino volumes and a reduced demand for hotel rooms. Based on these adverse circumstances, we believe that the Company will continue to experience lower than expected hotel occupancy rates and casino volumes.

Off-Balance Sheet Arrangements

It is not our usual business practice to enter into off-balance sheet arrangements such as guarantees on loans and financial commitments, indemnification arrangements and retained interests in assets transferred to an unconsolidated entity for securitization purposes. Consequently, we have no off-balance sheet arrangements.

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, 2007. For a further 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:

- the effect of the termination of our previously announced strategic process to explore alternatives for maximizing shareholder value, and the possible resulting fluctuations in our stock price that will affect other parties' willingness to make a proposal to acquire us;

- fluctuations in the value of our real estate, particularly in Las Vegas;

- the availability and adequacy of our cash flow to meet our requirements, including payment of amounts due under our debt instruments;

- our substantial indebtedness, debt service requirements and liquidity constraints;

- our ability to meet the affirmative and negative covenants set forth in our New Credit Facility and avoid an event of default;

- the smoking ban in Colorado on our Riviera Black Hawk property which became effective on January 1, 2008;

- the availability of additional capital to support capital improvements and development;

- the ability to renegotiate union contracts in Las Vegas;

- competition in the gaming industry, including the availability and success of alternative gaming venues and other entertainment attractions; and the approval of an initiative that would allow slot machines in Colorado race tracks;

- retirement or other loss of any of our senior officers;

- economic, competitive, demographic, business and other conditions in our local and regional markets;

- changes or developments in laws, regulations or taxes in the gaming industry; specifically in Nevada where initiatives have been proposed to raise the gaming and hotel room tax;

- 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;

- changes in our personnel or their compensation, including those resulting from changes in federal or state minimum wage requirements;

- 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;

- 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;

- other adverse conditions, such as further 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;

- changes in our business strategy, capital improvements or development plans;
- 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;
- other risk factors discussed elsewhere in this report; and
- a decline in the public acceptance of gaming.

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.

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 September 30, 2008, we had $228.1 million in borrowings. The borrowings include a $225.0 million Term Loan maturing in 2014 and three capital leases maturing in 2009, 2012 and 2013. The capital leases have a fixed interest rate of 5.5%. The borrowings also include a $215,000 special improvement district ("SID") bond offering with the City of Black Hawk. Our share of the debt on the SID bonds of $1.2 million is payable over ten years beginning in 2000. The SID bonds bear interest at rate of 5.5%. We are not susceptible to interest rate risk because our outstanding debt is primarily at fixed rates. As of September 30, 2008, we had $2.5 million outstanding under our Revolving Credit Facility. The Revolving Credit Facility amount outstanding bears interest at LIBOR plus 2%. As of September 30, 2008, we have one interest rate swap arrangement to hedge the underlying interest rate risk on a total of $225.0 million of borrowings under the Term Loan, which bears interest at LIBOR plus 2%. Under this interest rate swap agreement, we pay a fixed rate of 5.405% plus 2% on the $218 million notional amount, which expires on June 8, 2014. The interest rate swap arrangement has periodic step-downs beginning in 2008 and expiring June 8, 2014. Although this interest rate swap agreement is highly effective economically in fixing the interest rate on this borrowing under the Term Loan at 7.405%, changes in fair value of our interest rate swap for each reporting period are, and will continue to be, recorded as an increase /(decrease) in swap fair value as the swap does not qualify for hedge accounting.

A hypothetical one percent change in interest rate would not have a material effect on our financial statements, as the interest rate swap we currently have effectively locks our debt at 7.405%.



Interest Rate Sensitivity
Principal (Notional Amount by Expected Maturity)
Average Interest Rate

| (Dollars in thousands) | 2008 | 2009 | 2010 | 2011 | 2012 | Thereafter | Total | Fair at 9 |
|---|---|---|---|---|---|---|---|---|
| Long-Term Debt Including Current Portions | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Equipment loans and capital leases-Las Vegas | $ 48 | $ 76 | $ 23 | $ 24 | $ 19 | | $ 190 | |
| Average interest rate | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% | | | |
| $225 million Term Loan | | | $ 1,125 | $ 2,250 | $ 2,250 | $ 219,375 | $ 225,000 | $ 22 |
| Average interest rate | | | 7.5% | 7.5% | 7.5% | 7.5% | | |
| Notes payable | $ 2,500 | | | | | | $ 2,500 | $ |
| Average interest rate | 6.0% | | | | | | | |
| Equipment loans and capital leases-Black Hawk | $ 10 | $ 43 | $ 44 | $ 44 | $ 45 | $ 26 | $ 212 | |
| Average interest rate | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% | | |
| SID Bonds - Black Hawk, Colorado | $ 70 | $ 145 | | | | | $ 215 | |
| Average interest rate | 5.5% | 5.5% | | | | | | |
| Total all long-term debt, including current portions | $ 2,628 | $ 264 | $ 1,192 | $ 2,318 | $ 2,314 | $ 219,401 | $ 228,117 | $ 22 |
| Other Long-Term Liabilities including Current Portion | | | | | | | | |
| CEO pension plan obligation | $ 250 | $ 1,035 | | | | | $ 1,285 | $ |
| Average interest rate | 9.7% | 9.7% | | | | | | |
| Interest rate derivatives | | | | | | | | |
| Derivative instrument | | | | | | | | |
| Pay fixed | | | | | | $ 215,795 | | $ 1 |
| Average receivable rate | | | | | | 3.7 | | |
| Average payable rate | | | | | | 5.4 | | |

ITEM 4. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required 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 ("CEO") and chief financial officer ("CFO"), 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 September 30, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our CEO and CFO 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 15(d) - 15(f)), that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors.

Our annual report on Form 10-K for the fiscal year ended December 31, 2007 (our "2007 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 2007 Form 10-K.

|X| We are subject to Potential Exposure to Envirionmental Liabilities

Generally, we are subject to various federal, state and local governmental laws and regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. Failure to comply could result in the imposition of severe penalties or restrictions on our operations by governmental agencies or courts. We experienced a diesel leak at our Las Vegas property. Our continuing efforts to monitor and remediate the effects of this leak, which occurred in 2002, have been affected by construction at neighboring projects. We are continuing to monitor this matter. In order to come to final resolution regarding this issue with the Nevada Department of Environmental Protection, we may be required to take remediation steps, including the excavation of the effected area. We are unable to estimate the cost of remediation at the present time. Riviera Black Hawk is located within a 400-square mile area that in 1983 was designated as the Clear Creek Central/City National Priorities List Site Study Area under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended. Although Riviera Black Hawk is not within any of the specific areas currently identified for investigation or remediation under that statute, environmental problems may subsequently be discovered, including in connection with any future construction on our property. Furthermore, governmental authorities could broaden their investigations and identify areas of concern within the site, we could be identified as a "potentially responsible party" and any related liability could have a material adverse effect on us. We do not have insurance to cover environmental liabilities, if we incur any.

Item 6. Exhibits.

See list of exhibits on page 30.



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

RIVIERA HOLDINGS CORPORATION

By: /s/ William L. Westerman
William L. Westerman
Chairman of the Board and
Chief Executive Officer

By: /s/ Phillip B. Simons
Phillip B. Simons
Treasurer and
Chief Financial Officer

Date: November 7, 2008



Exhibits

Exhibits:

| | |
|---|---|
| 10.1(A)* | Forms of Salary Continuation Agreements with Riviera Holdings Corporation, Riviera Operating Corporation and Riviera Black Hawk, Inc. dated May 27 2008 and August 12, 2008. |
| 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. |

* Management contract or compensatory plan or arrangement