

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2002

OR

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

Commission File No. 1-4748

KERZNER INTERNATIONAL NORTH AMERICA, INC.
(Exact name of registrant as specified in its charter)

<u>Delaware</u> (State or other jurisdiction of incorporation or organization)	<u>59-0763055</u> (I.R.S. Employer Identification No.)
<u>1000 South Pine Island Road, Plantation, FL</u> (Address of principal executive offices)	<u>33324</u> (Zip Code)
<u>(954) 809-2000</u> (Registrant's telephone number, including area code)	

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 No

Number of shares outstanding of registrant's common stock as of September 30, 2002: 100, all of which are owned by one shareholder. Accordingly there is no current market for any of such shares.

The registrant meets the conditions set forth in General Instruction H (1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format permitted by that General Instruction.

KERZNER INTERNATIONAL NORTH AMERICA, INC.
FORM 10-Q
INDEX

	<u>Page Number</u>
Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Item 4. Controls and Procedures	11
Part II. Other Information	
Item 6. Exhibits and Reports on Form 8-K	11

PART I. – FINANCIAL INFORMATION

Item 1. Financial Statements

KERZNER INTERNATIONAL NORTH AMERICA, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands of U.S. Dollars, except par value)
(Unaudited)

	<u>September 30,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,336	\$ 3,084
Receivables, net	2,103	1,477
Inventories	54	91
Prepaid expenses	2,742	712
Deferred tax asset	4,401	3,874
Due from affiliates	53,528	43,542
Total current assets	<u>65,164</u>	<u>52,780</u>
Property and equipment, net	62,066	63,151
Due from affiliate non-current	200,000	200,000
Subordinated note receivable	-	18,018
Deferred charges and other assets, net	13,474	12,750
Total assets	<u>\$ 340,704</u>	<u>\$ 346,699</u>
LIABILITIES AND SHAREHOLDER'S DEFICIT		
Current liabilities:		
Current maturities of long-term debt	\$ 37	\$ 70
Accounts payable and accrued liabilities	22,426	32,435
Total current liabilities	<u>22,463</u>	<u>32,505</u>
Other liabilities	2,362	-
Long-term debt, net of current maturities	405,839	399,438
Total liabilities	<u>430,664</u>	<u>431,943</u>
Commitments and contingencies		
Shareholder's deficit:		
Common stock – \$.01 par value	-	-
Capital in excess of par	192,635	192,635
Accumulated deficit	(282,595)	(277,879)
Total shareholder's deficit	<u>(89,960)</u>	<u>(85,244)</u>
Total liabilities and shareholder's deficit	<u>\$ 340,704</u>	<u>\$ 346,699</u>

See Notes to Consolidated Financial Statements.

KERZNER INTERNATIONAL NORTH AMERICA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands of U.S. Dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenues:				
Management fees and other income	\$ 12,610	\$ 6,583	\$ 38,152	\$ 18,780
Tour operations	8,142	6,093	23,018	21,509
	<u>20,752</u>	<u>12,676</u>	<u>61,170</u>	<u>40,289</u>
Expenses:				
Tour operations	6,838	5,374	19,084	18,381
Selling, general and administrative	4,588	3,953	14,002	11,446
Depreciation and amortization	1,763	1,555	3,589	3,495
Restructuring	-	300	-	300
	<u>13,189</u>	<u>11,182</u>	<u>36,675</u>	<u>33,622</u>
Operating income	7,563	1,494	24,495	6,667
Other income (expense):				
Interest income	47	597	705	3,776
Interest income from affiliate	4,569	-	13,680	-
Interest expense	(9,058)	(4,744)	(27,630)	(16,064)
Other	(1)	(420)	(160)	(420)
	<u>(4,502)</u>	<u>(4,567)</u>	<u>(23,605)</u>	<u>(12,708)</u>
Income (loss) before income taxes and extraordinary item	3,120	(3,073)	11,090	(6,041)
Income tax provision	<u>(393)</u>	<u>(184)</u>	<u>(1,182)</u>	<u>(440)</u>
Income (loss) before extraordinary item	2,727	(3,257)	9,908	(6,481)
Extraordinary loss on early extinguishment of debt, net of income tax effect	<u>(478)</u>	<u>-</u>	<u>(14,624)</u>	<u>-</u>
Net income (loss)	<u>\$ 2,249</u>	<u>\$ (3,257)</u>	<u>\$ (4,716)</u>	<u>\$ (6,481)</u>

See Notes to Consolidated Financial Statements.

KERZNER INTERNATIONAL NORTH AMERICA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of U.S. Dollars)
(Unaudited)

	Nine Months Ended	
	September 30,	
	2002	2001
Cash flows from operating activities:		
Reconciliation of net loss to net cash provided by		
(used in) operating activities:		
Net loss	\$ (4,716)	\$ (6,481)
Extraordinary loss on early extinguishment of debt, net of income tax effect	14,624	-
Depreciation and amortization	3,589	3,495
Amortization of debt issue costs	780	567
Provision for doubtful receivables	63	63
Utilization of deferred tax benefit	(527)	-
Loss on disposal of fixed assets	2	420
Loss on sale of short-term investment	158	-
Net change in working capital accounts:		
Receivables	(689)	(1,014)
Inventories and prepaid expenses	(1,993)	131
Due from affiliates	257	2,466
Accounts payable and accrued liabilities	(10,183)	(8,833)
Net change in deferred charges and other liabilities	268	(857)
Net cash provided by (used in) operating activities	1,633	(10,043)
Cash flows from investing activities:		
Payments for property and equipment	(2,535)	(1,143)
Proceeds received from the sale of Resorts Atlantic City, net	-	120,850
Repayment of note receivable	18,018	-
Purchase of short-term investments, net	(158)	-
Net cash provided by investing activities	15,325	119,707
Cash flows from financing activities:		
Proceeds from issuance of debt	206,000	-
Early extinguishment of debt	(209,000)	-
Advances to affiliates	(10,353)	(28,764)
Repayment of debt	(52)	(79,046)
Debt modification costs	(4,301)	(1,000)
Net cash used in financing activities	(17,706)	(108,810)
Net (decrease) increase in cash and cash equivalents	(748)	854
Cash and cash equivalents at beginning of period	3,084	1,276
Cash and cash equivalents at end of period	\$ 2,336	\$ 2,130

See Notes to Consolidated Financial Statements.

**KERZNER INTERNATIONAL NORTH AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

A. General

The accompanying consolidated interim financial statements, which are unaudited, include the operations of Kerzner International North America, Inc. ("KINA") and its subsidiaries. The term "Company", "we", "our" and "us" as used herein includes KINA and its subsidiaries. KINA is a wholly owned subsidiary of Kerzner International Limited ("KZL").

While the accompanying interim financial information is unaudited, our management believes that all adjustments necessary for a fair presentation of these interim results have been made and all such adjustments are of a normal recurring nature. The seasonality of the business is described in Management's Discussion and Analysis of Financial Condition and Results of Operations in KINA's 2001 Form 10-K. The results of operations for the nine-month periods presented are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2002.

The notes presented herein are intended to provide supplemental disclosure of items of significance occurring subsequent to December 31, 2001 and should be read in conjunction with the Notes to Consolidated Financial Statements contained in KINA's 2001 Form 10-K. For discussion of KZL and KINA's refinancing, reference should be made to KINA's June 30, 2002 Form 10-Q.

B. Palmilla Resort

On September 12, 2002, KZL purchased a 50% ownership interest in the 115-room Palmilla Resort, a deluxe, five-star property located near Cabo San Lucas in Baja, Mexico for approximately \$40.5 million, which includes the purchase price and related transaction costs. In connection with the purchase, KINA entered into a long-term management agreement, which will expire in 2022, and a development agreement. During the eighteen days ended September 30, 2002, management fees recorded were not significant.

C. Trading Cove New York

In October 2001, the State enacted legislation authorizing up to three Class III Native American casinos in the counties of Sullivan and Ulster and three Native American casinos in western New York pursuant to Tribal State Gaming Compacts to be entered into by the State and applicable Native American tribes (Chapter 383 of the Laws of 2001). In January 2002, a lawsuit was filed in the Supreme Court of the State of New York (Index No. 719-02) by various plaintiffs against New York Governor George Pataki, the State of New York and various other defendants alleging that Chapter 383 of the Laws of 2001 violates the New York State Constitution. Motions to dismiss the litigation were denied in October 2002 and the case is currently pending.

D. Cash and Short-Term Investments

Cash equivalents at September 30, 2002 consisted primarily of reverse repurchase agreements (federal government securities purchased under agreements to resell those securities) under which we had not taken delivery of the underlying securities. These agreements matured during the first week of October 2002.

E. Statements of Cash Flows

Supplemental disclosures required by Statement of Financial Accounting Standards No. 95 "Statement of Cash Flows" are presented below.

(In thousands of U.S. dollars)	Nine Months Ended September 30,	
	2002	2001
Interest paid, net of capitalization	\$34,369	\$20,018
Income taxes paid	1,844	1,571
Non-cash investing and financing activities:		
Property and equipment acquired under capital lease obligations	-	16

F. Comprehensive Income (Loss)

Comprehensive income (loss) is equal to net income (loss) for all periods presented.

G. Commitments and Contingencies

Litigation

We are defendants in certain litigation. In the opinion of management, based upon advice of counsel, the aggregate liability, if any, arising from such litigation will not have a material adverse effect on the accompanying consolidated financial statements.

H. Income Tax Expense

Realization of future tax benefits related to deferred tax assets is dependent on many factors, including our ability to generate future taxable income. The valuation allowance is adjusted in the period we determine it is more likely than not that deferred tax assets will or will not be realized. We considered these factors in reaching our conclusion to increase the valuation allowance during the first nine months of 2002.

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

RESULTS OF OPERATIONS - Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001

Management Fees and Other Income

Management fees and other income for the nine months ended September 30, 2002 increased by \$19.4 million as compared to the previous year. We have a fifty percent interest in Trading Cove Associates ("TCA"), a Connecticut general partnership, which receives income pursuant to a relinquishment agreement related to the Mohegan Sun Casino in Uncasville, Connecticut. We recorded income from TCA of \$24.3 million, including \$5.0 million of development fees earned as a result of the Mohegan Sun expansion, during the first nine months of 2002, as compared to income of \$5.8 million in the first nine months of 2001. This increase resulted primarily from additional relinquishment income being earned by us during 2002, whereas in 2001, another wholly owned subsidiary of KZL earned the income from TCA.

Tour Operations

Revenues and expenses for the Company's tour operator increased by \$1.5 million and \$0.7 million, respectively, for the nine months ended September 30, 2002 as compared to the same period of 2001. These increases resulted primarily from a national advertising campaign launched during the late part of 2001, which continued through 2002.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the nine months ended September 30, 2002 increased by \$2.6 million as compared to the previous year. This increase resulted primarily from \$1.0 million of lease termination costs related to the relocation of KINA's main office, a \$0.8 million increase in performance bonuses and a \$0.5 million increase in new project costs incurred in connection with the research of new investment and/or development opportunities.

Other Income (Expense)

In the first nine months of 2002, interest income decreased by \$3.1 million from the same period in the previous year. This resulted primarily from \$2.7 million of interest earned in 2001 on the proceeds from the sale of Resorts Atlantic City, a casino hotel that we sold in April 2001.

Interest income from affiliate is comprised of amounts due from Kerzner International Bahamas Limited ("KIB"), a wholly owned subsidiary of KZL, outside of KINA's consolidated group. On August 14, 2001, KZL and KINA, as co-issuers, issued \$200 million 8 7/8% senior subordinated notes due 2011 (the "8 7/8% Notes"). The proceeds were advanced to KIB and were used to pay down borrowings by KIB on a revolving credit facility, under which KZL, KINA and KIB are co-borrowers. The advance of proceeds to KIB is reflected as due from affiliate non-current in the accompanying consolidated balance sheets. We earn interest income from KIB on this advance equal to the interest expense we incur on the 8 7/8% Notes including amortization of debt issuance costs.

Interest expense, net of interest income from affiliates for the nine months ended September 30, 2002 decreased by \$2.1 million over the same period last year due primarily to \$2.0 million of interest expense incurred during 2001 on the revolving credit facility pertaining to the operations of Resorts Atlantic City.

Extraordinary Loss on Early Extinguishment of Debt, Net of Income Tax Effect

During the quarter ended June 30, 2002, KZL and KINA repurchased or redeemed the entire outstanding balance of \$200 million principal amount of our 9% Notes and recognized an extraordinary loss of \$14.1 million. This transaction created a current tax benefit of \$4.9 million, which was offset by an increase in KINA's valuation allowance for a net income tax effect of \$0. During the quarter ended September 30, 2002, we incurred an additional \$0.5 million of costs related to the early extinguishment of debt. The extraordinary loss consists of the premium paid on the repurchase and redemption of the 9% Notes, the non-cash charge to write-off the balance of the related debt issuance costs, the remaining unamortized discount on the notes and various costs to complete the transaction.

Liquidity, Capital Resources and Capital Spending

Our working capital at September 30, 2002 amounted to \$42.7 million, including cash and cash equivalents of \$2.3 million.

During the next twelve months, we expect the primary source of funds from operations to be income received from TCA pursuant to the relinquishment agreement. In addition, we will continue to earn management fees for services provided to certain of our unconsolidated affiliates. We do not have any immediate plans for significant capital expenditures during the next twelve months.

We believe that available cash on hand at September 30, 2002, combined with funds generated from operations and, if required, funds available under our revolving credit facility will be sufficient to finance our cash needs for at least the next twelve months.

New Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") effective for fiscal years beginning after December 15, 2001. For long-lived assets to be held and used, SFAS 144 retains the existing requirements to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and the fair value of the asset. SFAS 144 establishes one accounting model to be used for long-lived assets to be disposed of by sale. SFAS 144 supersedes the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for segments of a business to be disposed of. However, this SFAS 144 retains the requirement of Opinion 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held

for sale. We adopted SFAS 144 beginning January 1, 2002 and it did not have a material effect on our consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145") which is effective in fiscal years beginning after May 15, 2002. Previous to SFAS 145, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item regardless of whether or not the APB Opinion 30 definition of an extraordinary item was met. SFAS 145 eliminates Statement 4 and, thus, the exception to applying APB Opinion 30 to all gains and losses related to extinguishments of debt (other than extinguishments of debt to satisfy sinking-fund requirements - the exception to application of Statement 4 noted in Statement 64). SFAS 145 requires gains and losses from extinguishment of debt to be classified as extraordinary items only if they meet the definition under APB Opinion 30. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB Opinion 30 for classification as an extraordinary item must be reclassified.

The adoption of SFAS 145 in 2003 will preclude the classification of the loss on extinguishment of the 9% Notes as an extraordinary item.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146") effective for exit or disposal activities initiated after December 31, 2002. SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. Adoption of SFAS 146 is not expected to have a significant impact on our financial position or results of operations.

Forward Looking Statements

The statements contained herein include forward looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates, projections, management's beliefs and assumptions made by management. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements include information relating to plans for future expansion and other business development activities as well as other capital spending, financing sources and the effects of regulation (including gaming and tax regulation) and competition. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and accordingly, such results may differ from those expressed in any forward-looking statements made herein. These risks and uncertainties include, but are not limited to, those relating to development and construction activities, dependence on existing management, leverage and debt service (including sensitivity to fluctuations in interest rates), availability of financing, global economic conditions, pending litigation, changes in tax

laws or the administration of such laws and changes in gaming laws or regulations (including the legalization of gaming in certain jurisdictions).

Item 4. Controls and Procedures

Within 90 days prior to the filing of this report, management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that material information regarding the Company, including its subsidiaries, required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is made known to them in a timely manner. Subsequent to the date of this evaluation, there have not been any significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our internal controls.

PART II. - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

The following Part I exhibits are filed herewith:

Exhibit Number	Exhibit
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

B. Reports on Form 8-K

The following Current Reports on Form 8-K were filed by KINA during the third quarter of 2002 on the dates indicated:

(a) July 16, 2002 - to announce the Company's name was changed to Kerzner International North America, Inc. effective July 1, 2002.

SIGNATURES

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.

KERZNER INTERNATIONAL NORTH AMERICA, INC.

(Registrant)

Date: November 14, 2002

By /s/ Anne Robertson

Anne Robertson
Senior Vice President
Chief Financial Officer
(Authorized Officer of Registrant
and Chief Financial Officer)

KERZNER INTERNATIONAL NORTH AMERICA, INC.

Form 10-Q for the nine months ended September 30, 2002

EXHIBIT INDEX

Exhibit Number	Exhibit	Page Number in Form 10-Q
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	See Exhibit 99.1.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies in their capacity as an officer of Kerzner International North America, Inc. (the "Company") that the Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such report fairly presents, in all material respects, the financial condition and result of operations of the Company for such period.

Date: November 14, 2002

/s/ John R. Allison

John R. Allison
Chief Executive Officer

Date: November 14, 2002

/s/ Anne Robertson

Anne Robertson
Chief Financial Officer