RIVIERA HOLDINGS CORP
Form PRER14A
June 27, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. 1)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to § 240.14a-12

RIVIERA HOLDINGS CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common stock, par value $0.001 per share, of Riviera Holdings Corporation (Riviera Common Stock).

(2) Aggregate number of securities to which transaction applies:

12,463,755 shares of Riviera Common Stock and options to purchase 210,000 shares of Riviera Common Stock.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee was determined by multiplying .000107 by the sum of: (x) $211,883,835, which is the product of 12,463,755 shares of Riviera Common Stock multiplied by the merger consideration of $17.00 per share in cash in consideration for the cancellation of all outstanding Riviera Common Stock and (y) $3,076,500, which is the product of outstanding, in-the-money options to purchase 210,000 shares of Riviera Common Stock multiplied by $14.65, which equals the excess of $17.00 over the weighted average exercise price of such options and constitutes the consideration for cancellation of such options pursuant to the merger.

(4) Proposed maximum aggregate value of transaction:

$214,960,335

(5) Total fee paid:

$23,001

¨ Fee paid previously with preliminary materials.

x Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

$22,994

(2) Form, Schedule or Registration Statement No.:

Schedule 14A (preliminary proxy statement)

(3) Filing Party:

Riviera Holdings Corporation

(4) Date Filed:

May 19, 2006

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REVISED PRELIMINARY COPY

MERGER PROPOSAL   YOUR VOTE IS IMPORTANT

Dear Riviera Stockholders:

You are cordially invited to attend our annual meeting of stockholders scheduled to be held at the Riviera Hotel and Casino, 2901 Las Vegas Boulevard South, Las Vegas, Nevada 89109 on [   ], 2006 at 11:00 a.m., Las Vegas time. At this important meeting, you will be asked to approve the Agreement and Plan of Merger, dated as of April 5, 2006, by and among Riviera Holdings Corporation, Riv Acquisition Holdings Inc. and Riv Acquisition Inc. If the merger agreement is approved, we will become a wholly-owned subsidiary of Riv Acquisition Inc. and you will receive $17.00 in cash for each share of common stock that you own.

Riviera s board of directors has carefully reviewed and considered the terms and conditions of the Agreement and Plan of Merger. Based on its review, Riviera s board determined that the merger is in the best interests of the Company and our stockholders. Riviera s board unanimously recommends that stockholders vote FOR approval of the Agreement and Plan of Merger at the annual meeting. In reaching it s determination, Riviera s board of directors considered a number of factors described in the accompanying proxy statement.

Your vote is important. In order to approve the Agreement and Plan of Merger, holders of at least 60% of the outstanding shares of our common stock must vote in favor of it, with each share of common stock entitled to one vote. **Regardless of whether you plan to attend the meeting, please complete, date, sign and promptly return the enclosed proxy in the enclosed postage-paid envelope to ensure that your shares are represented at the meeting.** Returning the proxy card does not deprive you of your right to attend the meeting and vote your shares in person. **If you fail to vote, the effect will be the same as a vote against the Agreement and Plan of Merger, so it is important that all stockholders vote as early as possible.**

If you have any questions about the proposed merger or about how to vote your shares, please call Riviera s proxy solicitor, MacKenzie Partners, Inc., toll-free at 800-322-2885.

The accompanying proxy statement explains the Agreement and Plan of Merger and the proposed merger transaction in detail and provides specific information concerning the other voting proposals at the annual meeting. Please review this document carefully.

Thank you in advance for your continued support.

Sincerely,

/s/ William L. Westerman
William L. Westerman
Chairman of the Board

This proxy statement is dated [   ], 2006 and we are mailing it to our stockholders beginning on or after [   ], 2006.

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

OF

RIVIERA HOLDINGS CORPORATION

To Be Held on [ ], 2006

We will hold the annual meeting of the stockholders of Riviera Holdings Corporation, a Nevada corporation, at the Riviera Hotel and Casino, 2901 Las Vegas Boulevard South, Las Vegas, Nevada 89109 on [ ], 2006, at 11:00 a.m., Las Vegas time. The items of business at the meeting will be:

1. To approve the Agreement and Plan of Merger, dated as of April 5, 2006, by and among Riviera Holdings Corporation, Riv Acquisition Holdings Inc. and Riv Acquisition Inc. If we consummate the merger, we will become a wholly-owned subsidiary of Riv Acquisition Inc., and upon surrender of your stock certificates you will receive $17.00 in cash for each of your shares of our common stock.

2. To adjourn the annual meeting, if necessary or appropriate, to solicit additional proxies for approval of the Agreement and Plan of Merger.

3. To elect the five members of our board of directors.

4. To act on other matters and transact other business as may properly come before the annual meeting or at any re-convenings thereof.

We have fixed [ ], 2006 as the record date for determination of stockholders entitled to receive notice of, and to vote at, the annual meeting (including any re-convenings thereof). Only holders of record of our common stock at the close of business on that date are entitled to vote at the annual meeting. A complete list of those stockholders can be examined by any such stockholder for any purpose germane to the annual meeting, during ordinary business hours, at our offices located at 2901 Las Vegas Boulevard South, Las Vegas, Nevada 89109. Regardless of whether you plan to attend the annual meeting, please submit your proxy as soon as possible. Voting by proxy will ensure that you are represented at the annual meeting even if you are not there in person. Please review the instructions on the proxy card.

Regardless of whether you attend the annual meeting, you may revoke your proxy at any time before we vote it at the meeting. You may do so by executing and returning a proxy card dated later than the previous one or by submitting a written notice of proxy revocation to our corporate secretary before we take the vote at the meeting. If you hold your shares through a bank or brokerage firm, you should follow the instructions of your bank or brokerage firm regarding revocation of proxies.

By Order of the Board of Directors,

/s/ William L. Westerman
William L. Westerman

Chairman of the Board

Las Vegas, Nevada

[ ], 2006

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Additional Information

Riviera Holdings Corporation is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). Riviera Holdings Corporation files reports, proxy statements and other information with the Securities and Exchange Commission (the SEC).

You may read and copy these reports, proxy statements and other information at the SEC s Public Reference Section at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website, located at *www.sec.gov*, that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

If you have questions about the annual meeting or the merger with Riv Acquisition Holdings Inc. after reading this proxy statement, or if you would like additional copies of this proxy statement or the proxy card, you should contact Riviera Holdings Corporation, 2901 Las Vegas Boulevard South, Las Vegas, Nevada 89109, Attention: William L. Westerman. Riviera Holdings Corporation also makes available, free of charge, through its Internet website (*www.rivierahotel.com*) its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and, if applicable, amendments to those reports, filed pursuant to Section 13 or 15(d) of the Exchange Act as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. You may also contact our proxy solicitors:

MacKenzie Partners, Inc.

105 Madison Avenue

New York, New York 10016

Telephone: (800) 322-2885

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SUMMARY

This summary highlights selected information from this proxy statement about the proposed merger and our annual meeting. It may not contain all of the information that is important to you as a holder of Riviera Holdings Corporation common stock (Stockholder). Accordingly, we encourage you to read carefully this entire document and the other documents to which we refer you.

References in this proxy statement to the Company, we, our and us mean, unless the context indicates otherwise, Riviera Holdings Corporation and its subsidiaries. References to Parent mean Riv Acquisition Holdings Inc., references to Merger Subsidiary mean Riv Acquisition Inc. (a subsidiary of Riv Acquisition Holdings Inc.) and references to Merger Agreement mean the Agreement and Plan of Merger, dated April 5, 2006, among Parent, Merger Subsidiary and the Company. Unless the context indicates otherwise, references to the merger mean the merger of Merger Subsidiary with and into the Company pursuant to the Merger Agreement.

The Parties to the Merger (pages 14 through 15)

The Company. The Company, through its wholly owned subsidiary, Riviera Operating Corporation (ROC), operates the Riviera Hotel & Casino in Las Vegas, Nevada (Riviera Las Vegas). In addition, the Company, through its wholly-owned subsidiary Riviera Black Hawk, Inc., owns and operates the Riviera Black Hawk Casino in Black Hawk Colorado (Riviera Black Hawk).

Riv Acquisition Holdings Inc. Riv Acquisition Holdings Inc., a Delaware corporation, is a holding company recently formed for the purpose of acquiring the Company. As such, it has no operating history or material assets (other than its right to the Merger Agreement escrow deposit). Riv Acquisition Holdings Inc. is owned by the following entities: Flag Luxury Riv, LLC, a Delaware limited liability company (Flag Riv); Rivacq LLC, a Delaware limited liability company (Rivacq); High Desert Gaming, LLC, a Delaware limited liability company (High Desert); and RH1, LLC, a Nevada limited liability company (RH1).

The principal investors in Flag Riv are Paul C. Kanavos and Robert Sillerman. Mr. Kanavos is the founder and chairman of Flag Luxury Properties LLC and has recently developed The Ritz-Carlton, Gold Club and Spa, Jupiter; The Ritz-Carlton, South Beach; and the Temenos Anguilla, a St. Regis Resort. Mr. Sillerman is the chief executive officer (CEO), president and chairman of CKX, Inc., which owns globally recognized entertainment content and related assets, including the rights to the name, image and likeness of Elvis Presley, the operations of Graceland, the rights to the name, image and likeness of Muhammad Ali and proprietary rights to the IDOLS television brand, including the American Idol television series in the United States and local adaptations in over 100 countries around the world.

The principal investor in Rivacq is Barry Sternlicht. Mr. Sternlicht is founder and chairman of Starwood Capital Group, LLC, one of the nation s most active and successful real estate investment firms, with over 280 separate transactions since 1991.

The principal investor in High Desert is Neil G. Bluhm. Mr. Bluhm has developed and acquired luxury hotels, office buildings and mixed-used projects totaling more than $25 billion in a career spanning 35 years.

The principal investor in RH1 is Brett Torino. Mr. Torino, a prominent member of the Las Vegas community for more than 30 years, developed a highly successful building and development enterprise in the southwest and has built and acquired dozens of other successful commercial and multi-family residential projects in Nevada, California, Colorado and Arizona.

Riv Acquisition Inc. Riv Acquisition Inc., a Nevada corporation, is a wholly-owned subsidiary of Riv Acquisition Holdings Inc. It was formed for the purpose of merging with and into Riviera Holdings Corporation at the effective time of the merger. As such, it has no operating history or material assets.

The Annual Meeting of Stockholders (pages 12 through 14)

Date, Time and Place. The annual meeting will be held at the Riviera Hotel and Casino at 2901 Las Vegas Boulevard South, Las Vegas, Nevada 89109 on [ ], at 11:00 a.m., Las Vegas time, to vote upon proposals to approve the Merger Agreement, to adjourn the annual meeting, if necessary or appropriate, to solicit additional proxies for approval of the Merger Agreement, to elect five members of our Board of Directors (the Board) and to act on other matters and transact other business as may properly come before the annual meeting and any re-convenings of the annual meeting.

Record Date and Voting Power. If you owned shares of our common stock (Common Stock) at the close of business on [ ], 2006, the record date of the annual meeting, you are entitled to vote. For each share of Common Stock that you own at the close of business on the record date, you will have one vote. As of the close of business on June 23, 2006, 12,463,755 outstanding shares of Common Stock were entitled to be voted at the annual meeting.

Background of the Merger Agreement (pages 15 through 21)

This section describes the process that we undertook in connection with entering into the Merger Agreement and other facts and circumstances leading up to that action.

Effect of the Merger on the Common Stock (page 42)

The principal purpose and effect of the merger is to effectuate the acquisition by Parent of all of the outstanding Common Stock in return for a cash payment of $17.00 per share of Common Stock. Following the consummation of the merger, the Company will become a wholly-owned subsidiary of Parent and the Common Stock will be delisted from the American Stock Exchange (Amex).

The Company s Reasons for the Merger; Recommendation of the Board (pages 21 through 23)

All Board members, except William L. Westerman who abstained from voting, approved the Merger Agreement and the Board s recommendation that you approve it. The entire Board, including Mr. Westerman, unanimously recommends that you vote FOR the approval of the Merger Agreement. Please refer to the above-referenced section of this proxy statement for an explanation of the factors that the Board considered in reaching its decision.

Structure of the Merger (page 43)

Subject to the terms and conditions of the Merger Agreement, Merger Subsidiary, a wholly-owned subsidiary of Parent, will merge with and into the Company. After the merger, the Company will continue as the surviving corporation and will be a wholly-owned subsidiary of Parent.

Merger Consideration (page 43)

If the merger is consummated, you will have the right to receive $17.00 in cash for each share of Common Stock that you hold.

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Treatment of Stock Options and Restricted Stock (page 43)

All options under the Company s stock option plans, including those held by the Company s directors and executive officers, even if they have not yet become vested and exercisable, will be canceled at the time of the merger in exchange for a cash payment of $17.00, less the applicable per-share exercise price for each share of Common Stock subject to the option, less any applicable withholding taxes. Directors, executive officers and other key personnel who hold restricted shares of Common Stock will have the right to receive a cash payment of $17.00 per share (less any applicable withholding taxes) for each restricted share that they own.

Conditions to the Consummation of the Merger (page 47)

The Company and Parent are not required to consummate the merger unless a number of conditions are satisfied or waived, including:

- approval of the merger agreement by holders of at least 60% of the outstanding shares of Common Stock;
- receipt of all governmental approvals, including approvals of gaming authorities, required to be obtained in order to consummate the merger under applicable law;
- expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the HSR Act);
- absence of any order or injunction of any governmental authority that prohibits consummation of the merger;
- absence of pending or threatened litigation having a reasonable likelihood of success in blocking or otherwise materially interfering with the merger; and
- material compliance with representations, warranties, covenants and agreements under the Merger Agreement.

We expect the merger to occur shortly after all of the conditions to consummation of the merger have been satisfied or waived, which probably would be in the first half of 2007.

Agreement to Obtain Clearance from Regulatory Authorities (pages 45 through 46)

Subject to the terms and conditions of the Merger Agreement, the Company, Parent and Merger Subsidiary have agreed to make all reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable law and regulations (including the HSR Act and applicable gaming laws) to consummate the merger.

Parent, Merger Subsidiary and their controlling parties have agreed to file certain applications within certain time periods and cooperate with the Gaming Authorities (as defined in The Merger Agreement Important Definitions), and take certain actions with respect to such applications within certain time periods. In addition, Parent and Merger Subsidiary have agreed to report to the Company at least monthly on the status of the applications for gaming approval and to provide certain notices to the Company regarding such matters.

Governmental and Regulatory Matters (pages 32 through 36)

Under United States federal antitrust law, the merger may not be consummated until the parties have filed notifications with the Federal Trade Commission (the FTC) and the Department of Justice (the DOJ), and any applicable waiting period has terminated or expired.

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As a result of the merger, Parent will own the Company s gaming facilities in Nevada and Colorado. Each of these gaming operations is subject to various licensing and other regulatory requirements administered by various governmental entities. Some of these laws and regulations require that the applicable regulatory authorities approve the merger. Parent will file applications with the gaming authorities in Nevada and Colorado in connection with the merger.

Termination of the Merger Agreement (page 48)

The Company, Parent and Merger Subsidiary may mutually agree in writing to terminate the Merger Agreement at any time without consummating the merger, even after Stockholders approve it. In addition, the Company on one side, or Parent and Merger Subsidiary on the other side, may terminate the Merger Agreement prior to the consummation of the merger under certain circumstances, including if:

- the merger is not consummated by April 5, 2007, except that this date can be extended to July 5, 2007 under certain conditions (for a full description of when this date can be extended to July 5, 2007, see The Merger Agreement Termination of the Merger Agreement);
- a judgment, injunction, order or decree is issued by a governmental entity, which permanently enjoins, restrains or otherwise prohibits the merger and which has become final and nonappealable;
- the non-terminating side commits certain material breaches of its representations, warranties or covenants in the Merger Agreement and that breach cannot be cured within 30 days after receipt of notice of the breach;
- the Merger Agreement is not approved by holders of at least 60% of the outstanding Common Stock;
- prior to Stockholders approval of the Merger Agreement, we receive a superior proposal (as described in The Merger Agreement No Solicitation), and we resolve to accept that superior proposal; or
- the Board withdraws, modifies or amends in a manner adverse to Parent or Merger Subsidiary the Board s recommendation of the Merger Agreement or solicits a competing takeover proposal, or if the Board approves another takeover proposal, or if the Board does not recommend that Stockholders reject any third party tender or exchange offer.

Termination Fee and Topping Fee if the Merger is not Consummated (pages 48 through 49)

If the Merger Agreement is terminated by Parent or Merger Subsidiary due to the Company s breach or failure to perform in any material respect any of its representations, warranties or covenants in the Merger Agreement that would give rise to a failure to satisfy a closing condition and such breach cannot be cured within 30 days after written notice to the Company of such breach, the Company will pay a termination fee to Parent equal to Parent s and Merger Subsidiary s out-of-pocket expenses incurred on or after February 1, 2005 in connection with the Merger Agreement, subject to a maximum of $2 million and not including any expenses incurred prior to the date of the Merger Agreement to the extent such expenses exceed $1 million. However, the Company will not be liable for the termination fee if its breach of a representation or warranty that gave rise to Parent s and Merger Subsidiary s right to terminate the Merger Agreement resulted from an event, fact or circumstance that occurred after the date of the Merger Agreement and did not constitute a willful breach by the Company. The Company will pay Parent a fee equal to 3.75% of the aggregate consideration payable to Stockholders in the merger (approximately $7.9 million) upon the occurrence of certain events including: (i) the Company s approval of a Takeover Proposal (as defined herein); (ii) the Board s withdrawal of its recommendation of the merger; and (iii) the Company s entry into another agreement to consummate a Takeover Proposal within 12 months after a rejection of the Merger Agreement by Stockholders if, by the time of such rejection, any previously announced Takeover Proposal (other than the Merger Agreement) had not been withdrawn.

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Interests of Certain Persons in the Merger (pages 36 through 41)

The Board and executive officers have interests in the merger that are in addition to, or may be different from, the interests of Stockholders, including the following:

- all outstanding stock options under the Company s stock option plans, including those held by our directors and executive officers, even if they have not yet become vested and exercisable, will be canceled at the time of the merger in exchange for a cash payment of $17.00, less the applicable per-share exercise price for each share of Common Stock subject to the options (less any applicable withholding taxes), which we estimate would result in an aggregate payment to directors and executive officers of approximately $3,075,870;

- all outstanding shares of restricted Common Stock, including those held by our directors and executive officers, will be canceled at the time of the merger in exchange for the right to receive a cash payment of $17.00 per share (less any applicable withholding taxes), which we estimate would result in an aggregate payment to directors and executive officers of approximately $1,868,385;

- with respect to the Company s 2006 fiscal year, the Merger Agreement provides for the continuation of the Incentive Compensation Program, which is intended to provide executives and other significant employees with annual incentive bonuses based on predetermined financial targets, and may permit continuation of the Incentive Compensation Program for 2007 also;

- participants in our Employee Stock Ownership Plan will receive $17.00 for each share of Common Stock that they beneficially own through that plan;

- executive officers who participate in our Deferred Compensation Plan will receive $17.00 for each share of Common Stock that they beneficially own through that plan;

- Chairman and CEO William L. Westerman will be paid the entire balance of his retirement account with the Company, which amounts to approximately $3.6 million as of June 23, 2006 (but which is being reduced by quarterly distributions of $250,000); and

- pursuant to a December 22, 2005 agreement that Mr. Westerman has with certain affiliates of Parent (who in January 2006 completed the purchase of one million of Mr. Westerman s shares of Common Stock at $15.00 per share), Parents affiliates are expected to purchase substantially all of Mr. Westerman s approximately 1.1 million shares of Common Stock at $15.00 per share prior to consummation of the Merger.

Opinion of Jefferies & Company, Inc. (pages 23 through 30)

The Company engaged Jefferies & Company, Inc. (Jefferies) on December 6, 2004 to serve as the Company s financial advisor, an engagement which subsequently included rendering an opinion to the Board as to the fairness, from a financial point of view, to Stockholders of the merger consideration to be received by them pursuant to the Merger Agreement. On April 5, 2006, the date the Merger Agreement was executed, Jefferies rendered to the Board its opinion as investment bankers to the effect that, as of that date and based upon and subject to the various considerations and assumptions set forth therein, the merger consideration of $17.00 in cash per share to be received by Stockholders pursuant to the Merger Agreement was fair, from a financial point of view, to the Stockholders (other than William L. Westerman, Parent and their respective affiliates). The full text of Jefferies opinion, which sets forth the assumptions made, matters considered and limitations on the scope of review undertaken by Jefferies in rendering its opinion, is included as Appendix B to this proxy statement. The Company encourages Stockholders to read the Jefferies opinion carefully and in its entirety.

Jefferies opinion was provided to the Board on April 5, 2006 in connection with the Board s consideration of the merger and addresses only the fairness, from a financial point of view as of April 5, 2006, of the merger

consideration to be received by Stockholders (other than William L. Westerman, Parent and their respective affiliates), and does not address any other aspect of the merger. Jefferies opinion does not constitute a recommendation as to how any Stockholder should vote on the merger or any matter relating thereto.

Material Federal Income Tax Consequences (pages 30 through 32)

The receipt of cash in the merger by Stockholders will be a taxable transaction for United States federal income tax purposes (and may be a taxable transaction under applicable state, local, foreign and other tax laws). For federal income tax purposes, in general, a Stockholder will recognize gain or loss equal to the difference between (i) the amount of cash received in exchange for such shares and (ii) the holder s adjusted tax basis in such shares. Please refer to the section of this proxy statement entitled The Merger - Material Federal Income Tax Consequences for a more detailed explanation of the material federal income tax consequences of the merger. We also urge you to consult your tax advisors to determine the particular tax consequences to you (including the application and effect of any state, local or foreign income and other tax laws) of the receipt of cash in exchange for your Common Stock.

Appraisal or Dissenters Rights (page 42)

Under Nevada law there are no appraisal or dissenters rights in connection with the merger.

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QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

AND THE MERGER

The following questions and answers briefly address some commonly asked questions regarding the annual meeting and the vote on the Merger Agreement. These questions and answers may not address all questions that may be important to you as a Stockholder. Please refer to the more detailed information contained elsewhere in this proxy statement, the appendices to this proxy statement and the other documents we refer to in this proxy statement.

The Annual Meeting

Q. What matters will we vote on at the annual meeting?

A. You will vote on the following proposals:

- to approve the Merger Agreement;
- to approve an adjournment of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to approve the Merger Agreement;
- to elect five members of our Board; and
- to act on other matters and transact other business as may properly come before the meeting.

Q. How does the Board recommend I vote on the proposals?

A. The Board recommends that you vote:

- FOR approval of the Merger Agreement;
- FOR adjournment of the meeting, if necessary or appropriate, to solicit additional proxies; and
- FOR each of the five nominees named in this proxy statement.

Q. What is the required vote to approve the Merger Agreement?

A. In order to approve the Merger Agreement, holders of at least 60% of the outstanding shares of Common Stock must vote in favor of the Merger Agreement. Each share of Common Stock is entitled to one vote.

Q. What is the required vote for the other matters at the annual meeting?

A. For the election of directors, the five nominees who receive the greatest number of votes cast for directors at the meeting will be elected. The proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies to approve the Merger Agreement requires the affirmative vote of a majority of the votes cast at the meeting, in person or by proxy.

Q. What if a director nominee is unwilling or unable to serve?

A. We do not expect that to occur. If it does occur, proxies will be voted for a substitute nominee designated by the Board.

Q. Who may vote at the annual meeting?

A. Only holders of record of the Common Stock as of the close of business on [ ], 2006 may vote at the annual meeting.

Q. How do I cast my vote?

A. There are two ways you may cast your vote. You can vote by:

marking, signing and dating the proxy card and returning it in the envelope provided; or

attending the meeting (if your shares are held through a broker, bank or other nominee, you must bring to the meeting a copy of a brokerage statement or other documentation showing your stock ownership as of [ ], 2006).

Q. If I have given a proxy, how do I revoke that proxy?

A. Your presence at the meeting, in and of itself, will not revoke any proxy you may have given previously. However, before or at the meeting you may revoke your proxy (to the extent it has not already been voted at the meeting) if you:

give written notice of the revocation to the Company s Secretary, Tullio J. Marchionne, at 2901 Las Vegas Boulevard South, Las Vegas, Nevada 89109, which notice will not be effective until it is received; or

submit a properly signed proxy with a later date.

Q. How will my proxy be voted?

A. If your proxy card is properly executed, returned to and received by the Company prior to the meeting and is not revoked, your proxy will be voted in accordance with your instructions. If you return your signed proxy card but do not mark the boxes to show how you wish to vote on one or more of the proposals, the shares for which you have given your proxy will, in the absence of your instructions to the contrary, be voted FOR the approval of the Merger Agreement, FOR the proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies for the Merger Agreement, and FOR each of the director nominees named in the proxy.

Q. Will my shares be voted if I do not provide my proxy?

A. Your shares may be voted under certain circumstances if they are held in the name of a brokerage firm or nominee. Brokerage firms and nominees that are members of Amex have authority under Amex s rules to vote their customers shares on certain routine matters if the customers have not furnished voting instructions within a specified period prior to the meeting. Under such rules, the election of directors is considered to be a routine matter. However, the approval of the Merger Agreement and any proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies for approval of the Merger Agreement, are not considered routine matters, so brokerage firms and nominees will not be able to vote the shares of customers from whom they have not received voting instructions with regard to those two proposals. If you hold your shares directly in your own name, they will not be counted as shares present for the purposes of establishing a quorum and they will not be voted if you do not provide a proxy or attend the meeting and vote in person.

Broker non-votes occur when shares held by a broker are not voted with respect to a proposal because (i) the broker has not received voting instructions from the beneficial owner of the shares, and (ii) the broker lacks the authority to vote the shares at the broker s discretion. Broker non-votes will have no effect on the proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies for approval of the Merger Agreement or the proposal to elect directors because broker non-votes will not be considered votes cast, but will be counted as shares present and entitled to vote for the purposes of determining the presence of a quorum. However, with regard to the approval of the Merger Agreement, the shares represented by broker non-votes will also be considered present at the annual meeting for the purposes of determining a

quorum, but will have the same effect as a vote AGAINST the proposal because holders of at least 60% of

the outstanding shares of the Common Stock must vote in favor of the proposal in order for it to be approved.

Q. Who will count the vote?

A. Representatives of the Company s stock transfer agent will tabulate the votes cast at the meeting.

Q. What does it mean if I get more than one proxy card?

A. If you have your shares registered in multiple accounts with one or more brokers or with the Company s transfer agent, you will receive more than one proxy card. ***Please complete and return each of the proxy cards you receive to ensure that all of your shares are voted.***

Q. What is a quorum ?

A. A quorum, for purposes of the annual meeting, means a majority of the shares of the Common Stock outstanding on the record date. A quorum must be present at the meeting in order for the meeting to be held. For purposes of determining the presence of a quorum, shares will be counted if they are present in person or by proxy. Shares present by proxy will be counted as present for purposes of determining the presence of a quorum even if the proxy holder does not have authority to vote on all matters.

Abstentions are not counted in the tally of votes FOR or AGAINST a proposal. A WITHHELD vote is the same as an abstention. Abstentions and withheld votes are counted as shares present at the meeting for purposes of determining the presence of a quorum.

Q. What happens if I withhold my vote or abstain from voting?

A. If you withhold a vote or abstain from voting on the proposal to approve the Merger Agreement, it will have the same effect as a vote AGAINST the proposal because holders of at least 60% of the outstanding shares of Common Stock must vote in favor of the proposal in order for it to be approved. For the election of directors, withholding a vote as to all or specific nominees, which is the equivalent of abstaining, will have no effect on the outcome, since an abstention is not a vote cast. For the proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies for the Merger Agreement, abstentions will have no effect on the outcome, since an abstention is not a vote cast.

Q. Who can attend the annual meeting?

A. All Stockholders who owned shares as of the close of business on [ ], 2006 can attend. If your shares are held in a brokerage account, you will need to bring a copy of your brokerage account statement (which you can obtain from your broker) reflecting your stock ownership as of [ ], 2006.

Q. How will voting on any other business be conducted?

A. We do not know of any business to be considered at the meeting other than the proposals described in this proxy statement. However, if any other business is presented at the meeting, a proxy in the accompanying form will give authority to the proxy holder to vote on such

matters at their discretion and intend to do so in accordance with their best judgment on any such matter.

The Merger

Q. What is the proposed transaction?

A. We are proposing that Parent acquire the Company through a cash merger, in which Merger Subsidiary will merge with and into the Company, and the Company will thereby become a wholly-owned subsidiary of Parent.

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Q. If the Company consummates the merger, what will I receive for my Common Stock?

A. You will receive $17.00 in cash, without interest, for each share of Common Stock that you own. You will not continue to own stock in the Company after the merger nor will you become a stockholder of Parent as a result of the merger.

Q. Why is the Board recommending the merger?

A. The Merger Agreement requires the Board to recommend that you approve the merger. To review the Board s reasons for approving the Merger Agreement and recommending the merger, see the section of this proxy statement entitled The Merger The Company s Reasons for the Merger; Recommendation of the Board.

Q. What are the tax consequences of the merger to the Stockholders?

A. For United States federal income tax purposes, your exchange of Common Stock for cash generally will cause you to recognize a gain or loss measured by the difference between the cash you receive in the merger and your adjusted tax basis in your shares of Common Stock.

TAX MATTERS ARE COMPLICATED AND THE TAX CONSEQUENCES OF THE MERGER WILL DEPEND ON THE FACTS OF YOUR PARTICULAR SITUATION. YOU SHOULD CONSULT YOUR TAX AND OTHER ADVISORS.

See the section of this proxy statement entitled The Merger - Material Federal Income Tax Consequences for more information.

Q. When do you expect to consummate the merger?

A. The Company is working toward consummating the merger as quickly as possible. The Company cannot consummate the merger until a number of conditions are satisfied, including approval by gaming regulatory authorities and approval of the Merger Agreement by the Stockholders at the annual meeting, expiration or termination of the waiting period under the HSR Act. The Company expects to consummate the merger during the first half of 2007.

Q. Should I send in my stock certificates now?

A. No. After the Company consummates the merger, the payment agent will send you written instructions to send in your Common Stock certificates. These instructions will tell you how and where to send in your certificates. You will receive your cash payment after the payment agent receives your stock certificates and any other documents requested in the instructions.

Q. Where can I find more information about the Company?

A. The Company files periodic reports and other information with the SEC. This information is available at the SEC s public reference facilities, and at the Internet website maintained by the SEC at *www.sec.gov*. For a more detailed description of the information available, please see the section in this proxy statement entitled Where You Can Find More Information.

Q. What will happen to the directors who are up for election if the Merger Agreement is approved?

A. If the Merger Agreement is approved by Stockholders and the merger is consummated, the Company s directors are not expected to remain as directors after consummation of the merger.

Q. Are appraisal or dissenters rights applicable to any of the matters to be voted on at the annual meeting?

A. No. Appraisal or dissenters rights do not apply to any matter to be voted on at the annual meeting.

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Q. Who will pay the cost of this proxy solicitation and how will the solicitation be conducted?

A. The Company will pay the expenses of soliciting proxies in the form included with this proxy statement, including the cost of preparing and filing material in connection with the solicitation. In addition to the use of the mail, the Company s directors, executive officers and employees may solicit proxies personally or by telephone. The Company has also hired MacKenzie Partners, Inc. to assist in the solicitation of votes at a cost not to exceed $100,000, plus out-of-pocket expenses. The Company will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to Stockholders.

Q. Who can help answer my questions?

A. If you have questions about the annual meeting or the merger after reading this proxy statement, you should contact us at Riviera Holdings Corporation, 2901 Las Vegas Boulevard South, Las Vegas, Nevada 89109, Attention: William L. Westerman or call us at (702) 794-9237. You may also contact our proxy solicitors:

MacKenzie Partners, Inc.

105 Madison Avenue

New York, New York 10016

Telephone: (800) 322-2885

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THE ANNUAL MEETING OF STOCKHOLDERS

We are furnishing this proxy statement to Stockholders for the solicitation of proxies by the Board for use at the Company s annual meeting.

Date, Time and Place

The Company will hold the annual meeting in the Riviera Hotel and Casino at 2901 Las Vegas Boulevard South, Las Vegas, Nevada 89109 on [ ], 2006, at 11:00 a.m., Las Vegas time.

Purpose of the Annual Meeting

At the annual meeting, we will ask Stockholders to approve the Merger Agreement and elect five directors to serve on the Board until the next annual meeting and until their respective successors have been elected and qualified, or until resignation or removal, or until the consummation of the merger, whichever occurs first. On April 5, 2006, the Board adopted the Merger Agreement, determined that the Merger Agreement and the merger are in the best interests of the Company and Stockholders, and agreed to recommend to Stockholders that they vote FOR the approval of the Merger Agreement. The Board recommends that Stockholders vote FOR the approval of the Merger Agreement and FOR the proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies for approval of the Merger Agreement. The Board also recommends that Stockholders vote FOR the election of the five director nominees.

Record Date, Shares Entitled to Vote and Quorum

Only holders of record of Common Stock at the close of business on [ ], 2006, which is referred to herein as the record date, are entitled to notice of, and to vote at, the annual meeting. As of June 23, 2006, 12,463,755 shares of Common Stock were issued, outstanding and entitled to vote at the annual meeting. A quorum will be present at the annual meeting if holders of a majority of the outstanding shares of Common Stock entitled to vote on the record date are represented in person or by proxy. If a quorum is not present at the annual meeting, we expect to adjourn or postpone the meeting to solicit additional proxies. Every holder of Common Stock is entitled to one vote for each share held of record on the record date.

Vote Required

In order to approve the Merger Agreement, holders of at least 60% of the outstanding shares of Common Stock must vote in favor of it. Approval of the proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies for approval of the Merger Agreement requires that the number of shares cast FOR that proposal exceeds the number of shares cast AGAINST that proposal. For the election of directors, the five nominees receiving the highest number of FOR votes cast will be elected as directors.

If you withhold a vote or abstain from voting on the proposal to approve the Merger Agreement or if you do not vote at all at the annual meeting, it will have the same effect as a vote AGAINST the Merger Agreement because holders of at least 60% of the outstanding shares of Common Stock must vote in favor of that proposal in order for it to be approved. For the proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies to approve the Merger Agreement, abstentions will have no effect on the outcome, since an abstention is not a vote cast. For the election of directors, withholding a vote as to all or specific nominees, which is the equivalent of abstaining, will have no effect on the outcome, since an abstention is not a vote cast.

Shares of the Common Stock may be voted under certain circumstances if they are held in the name of a brokerage firm or nominee. Brokerage firms and nominees that are members of Amex have authority under Amex s rules to vote their customers shares on certain routine matters if the customers have not furnished voting instructions within a specified period prior to the meeting. Under these rules, the election of directors is

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considered to be a routine matter. The approval of the Merger Agreement and the proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies to approve the Merger Agreement are not considered routine matters, and brokerage firms and nominees will not be able to vote the shares of customers from whom they have not received voting instructions with regard to approval of those proposals. Shares of Common Stock held directly in a Stockholder s name will not be counted as shares present for the purpose of establishing a quorum and will not be voted if the Stockholder does not provide a proxy or attend the meeting and vote in person.

Broker non-votes occur when a person holding shares through a bank or brokerage account does not provide instructions as to how his or her shares should be voted, and the broker does not exercise discretion to vote those shares on a particular matter. Brokers may exercise discretion to vote shares as to which instructions are not given with respect to the election of directors, but brokers may not exercise discretion to vote shares as to which instructions are not given with respect to approval of the Merger Agreement or adjournment of the meeting, if necessary or appropriate, to solicit additional proxies for approval of the Merger Agreement. Broker non-votes will have no effect on the proposal for adjournment of the meeting or for the election of directors because broker non-votes will not be considered votes cast, but will be counted as shares present and entitled to be voted for the purposes of determining the presence of a quorum. With regard to approval of the Merger Agreement, the shares represented by a broker non-vote will also be considered present at the annual meeting for the purposes of determining a quorum but will have the same effect as a vote AGAINST the proposal, because at least 60% of the outstanding shares of Common Stock must vote in favor of the proposal in order for it to be approved.

A quorum must be present at the meeting in order for the meeting to be held. For purposes of determining the presence of a quorum, shares will be counted if they are being voted in person or by proxy. Shares being voted by proxy will be counted as present for purposes of determining the presence of a quorum even if the proxy does not confer authority to vote on all matters.

Voting by Directors and Executive Officers

At the close of business on June 23, 2006, the directors and executive officers of the Company beneficially owned and were entitled to vote shares of Common Stock representing approximately 11.6% of the shares of Common Stock outstanding on that date (excluding shares subject to stock options that had not been exercised). **To the Company s knowledge, these directors and executive officers intend to vote their shares FOR the approval of the Merger Agreement, FOR the adjournment of the annual meeting, if necessary or appropriate, to solicit additional proxies for approval of the Merger Agreement, and FOR the election of the five director nominees. In a Stock Purchase Agreement, dated as of December 22, 2005 (the Westerman Agreement), executed by Chairman and CEO William L. Westerman and companies affiliated with Parent, Mr. Westerman agreed, subject to any withdrawal by the Board of its approval of the merger, to vote all of the shares he owns FOR the approval of the Merger Agreement.**

Voting of Proxies

All shares represented by properly executed proxies received in time for the annual meeting will be voted at the annual meeting in the manner specified in the proxies. Properly executed proxies that do not contain voting instructions will be voted FOR the approval of the Merger Agreement, FOR the adjournment of the meeting, if necessary or appropriate, to solicit additional proxies for approval of the Merger Agreement, and FOR the election of the five director nominees. Such proxies will also be deemed to grant discretion to the proxy holders on any other matter which may properly come before the annual meeting.

Adjournments of the meeting may be made in accordance with the Company s bylaws. If the persons named as proxies are asked to vote for one or more adjournments of the meeting for matters incidental to the conduct of the meeting, such persons will have the authority to vote in their discretion on such matters. However, if the

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persons named as proxies are asked to vote for one or more adjournments of the meeting to solicit additional proxies if there are insufficient votes at the time of the meeting to approve the Merger Agreement, such persons will only have the authority to vote on that matter as directed by you.

The Company does not expect that any matter will be brought before the annual meeting other than the proposals to approve the Merger Agreement, elect directors and possibly adjourn the meeting, if necessary or appropriate, to solicit additional proxies for the Merger Agreement. If, however, any other matter properly comes before the annual meeting, unless provided otherwise in the written voting authorization, the persons named as proxies will vote in accordance with their best judgment as to such matters that they believe to be in the best interests of the Stockholders. A proxy in the accompanying form will give authority to the proxy holders named therein to vote on such matters as they deem appropriate.

Revocability of Proxies

The grant of a proxy on the enclosed proxy card does not preclude a Stockholder from voting in person at the annual meeting. A Stockholder may revoke a proxy at any time prior to its exercise by (i) giving written notice of the revocation to the Company s Secretary, Tullio J. Marchionne, at 2901 Las Vegas Boulevard South, Las Vegas, Nevada 89109 or (ii) submitting a properly signed proxy with a later date. Attendance at the annual meeting will not, in and of itself, revoke the proxy. If you have instructed your broker or other nominee to vote your shares, you must follow the procedures provided by your broker or nominee to change those instructions.

Solicitation of Proxies

The Company will pay the expenses of soliciting proxies in the form included with this proxy statement, including the cost of preparing and filing material in connection with the solicitation of proxies. In addition to solicitation by mail, the Company s directors, executive officers and employees may solicit proxies personally, by telephone, or on the Internet. The Company has also hired MacKenzie Partners, Inc. to assist in the solicitation of votes, at a cost not to exceed $100,000, plus out-of-pocket expenses. The Company will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to Stockholders.

You should not send your stock certificates with your proxy. A letter of transmittal with instructions for the surrender of Common Stock certificates will be mailed to Stockholders promptly after the consummation of the merger.

THE MERGER (PROPOSAL NO. 1)

The Parties to the Merger

The Company

The Company, through its wholly-owned subsidiary ROC, owns and operates Riviera Las Vegas located on Las Vegas Boulevard in Las Vegas, Nevada. Opened in 1955, Riviera Las Vegas has a long-standing reputation for delivering high-quality, traditional Las Vegas-style gaming, entertainment and other amenities.

The Company, through its wholly-owned subsidiary Riviera Black Hawk, Inc., owns and operates Riviera Black Hawk, a limited-stakes casino in Black Hawk, Colorado, which opened on February 4, 2000.

The Company maintains its principal executive offices at 2901 Las Vegas Boulevard South, Las Vegas, Nevada 89109, telephone (702) 734-5110. For additional information with respect to the Company, see the documents specified under Where You Can Find More Information.

Riv Acquisition Holdings Inc.

Riv Acquisition Holdings Inc., a Delaware corporation, is a holding company that was recently formed for the purpose of acquiring the Company. As such, it has no operating history or material assets (other than its right to the Merger Agreement escrow deposit). Riv Acquisition Holdings Inc. is owned by Flag Riv, Rivacq, High Desert and RH1.

The principal investors in Flag Riv are Paul C. Kanavos and Robert Sillerman. Mr. Kanavos is the founder and chairman of Flag Luxury Properties LLC and has recently developed The Ritz-Carlton, Gold Club and Spa, Jupiter; The Ritz-Carlton, South Beach; and the Temenos Anguilla, a St. Regis Resort. Mr. Sillerman is the CEO, president and chairman of CKX, Inc., which owns globally-recognized entertainment content and related assets, including the rights to the name, image and likeness of Elvis Presley, the operations of Graceland, the rights to the name, image and likeness of Muhammad Ali and proprietary rights to the IDOLS television brand, including the American Idol television series in the United States and local adaptations in over 100 countries.

The principal investor in Rivacq is Barry Sternlicht. Mr. Sternlicht is founder and chairman of Starwood Capital Group, LLC, one of the nation s most active and successful real estate investment firms, with over 280 separate transactions since 1991.

The principal investor in High Desert is Neil G. Bluhm. Mr. Bluhm has developed and acquired luxury hotels, office buildings and mixed-used projects totaling more than $25 billion in a career spanning 35 years.

The principal investor in RH1 is Brett Torino. Mr. Torino, a prominent member of the Las Vegas community for more than 30 years, developed a highly successful building and development enterprise in the southwest and has built and acquired dozens of other successful commercial and multi-family residential projects in Nevada, California, Colorado and Arizona.

Riv Acquisition Inc.

Riv Acquisition Inc., a Nevada corporation, is a wholly-owned subsidiary of Riv Acquisition Holdings that was formed for the limited purpose of merging with and into Riviera Holdings Corporation at the effective time of the merger. As such, Riv Acquisition Inc. has no operating history or material assets.

Background of the Merger Agreement

Over the past several years, the Company has been approached numerous times by parties expressing an interest in acquiring the entire Company or one of the Company s two gaming properties. Those approaches continued through late 2004, at which time the Company was contacted by three separate parties, each of whom expressed an interest in acquiring the Company. With the objective of developing an efficient process for evaluating and responding to such expressions of interest, in early December 2004 the Company retained Jefferies as its exclusive financial advisor in connection with the potential sale of the Company or any of its material assets.

Shortly after retaining Jefferies, the Company entered into an exclusivity agreement on December 8, 2004 with a prospective buyer who paid the Company a $1 million non-refundable deposit. By the end of the exclusivity period on February 1, 2005, the prospective buyer and the Company did not reach a sale agreement, the Company retained the $1 million deposit and discussions with that party ended.

Thereafter, following consultations with financial and legal advisors, the Company announced on February 15, 2005 the commencement of a process to explore strategic alternatives in order to maximize shareholder value and the retention of Jefferies as the Company s financial advisor in connection with that process. On February 14, 2005, the last full trading day before the Company s announcement, the closing price of

the Common Stock on Amex was $12.66. On February 15, 2005, the closing price of the Common Stock on Amex increased to $14.52. During its strategic process, the Company considered various courses of action, including a public offering of Common Stock, redevelopment of Riviera Las Vegas, refinancing, joint ventures and an outright sale of the entire Company.

In view of the significant rise in the value of Las Vegas Strip real estate in recent years, Riviera Las Vegas 26 acres of real estate fronting the Las Vegas Strip (carried on the Company s balance sheet at only $21.1 million, or less than $1 million per acre) and the Company s limited resources for putting those 26 acres to optimum use, the Board s view was that a sale of the Company or its material assets offered the greatest potential for maximizing shareholder value. Therefore, in early 2005, the Board began working with its legal and financial advisors to develop a process to identify and approach prospective buyers through a formal marketing process.

On May 2, 2005, Jefferies, on the Company s behalf, commenced the process of soliciting potential interest in an acquisition of the Company. Jefferies contacted 103 parties, including potential strategic acquirors (such as gaming and other leisure and entertainment companies) and potential financial acquirors (such as private equity funds and real estate investment companies). Of the parties contacted, 35 expressed sufficient interest to enter into confidentiality agreements with the Company. Those 35 parties were then given an information memorandum about the Company and a process letter, which set forth procedures for participating in a bidding process for the Company. Those parties were requested to submit written indications of interest, including a proposed acquisition structure, price and other material terms, by June 13, 2005.

At a Board meeting on July 7, 2005, Mr. Westerman presented and reviewed with the other Board members a summary of the 12 indications of interest that the Company had received from 11 potential buyers, as described below. That summary was based on information provided to the Company by Jefferies, and it included summary background information on each of the parties that submitted an indication of interest. Also at that meeting, the Company s legal counsel discussed with the Board its fiduciary duties in evaluating and responding to an acquisition offer.

Eight of the 11 potential buyers had submitted indications of interest to acquire the entire Company at prices ranging from $12.00 to $24.00 per share. Two potential buyers submitted indications of interest to acquire only Riviera Black Hawk. One of those two potential buyers proposed to acquire Riviera Black Hawk based upon an enterprise value of $95 million, and the other proposed an acquisition based upon an enterprise value ranging from $110 million to $125 million. Two other potential buyers (including one who also submitted an indication of interest to acquire the entire Company) submitted an indication of interest to acquire only Riviera Las Vegas. One of those potential buyers proposed to acquire Riviera Las Vegas based upon an enterprise value of $300 million, and the other proposed an acquisition based upon an enterprise value of $370 million.

After deliberations and consultation with the Company s legal and financial advisors, the Board decided to solicit a further round of offers from the eight potential buyers of the entire Company, whose indications of interest were at prices ranging from $12.00 to $24.00 per share. At the Board s request, Jefferies thereafter informed those eight potential buyers that they could advance to the next stage of the process and, if they chose to do so, they would be expected to complete their due diligence investigations of the Company, review and comment on the Company s proposed form of a merger agreement, and ultimately submit a final, binding offer to purchase the entire Company.

From July 10 through July 22, 2005, the Company held management presentations and site visits with representatives of the eight potential buyers, including Flag Luxury Properties, LLC (Flag), High Desert and their respective affiliates, during which the Company s executives discussed in detail the operations of the Company s properties. Representatives of all of those potential buyers were taken on extensive guided tours of Riviera Las Vegas facilities, and representatives of four of the potential buyers also toured Riviera Black Hawk s facilities.

On July 27, 2005, a second process letter was distributed to the eight potential buyers, which prescribed the form that their respective purchase offers should take, and the Company s proposed form of merger agreement. Each potential buyer was requested to submit by August 19, 2005 its purchase offer and its proposed changes to the Company s form of merger agreement.

On August 19, 2005, three potential buyers, including Flag, submitted indications of interest at purchase prices ranging from $20.00 to $25.50 per share. The other five potential buyers (including High Desert), who had previously submitted indications of interest to acquire the entire Company at prices of $12.00, $19.50, $20.00, $21.00 and $24.00, did not make submissions. Flag proposed $20.00 per share to acquire the entire Company. One of the other two parties also proposed $20.00 per share, but only for 34.9% of the outstanding Common Stock, which would not have produced the return that the Company was seeking for its shareholders. The proposal at $25.50 per share, although it appeared preliminarily to be the highest, was conditioned upon an unorthodox acquisition structure that did not appear feasible to the Company, especially after giving effect to the tax implications of the proposed structure.

A week after the August 19 deadline, a new party, in coordination with one of the five parties that had been solicited to submit an offer by August 19 but did not do so, submitted a proposal to purchase the Company for a lump sum of $526 million that would first be used to pay off all of the Company s liabilities and the balance of which would be paid for all of the Common Stock. After analysis and consultation with the Company s legal and financial advisors, the Board determined that this new proposal was unlikely to result in a proposal or an acquisition that would be more favorable to shareholders than the best of the three proposals submitted on August 19. The principal reasons for the Board s determination were the proposal s overall ambiguity, the lack of clarity as to what liabilities, if any, would be assumed by the potential buyer in addition to the lump sum payment, and questions that were not resolved to the Board s satisfaction concerning the potential buyer s financial capability to consummate the acquisition and the feasibility of consummating the transaction under the proposed structure that was intended to avoid the need for gaming licensing on the part of the potential buyer. In an effort to resolve these issues favorably, the Company requested Jefferies to have follow-up discussions with the potential buyer. However, when Jefferies had those discussions, the potential buyer failed to provide sufficient information for the Company to determine the net price per share of Common Stock under this proposal, and was generally unresponsive to a number of Jefferies questions regarding the extent of the liabilities to be assumed by the potential buyer. Consequently, discussions with that party were terminated.

Following the three submissions on August 19, 2005, the Company proceeded with further negotiations with Flag in an effort to get a higher price than $20.00 per share. Then on September 7, 2005, Flag, together with representatives of Barry Sternlicht, Neil Bluhm (the principal investor in High Desert), Brett Torino and their respective affiliates (collectively, the Buyers), submitted a new proposal to acquire the entire Company for $23.00 per share, and they requested an exclusivity period to complete due diligence and negotiations for the acquisition agreement. The closing price of the Common Stock on Amex on September 7, 2005 was $26.02.

On September 8, 2005, at the Company s request, Jefferies had a further discussion with the party who proposed $25.50 per share on August 19, 2005, in the hope of getting clarification or modification of that party s proposed acquisition structure in a way that would enable the Company to move forward with it. However, that party indicated that it intended to reduce its price proposal materially. No substantive dialogue regarding a potential transaction emerged from that discussion, and no further discussions were pursued between the Company and that party.

Thereafter, following consultations with the Company s legal and financial advisors, the Board concluded that the Buyers $23.00 per share proposal was superior to the other expressions of interest that the Company received. On October 3 and October 4, 2005, the Company, the Buyers and their respective legal and financial advisors held meetings at the offices of Bear Stearns & Co, Inc. in New York to negotiate an exclusivity arrangement. During those meetings, other issues relating to the possible transaction were also discussed, including certain provisions of a draft merger agreement and the Buyers interest in obtaining voting agreements

from senior members of the Company s management. On October 4, 2005, the Company entered into an exclusivity arrangement with the Buyers, which lasted through November 6, 2005, for the purpose of entering into an agreement for the Buyers acquisition of the Company through a cash merger at $23.00 per share. From October 21 through October 31, 2005, the Company, the Buyers, and their respective legal and financial advisors had numerous oral and written communications and exchanged various documents regarding the terms and conditions of a cash merger.

While the Buyers were conducting due diligence and negotiating with the Company regarding a merger agreement during the exclusivity period, the trading price of the Common Stock on Amex began to drop. On November 1, 2005, the closing price of the Common Stock on Amex was $16.90. Later that day, a representative of the Buyers advised the Company that they were reducing the price they were prepared to pay from $23.00 per share to $15.00 per share.

On November 6, 2005, the exclusivity period ended. The Board held a meeting on November 7 to consider the Buyers new price proposal of $15.00. At that time, the Board was aware that the Buyers might be willing to raise their price to $16.00, but not higher. The Company s legal and financial advisors participated in that meeting and advised the Board regarding the various legal and financial issues presented by the change in the price proposal. After presentations by the legal and financial advisors, the Board decided to reject the Buyers new price proposal and not to grant further exclusivity for them.

At that point, in view of the failure to reach an acquisition agreement through the strategic process that began in February 2005, the absence of any other reasonable expressions of interest in acquiring the Company and the recent decline in the trading price of the Common Stock, the Company decided to conclude its strategic process. On November 8, 2005, the Company issued an announcement to that effect but further stated that the Company would continue to consider strategic opportunities if and when they arise and if the Board considers them to be in the best interests of the Company and its shareholders. On November 9, 2005, the closing price of the Common Stock on Amex was $13.02.

Starting on November 28, 2005, there were a series of meetings between Mr. Westerman and representatives of the Buyers with respect to a possible acquisition by the Buyers of all or substantially all of the Common Stock owned by Mr. Westerman, which amounted to approximately 2.1 million shares and constituted approximately 16.8% of the outstanding Common Stock, at a price of $15.00 per share.

On or about December 7, 2005, the Company learned of the proposed acquisition of Mr. Westerman s shares by the Buyers. In the course of the negotiations between Mr. Westerman and the Buyers, the Company was informed that the Buyers had a continuing interest in acquiring the entire Company.

On December 22, 2005, Mr. Westerman and companies affiliated with the Buyers executed the Westerman Agreement, which gave the Buyers affiliates the right or obligation, under certain circumstances, to purchase substantially all of Mr. Westerman s shares of Common Stock at $15.00 per share. The Westerman Agreement also stated that the Buyers or their affiliates intended to enter into negotiations with the Board for their acquisition of control of the Company (an Acquisition Transaction) at not less than $15.00 per share. The Westerman Agreement, however, also contained an acknowledgment that since the Company s November 8, 2005 announcement of the conclusion of its strategic process, the Board had not considered an acquisition of the Company by the Buyers. The Westerman Agreement further provided that subject to his fiduciary duties as an executive officer and director of the Company, Mr. Westerman would (1) assist and cooperate with the Buyers in obtaining the requisite approvals from gaming regulators for the Buyers to acquire 10% or more of the outstanding Common Stock and to acquire control of the Company and (2) propose to the Board that a candidate nominated by the Buyers be appointed to the Board. In addition, the Westerman Agreement provided that subject to any withdrawal by the Board of its approval of an Acquisition Transaction, Mr. Westerman would vote all of the shares he owns in favor of an Acquisition Transaction. Mr. Westerman and the Buyers publicly reported all of this in their respective Schedule 13Ds that they filed on December 27 and 28, 2005. (Because the merger

constitutes an Acquisition Transaction, Mr. Westerman is required under the Westerman Agreement to vote his shares in favor of the Merger Agreement (subject to any withdrawal by the Board of its approval of the Merger Agreement)).

On December 23, 2005, the last full trading day before the Westerman Agreement was publicly reported, the closing price of the Common Stock on Amex was $14.05. On December 28, 2005, the first full trading day after the Westerman Agreement was publicly reported, the Common Stock closing price on Amex was $16.37.

In January 2006, the Company, through Jefferies, was contacted by two other parties who made inquiries about a possible acquisition. One of those parties decided not to make a bid at all, and the other initially expressed an interest in keeping only Riviera Black Hawk but withdrew its interest when it was unable to secure a partner who would acquire Riviera Las Vegas.

In anticipation of a new acquisition proposal by the Buyers, the Board on January 17, 2006 formed a special Negotiating Committee to consider and consult with the Company s legal and financial advisors about such a proposal and to negotiate with the Buyers if it was determined that negotiations were appropriate. The Negotiating Committee consisted of all Board members except Mr. Westerman.

On January 30, 2006, at the request of the Buyers, the Negotiating Committee and its legal advisors met in Las Vegas with the representatives of the Buyers and their legal and financial advisors for the first time since negotiations with the Buyers ended on November 7, 2005. At that meeting, representatives of the Buyers expressed a desire to acquire the entire Company through a cash merger at $15.00 per share. They also made a presentation to the Board, which was intended to demonstrate that, given the Buyers available strategies for the Company, their valuation of the Company included (1) various significant costs for which the Buyers would be required to reserve considerable capital and (2) a potential capital gains tax liability of approximately $3 million per acre (or approximately $78 million in the aggregate) that would be triggered in the event of their sale of the Riviera Las Vegas real property, due to the Company s very low tax basis in that real property.

Between January 18 and March 6, 2006, the Negotiating Committee held 11 meetings concerning the anticipated proposal and the actual proposal by the Buyers to acquire the Company. Throughout this period, the Company received no other acquisition proposals, despite the December 27 and 28, 2005 public reports of the Westerman Agreement and the Buyers publicly disclosed desire to acquire control of the Company at not less than $15.00 per share. Also during this period, the Negotiating Committee informed the Buyers that it considered $15.00 to be inadequate. On February 21, 2006, two representatives of the Buyers met in Las Vegas with a member of the Negotiating Committee and indicated that they would be interested in an acquisition of the Company at $16.00 per share if the Company would commit to that price. The member of the Negotiating Committee responded that he would present the proposal to the Negotiating Committee but gave no indication that the proposal would be accepted. The representatives of the Buyers indicated that their offer of $16.00 per share was their final offer.

The Negotiating Committee rejected the $16.00 offer as inadequate and discussions with the Buyers ended on March 2, 2006, which the Buyers publicly reported in a Schedule 13D amendment on March 3, 2006 and the Company publicly reported in a Form 8-K on March 8, 2006. On March 6, 2006, the first trading day after the Buyers filed their Schedule 13D amendment, the price of the Common Stock on Amex closed at $14.99. Also on March 6, 2006, due to the termination of discussions between the Company and the Buyers, the Negotiating Committee was dissolved. Thereafter, no other parties contacted the Company to express an interest in an acquisition, and the Common Stock trading price continued to decline, reaching a low of $13.80 on March 14, 2006.

On March 17, 2006, one of Flag s representatives met informally with a former member of the Negotiating Committee. At that meeting, the possibility of a $17.00 per share acquisition offer was discussed. Flag s representative stated that he believed the Buyers would be agreeable to an acquisition of the Company at $17.00 per share if the Board would be agreeable to that price.

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After consultation with the Company s legal and financial advisors, on March 21, 2006, the Board resolved that it would agree to resume discussions with the Buyers for an acquisition at $17.00 per share, which was promptly communicated to the Buyers. From that point on, the entire Board, including Mr. Westerman, participated in the deliberations and negotiations. Later that day, the Buyers agreed to pursue an acquisition of the Company at $17.00 per share. On that day, the closing price of the Common Stock on Amex was $15.18.

On March 23, 2006, the Company reported in a Form 8-K the resumption of discussions with the Buyers for an acquisition of the Company at $17.00 per share, which represented a premium of 13.3% over the $15.01 closing price of the Common Stock on Amex on the previous day. Thereafter, while the Company and the Buyers were negotiating the definitive merger agreement and the Buyers were conducting further due diligence (without an exclusivity agreement), no other parties expressed to the Company an interest in making an acquisition bid.

By April 3, 2006, the Company and the Buyers had made substantial progress in their negotiations and were very close to signing a merger agreement under which the Company would be acquired by Parent, a corporation owned by the Buyers. The Board held a meeting on that date, at which Jefferies presented to the Board a series of financial and comparative valuation analyses of the $17.00 merger price, and the Company s legal counsel again advised the Board concerning its fiduciary duties in the context of the proposed transaction. Following those presentations, all of the Board members, except Mr. Westerman who abstained, approved the terms of the Merger Agreement, to the extent that the terms had been negotiated by that time.

By the close of trading on April 3, 2006, the Common Stock price on Amex had risen to $17.11 and by the close of trading the next day, the price had risen to $17.35.

On April 5, 2006, the Board held another meeting and Jefferies rendered to the Board its opinion, as investment bankers, to the effect that, as of that date and based upon and subject to the various considerations and assumptions set forth in that opinion, the merger consideration to be received by holders of the Common Stock pursuant to the Merger Agreement was fair, from a financial point of view, to such holders (other than Mr. Westerman, Parent and their respective affiliates). Also at that meeting, the Company s legal counsel advised the Board again concerning its fiduciary duties as they pertained to the proposed transaction.

All of the Board members, except Mr. Westerman who abstained, thereupon approved the Merger Agreement, subject to resolution of certain minor points and finalization of disclosure schedules later that day. Subject to the execution of the Merger Agreement, all of the Board members (except Mr. Westerman who abstained) also approved the acquisition by Parent s affiliates of Mr. Westerman s remaining shares of Common Stock under the Westerman Agreement (besides the one million shares they purchased on January 8, 2006) and waived the applicable provisions of Chapter 78 of the Nevada Revised Statutes (restricting acquisitions of controlling stock interests and business combinations) and the applicable provision of the Company s articles of incorporation to the extent that they would have restricted the acquisition.

By the time of that Board meeting, the stock market had closed for the day and the closing price of the Common Stock on Amex was $18.14.

In the late evening of April 5, 2006, the parties completed the execution and delivery of the definitive Merger Agreement, which the Company announced in a press release before the stock market opened the next morning.

On April 6, 2006, after the announcement of the $17.00 acquisition price, the price of the Common Stock on Amex continued to rise and closed at $18.94.

Since that announcement, the Company has received no other credible acquisition offers or credible indications of interest.

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The table below reports the closing price of the Common Stock on Amex on the last full trading day before, and the first full trading day following, the first public report of certain significant events that are described above in this section:

Event	Date of First Public Report	Common Stock Closing Price on Last Full Trading Day Before Report	Common Stock Closing Price on First Full Trading Day After Report
Company s commencement of strategic process to maximize shareholder value	February 15, 2005	$ 12.66	$ 14.52
Company s termination of strategic process to maximize shareholder value	November 8, 2005	$ 17.90	$ 13.02
Execution of the Westerman Agreement	December 27, 2005	$ 14.05	$ 16.37
End of the Company s discussions with the Buyers	March 3, 2006	$ 15.64	$ 14.99
Resumption of the Company s discussions with the Buyers at $17.00 per share	March 23, 2006	$ 15.01	$ 16.43
Execution of the Merger Agreement	April 6, 2006	$ 18.14	$ 18.94

The Company s Reasons for the Merger; Recommendation of the Board

At special meetings on April 3 and 5, 2006, the Board determined that the merger was in the best interests of the Company and Stockholders and approved the Merger Agreement and the merger. As required by the Merger Agreement, the Board also agreed to recommend to the Stockholders that they approve the Merger Agreement and granted the requisite waivers or approvals under the anti-takeover provisions of the Company s articles of incorporation and Chapter 78 of the Nevada Revised Statutes for Parent and its affiliates to purchase Mr. Westerman s remaining shares of Common Stock under the Westerman Agreement at $15.00 per share. All members of the Board approved the above matters, except for Mr. Westerman who abstained.

The Board has agreed to recommend, and the Board unanimously recommends, that you vote FOR approval of the Merger Agreement at the annual meeting.

In reaching its decision to approve the Merger Agreement and the merger and to recommend that Stockholders approve the Merger Agreement, the Board considered the following material factors:

- the drawbacks and risks associated with the Company s remaining under its current ownership, capital and debt structures, including:
  - the relatively small size of the Company compared to other Las Vegas Strip gaming properties and the Company s limited resources, which materially restrict future expansion;
  - the Company s negative shareholders equity, which continues in a negative direction due to lack of profitability, and the Company s high debt-to-cash flow ratio;
  - the Company s high borrowing costs relative to other Las Vegas Strip gaming properties;
  - the Company s relatively weak competitive position compared to other Las Vegas Strip gaming properties, especially those which offer integrated player incentives in multiple gaming properties or locations;

the risks associated with the volatility of the market for real estate located on or near the Las Vegas Strip, which could result in a significant drop in the price of the Common Stock and the value of the Company s real estate and thereby deprive stockholders of the value presently offered by the Merger Agreement; and

the risk that the currently high multiples of stock prices to earnings for gaming companies will not last, which could result in a drop in the price of the Common Stock and thereby deprive Stockholders of the value presently offered by the Merger Agreement.

the fact that the $17.00 per-share merger price represents:

a 13.3% premium over the closing price of the Common Stock on Amex on March 22, 2006, the day before the Company reported that it had resumed discussions with the Buyer at $17.00 per share;

a 21% premium over the closing price of the Common Stock on Amex on December 23, 2005, the last full trading day before the Westerman Agreement was reported; and

a 34% premium over the closing price of the Common Stock on Amex on February 14, 2005, the last full trading day before the Company announced its decision to explore strategic alternatives;

the fact that the Company would have to sell its Riviera Black Hawk casino for $125 million (the highest price indicated by potential buyers when the Company was considering strategic alternatives in 2005) and realize a net of approximately $15 million per acre from the sale of the 26-acre Riviera Las Vegas property to be able to pay Stockholders $17.00 per share, after providing for the Company s capital gain taxes and demolition and employee severance costs;

the fact that no other bona fide potential buyer expressed an interest in acquiring the Company at a higher price after the public reports of the Westerman Agreement and the Company s resumption of discussions with Parent at $17.00 per share, despite the extensive process that the Company and its financial advisor undertook in 2005 to try to get the highest possible price for the Company, and their numerous contacts with potential buyers during that time (as discussed in The Merger Agreement Background of the Merger);

the prominence, background and experience of Parent s principals which, together with the size of Parent s cash escrow deposit and the absence of any financing contingencies on the Parent s obligation to consummate the merger, gave the Board a feeling of confidence that the merger will be consummated if Stockholders approve it;

the all-cash nature of the merger consideration, which provides certainty of value for Stockholders;

Jefferies presentation on April 3, 2006 of its financial and comparative valuation analyses of the merger consideration, and its opinion, as investment bankers, to the Board on April 5, 2006, to the effect that, as of that date and based upon and subject to various considerations and assumptions set forth in the opinion letter, the merger consideration to be received by the Stockholders pursuant to the Merger Agreement was fair, from a financial point of view, to such holders (other than Mr. Westerman, the Parent and their respective affiliates) (see The Merger Agreement Opinion of Jefferies); and

the provisions of the Merger Agreement that, subject to certain requirements described under The Merger Agreement No Solicitation, The Merger Agreement Termination of the Merger Agreement and The Merger Agreement Topping Fee, allow the Company to furnish information to, and negotiate with, a third party in connection with an unsolicited, potentially superior proposal for an acquisition of the Company and further allow the Company, upon payment of an approximately $7.9 million Topping Fee (which is less than 2% of the entire acquisition price including repayment or assumption of approximately $215 million of Company debt, and which amounts to less than $0.70 per share of Common Stock), to terminate the Merger

Agreement prior to the Stockholders approval of it, in response to a superior proposal to acquire the Company.

After considering the above factors, the Board concluded that the $17.00 per share cash merger price was an attractive price for the Stockholders in comparison to the value that the Company would reasonably expect to achieve for its Stockholders in the foreseeable future under the Company s current ownership, capital and debt structures.

The Board, though, also considered potential drawbacks or risks relating to the merger, including:

- the fact that an all-cash price would not allow Stockholders to realize value from the Company s future operations or from any further increases in the value of Las Vegas Strip real estate;

- the risks and costs to the Company if the merger is not consummated (including the diversion of management and employee attention, possible employee attrition and the potential effect on business and customer relationships), notwithstanding the Board s feeling of confidence that the merger will be consummated if Stockholders approve it;

- the fact that the Company s recourse might be limited to Parent s $15 million escrow deposit if the merger is not consummated by the Merger Agreement s deadline due to Parent s failure to obtain gaming approvals or funding;

- the amount of time it might take for Parent to obtain the required approvals under Nevada and Colorado gaming laws to consummate the merger, including the possibility that the merger would not be consummated until July 2007, in view of Parent s current, non-licensed status under those laws and Parent s ownership structure;

- the possible deterrent effect that the Company s liability for an approximately $7.9 million topping fee if it supports or accepts an alternative acquisition proposal could have on other parties that might otherwise be interested in offering to acquire the Company at a higher price, even though under certain circumstances the Merger Agreement would allow the Company to accept such an offer (see The Merger Agreement Topping Fee) and even though the Board considered the Topping Fee to be relatively small compared to the total acquisition price;

- the fact that gains arising from an all-cash transaction would be taxable to Stockholders for U.S. federal income tax purposes;

- the restrictions on the conduct of the Company s business during the period between the signing of the Merger Agreement and the consummation of the merger or the termination of the Merger Agreement, which could delay or prevent the Company from pursuing favorable business opportunities that may arise in the meantime; and

- the fact that the reported trading of the Common Stock on Amex had risen above $17.00 by the time the Merger Agreement was presented to the Board for approval, even though (1) the Company had reported on March 23, 2006 that $17.00 was the acquisition price being discussed with the Buyers and (2) no other discussions for an acquisition at any price had taken place with the Company since then.

In addition, the Board was aware of and considered the interests of directors and executive officers of the Company described under The Merger Agreement Interests of Certain Persons in the Merger.

The foregoing discussion addresses certain information and factors, positive as well as negative, that the Board considered in its deliberations regarding the Merger Agreement. In view of the variety of factors and the nature and amount of information considered, the Board did not find it practicable to, and did not, make specific assessments of, quantify or otherwise assign relative weights to each of the factors (or particular aspects of the factors) that the Board considered in reaching its decision. The Board s decision to approve the Merger Agreement was made after consideration of all such factors in the aggregate. In addition, individual members of the Board may have given different weight to different factors. Also, Mr. Westerman abstained from the Board s vote on the Merger Agreement.

Opinion of Jefferies & Company, Inc.

The Company engaged Jefferies to render an opinion to the Board as to the fairness to Stockholders, from a financial point of view, of the merger consideration to be received by them pursuant to the Merger Agreement. On April 5, 2006, Jefferies rendered to the Board its opinion as investment bankers to the effect that, as of that

date and based upon and subject to the various considerations and assumptions set forth therein, the merger consideration to be received by holders of the Common Stock pursuant to the Merger Agreement was fair, from a financial point of view, to such holders (other than Mr. Westerman, Parent and their respective affiliates).

The full text of Jefferies opinion, which sets forth the assumptions made, matters considered and limitations on the scope of review undertaken by Jefferies in rendering its opinion, is included in this proxy statement as Appendix B. The Company encourages Stockholders to read Jefferies opinion carefully and in its entirety. The summary of Jefferies opinion in this proxy statement is qualified in its entirety by reference to the full text of Jefferies opinion.

Jefferies opinion was provided to the Board in connection with its consideration of the merger and addresses only the fairness, from a financial point of view and as of the date of Jefferies opinion, of the merger consideration to be received by Stockholders, and does not address any other aspect of the merger. Jefferies opinion does not constitute a recommendation as to how any Stockholder should vote on the merger or any matter relating thereto.

In connection with its opinion, Jefferies, among other things:

- reviewed the Merger Agreement;
- reviewed the Company s operations and prospects;
- reviewed certain financial and other information about the Company that was publicly available;
- reviewed information furnished by the Company s management, including certain internal financial forecasts and analyses, budgets, reports and other information;
- held discussions with members of senior management of the Company concerning historical and current operations, financial conditions and prospects, including recent financial performance;
- reviewed the share trading price history of the Company for a period Jefferies deemed appropriate;
- reviewed the valuation of the Company implied by the merger consideration;
- reviewed the valuations of publicly traded companies that Jefferies deemed comparable in certain respects to the Company;
- reviewed the financial terms of selected acquisition transactions involving companies in lines of business that Jefferies deemed comparable in certain respects to the business of the Company or involving companies that owned land in Las Vegas, Nevada;
- reviewed the premiums paid in selected acquisition transactions;
- prepared a discounted cash flow analysis of the Company; and

prepared a leveraged valuation analysis of the Company.

In addition, Jefferies conducted such other quantitative reviews, analyses and inquiries relating to the Company, as Jefferies considered appropriate in rendering its opinion.

In Jefferies review and analysis and in rendering its opinion, Jefferies assumed and relied upon, but did not assume any responsibility to independently investigate or verify, the accuracy, completeness and fair presentation of all financial and other information that was provided to Jefferies by the Company, or that was publicly available (including, among other things, the information described in the bullet points above), or that was otherwise reviewed by Jefferies. Jefferies opinion was expressly conditioned upon such information, whether written or oral, being complete, accurate and fair in all respects material to its analysis.

With respect to the financial forecasts provided to and examined by Jefferies, Jefferies noted that projecting future results of any company is inherently subject to uncertainty. The Company informed Jefferies, however,

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and Jefferies assumed, that such financial forecasts were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of the Company as to the future performance of the Company. Jefferies expressed no opinion as to the Company s financial forecasts or the assumptions on which they were made. In addition, in rendering its opinion Jefferies assumed that the Company will perform in accordance with such financial forecasts in all material respects for all periods specified therein. Although such financial forecasts did not form the principal basis for Jefferies opinion, but rather constituted one of many items that it employed, material changes to such financial forecasts could affect its opinion.

In its review, Jefferies did not obtain any independent evaluation or appraisal of the assets or liabilities of, nor did it conduct a comprehensive physical inspection of any of the assets of, the Company, nor was Jefferies furnished with any such evaluations or appraisals or reports of such physical inspections, nor did Jefferies assume any responsibility to obtain any such evaluations, appraisals or inspections. Jefferies opinion was based on economic, monetary, regulatory, market and other conditions existing and which could be evaluated as of the date of its opinion. Jefferies expressly disclaimed any undertaking or obligation to advise any person of any change in any fact or matter affecting its opinion of which Jefferies becomes aware after the date of its opinion. Jefferies made no independent investigation of any legal or accounting matters affecting the Company, and Jefferies assumed the correctness in all respects material to its analysis of all legal and accounting advice given to the Company, including advice as to the legal, accounting and tax consequences to the Company and Stockholders of the terms of, and transactions contemplated by, the Merger Agreement. In addition, in preparing its opinion, Jefferies did not take into account any tax consequences of the transaction to Stockholders.

In rendering its opinion, Jefferies also assumed with the consent of the Board that:

- the transactions contemplated by the Merger Agreement will be consummated on the terms described in the Merger Agreement without any waiver of any material terms or conditions which would affect the amount or timing of receipt of the merger consideration;

- there was not, and there will not as a result of the consummation of the transactions contemplated by the Merger Agreement be, any default, or event of default, under any indenture, credit agreement or other material agreement or instrument to which the Company or any of its subsidiaries or affiliates is a party; and

- all material assets and liabilities (contingent or otherwise, known or unknown) of the Company were as set forth in the consolidated financial statements provided to Jefferies by the Company, as of the dates of such financial statements.

Jefferies opinion was for the use and benefit of the Board in its consideration of the merger, and its opinion did not address the relative merits of the transactions contemplated by the Merger Agreement as compared to any alternative transactions that might be available to the Company, nor did it address the underlying business decision by the Company to engage in the merger or the terms of the Merger Agreement or the documents referred to therein. Jefferies expressed no opinion as to the price at which the Common Stock will trade at any future time.

In preparing its opinion, Jefferies performed a variety of financial and comparative analyses. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant quantitative and qualitative methods of financial analysis and the applications of those methods to the particular circumstances and, therefore, is not necessarily susceptible to partial analysis or summary description. Jefferies believes that its analyses must be considered as a whole. Considering any portion of Jefferies analyses or the factors considered by Jefferies, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying the conclusion expressed in Jefferies opinion. In addition, Jefferies may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions, so that the range of valuation resulting from any particular analysis described below should not be taken to be Jefferies view of the

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Company s actual value. Accordingly, the conclusions reached by Jefferies are based on all analyses and factors taken as a whole and also on the application of Jefferies own experience and judgment.

In performing its analyses, Jefferies made numerous assumptions with respect to industry performance, general business, economic, monetary, regulating, market and other conditions and other matters, many of which are beyond the Company s and Jefferies control. The analyses performed by Jefferies are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the value of the Company do not purport to be appraisals or to reflect the prices at which the Company may actually be sold. The analyses performed were prepared solely as part of Jefferies analysis of the fairness, from a financial point of view, of the merger consideration and were provided to the Board in connection with the delivery of Jefferies opinion.

The following is a summary of the material financial and comparative analyses performed by Jefferies that were presented to the Board on April 3, 2006 in connection with Jefferies delivery of its opinion to the Board on April 5, 2006. The financial analyses summarized below include information presented in tabular format. In order to fully understand Jefferies financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data described below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Jefferies financial analyses.

Transaction Overview. Based upon the merger consideration of $17.00 per share, approximately 12.7 million shares of Common Stock outstanding as of March 1, 2006 on a fully diluted basis (calculated using the treasury stock method), and approximately $194.8 million of net debt (consisting of $215.4 million in aggregate principal amount of debt outstanding, less $20.6 million in cash), Jefferies noted that the merger consideration implied a net offer value of approximately $215.6 million, and a transaction value of approximately $410.5 million. Jefferies also noted that the merger consideration of $17.00 per share represented:

- a premium of 3.2% over the closing price per share of Common Stock on March 30, 2006 of $16.48,
- a premium of 13.3% over the closing price per share of Common Stock on March 22, 2006 of $15.01, which was one day prior to the announcement of the resumption of acquisition discussions with the Buyers,
- a premium of 50.4% over the lowest intra-day trading price per share of Common Stock on April 5, 2005 of $11.30, which was the lowest trading price of the Common Stock during the 52-week period ending March 30, 2006, and
- a discount of 36.6% from the highest intra-day trading price per share of Common Stock on September 8, 2005 of $26.83, which was the highest trading price of the Common Stock during the 52-week period ending March 30, 2006.

Historical Trading Analysis. Jefferies reviewed the share price trading history of the Common Stock for the one-year period ending March 30, 2006 on a stand-alone basis and also in relation to the S&P 500 Index and to a composite index consisting of the following gaming companies:

- Ameristar Casinos, Inc.
- Dover Downs Gaming & Entertainment, Inc.
- Isle of Capri Casinos, Inc.
- Monarch Casino & Resort, Inc.

MTR Gaming Group, Inc.

Penn National Gaming, Inc.

Pinnacle Entertainment, Inc.

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Comparable Company Analysis. Using publicly available information, Jefferies analyzed the trading multiples of the Common Stock and the corresponding trading multiples of the group of companies listed above under Historical Trading Analysis. In its analysis, Jefferies derived and compared multiples for the Company and the selected companies, calculated as follows:

- the enterprise value divided by estimated EBITDA for calendar year 2006, which is referred to as Enterprise Value/CY 2006E EBITDA, and
- the enterprise value divided by estimated EBITDA for calendar year 2007, which is referred to as Enterprise Value/CY 2007E EBITDA.

This analysis indicated the following:

Comparable Public Companies Multiples

	High	Low	Mean	Median
Enterprise Value/CY 2006E EBITDA	10.6x	7.4x	9.0x	9.1x
Enterprise Value/CY 2007E EBITDA	9.5x	4.9x	7.7x	8.3x

Using a reference range of 7.4x to 10.6x the publicly available consensus equity research analyst forecasts for the Company s 2006 EBITDA, and a reference range of 4.9x to 9.5x the publicly available consensus equity research analyst forecasts for the Company s 2007 EBITDA, Jefferies determined an implied enterprise value for the Company, then subtracted debt and added cash to determine an implied equity value. After accounting for the vesting of in-the-money stock options, this analysis indicated a range of implied values per share of Common Stock of approximately $9.09 to $19.39 using the estimated 2006 EBITDA multiples, and approximately $1.03 to $16.16 using the estimated 2007 EBITDA multiples, compared to the merger consideration of $17.00.

No company utilized in the comparable company analysis is identical to the Company. In evaluating the selected companies, Jefferies made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the Company s and Jefferies control. Mathematical analysis, such as determining the mean or median, is not in itself a meaningful method of using comparable company data.

Selected Comparable Transactions Analysis. Using publicly available information, Jefferies examined the following 12 transactions involving gaming companies announced since January 1, 2004 and having a transaction value ranging from $100 million to $1 billion. The transactions considered and the month and year each transaction was announced were as follows:

Target	Acquiror	Month and Year Announced
Trump Indiana, Inc.	Majestic Star Casino, LLC	11/05
Imperial Palace, LLC	Harrah s Entertainment, Inc.	8/05
Hollywood Casino Shreveport	El Dorado Resorts LLC	6/05
Argosy Gaming Company (Baton Rouge)	Columbia Sussex Corporation	6/05
Reno Hilton	Grand Sierra Resort Corporation	5/05
MotorCity Casino	Marian Ilitch	3/05
Golden Nugget Las Vegas	Landry s Restaurants, Inc.	2/05
Pocono Downs	Mohegan Sun	10/04
Grace Entertainment Inc.	Herbst Gaming, Inc.	7/04
Arizona Charlie s (Decatur and Boulder)	American Casino & Entertainment Properties LLC	5/04
Mountain High Casino	Ameristar Casinos, Inc.	6/04
Harrah s Entertainment, Inc. (Shreveport)	Boyd Gaming Corporation	1/04

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Using publicly available estimates and other information for each of these transactions, Jefferies reviewed the transaction value as a multiple of the target company s LTM EBITDA immediately preceding announcement of the transaction, which is referred to below as Transaction Value/LTM EBITDA. This analysis indicated the following:

Selected Comparable Transactions Multiples

	High	Low	Mean	Median
Transaction Value/LTM EBITDA	13.6x	6.6x	9.3x	8.2x

Using a reference range of 6.6x to 13.6x the Company s LTM EBITDA, Jefferies determined an implied enterprise value for the Company, then subtracted debt and added cash to determine an implied equity value. After accounting for the vesting of in-the-money stock options, this analysis indicated a range of implied values per share of Common Stock of approximately $5.43 to $27.53, compared to the merger consideration of $17.00.

No transaction utilized as a comparison in the comparable transaction analysis is identical to the merger. In evaluating the merger, Jefferies made numerous judgments and assumptions with regard to industry performance, general business, economic, market, and financial conditions and other matters, many of which are beyond the Company s and Jefferies control. Mathematical analysis, such as determining the average or the median, is not in itself a meaningful method of using comparable transaction data.

Discounted Cash Flow Analysis. Jefferies performed a discounted cash flow analysis to estimate the present value of the free cash flows of the Company through the fiscal year ending December 31, 2008 using Company management s financial projections. Jefferies also calculated the terminal value of the enterprise at December 31, 2008 by multiplying projected EBITDA in the fiscal year ending December 31, 2008 by multiples ranging from 7.0x to 8.0x. To discount the projected free cash flows and the terminal value to present value, Jefferies used discount rates ranging from 13.0% to 15.0%. To determine the implied total equity value for the Company, Jefferies subtracted debt and added cash to the implied enterprise value for the Company. After accounting for the vesting of in-the-money stock options, this analysis indicated a range of implied values per share of Common Stock of approximately $6.42 to $9.78, compared to the merger consideration of $17.00.

Leveraged Valuation Analysis. Jefferies performed a leveraged valuation analysis to estimate the highest theoretical purchase price that could be paid in a leveraged buyout in order to generate returns to a financial sponsor ranging from 20% to 30%. Jefferies assumed that a buyout firm would be able to finance the acquisition with $240 million of senior debt. Jefferies calculated the return to the buyer by using a range of exit multiples of 7.0x to 8.0x EBITDA for the fiscal year ending December 31, 2008 using Company management s financial projections. To determine the implied total equity value for the Company, Jefferies subtracted debt and added cash to the implied enterprise value for the Company. After accounting for the vesting of in-the-money stock options, this analysis indicated a range of implied values per share of Common Stock of approximately $6.52 to $9.49, compared to the merger consideration of $17.00.

Las Vegas Land Transactions Analysis. Using publicly available information, Jefferies examined the following five acquisition transactions involving real property located on the Las Vegas Strip. The transactions considered and the year each transaction was announced were as follows:

Year	Property	Acquiror	Value (in millions)	Acres	Implied Value Per Acre (in millions)
2005	Westward Ho	Centex Corporation	$ 145.5	15.2	$ 9.6
2004	Jockey Club land	3700 Associates, LLC	90.0	8.6	10.5
2003	Venetian expansion	Margel, LLC	50.0	4.5	11.1
2003	Loading dock of Barbary Coast Hotel and Casino	Coast Hotels & Casinos, Inc.	20.7	2.5	8.2
2002	Tropicana Casino and Resort	Aztar Corporation	119.5	17.0	7.0

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This analysis indicated that the mean value per acre was $9.3 million and the median value per acre was $9.6 million.

Using a reference range of $7.0 million per acre to $11.1 million per acre for the Company s property in Las Vegas, and an implied enterprise value of $138.3 million for the Company s Black Hawk property (calculated using an 8.0x multiple based on $17.3 million of LTM EBITDA), this analysis indicated a range of implied values per share of Common Stock of approximately $10.02 to $18.40, compared to the merger consideration of $17.00.

No transaction utilized as a comparison in the comparable transaction analysis is identical to the merger. In evaluating the merger, Jefferies made numerous judgments and assumptions with regard to industry performance, general business, economic, market, and financial conditions and other matters, many of which are beyond the Company s and Jefferies control. Mathematical analysis, such as determining the average or the median, is not in itself a meaningful method of using comparable transaction data.

Premiums Paid Analysis. Using publicly available information, Jefferies analyzed the premiums offered in 51 public merger and acquisition transactions consummated between January 1, 2004 and March 30, 2006 with transaction values between $300 million and $500 million.

For each of these transactions, Jefferies calculated the premium represented by the offer price over the target company s closing share price one day, one week and four weeks prior to the transaction s announcement. This analysis indicated the following median and mean premiums for those time periods prior to announcement:

Time Period Prior to Announcement	Median Premium	Mean Premium
1 day	22.6%	23.8%
1 week	22.0%	24.3%
4 weeks	27.6%	31.2%

Using a reference range of a premium of (26.7)% to 83.3% over the target company s share price, and the closing price per share of Common Stock on March 22, 2006 of $15.01, this analysis indicated a range of implied prices per share of Common Stock of approximately $11.00 to $27.52, compared to the merger consideration of $17.00.

Jefferies opinion was one of many factors taken into consideration by the Board in making its determination to approve the merger and should not be considered determinative of the views of the Board or management with respect to the merger or the merger consideration.

Jefferies was selected by the Board based on Jefferies qualifications, expertise and reputation. Jefferies is an internationally recognized investment banking and advisory firm. Jefferies, as part of its investment banking business, is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements, financial restructurings and other financial services.

In the ordinary course of business, Jefferies and its affiliates may trade or hold such securities of the Company and of certain affiliates of Parent for its own account and for the accounts of its customers and, accordingly, may at any time hold long or short positions in those securities.

Pursuant to an engagement agreement between the Company and Jefferies dated December 6, 2004 (and amended on February 11, 2005 and January 17, 2006), the Company has agreed to pay Jefferies a fee for its services contingent upon consummation of the merger. The fee will be the lesser of $3 million or 1% of the total proceeds and other consideration paid or received or to be paid or received in connection with the merger

(including consideration in the form of cash or assumption, refinancing or extinguishment of liabilities of the Company (including indebtedness of the Company)), plus $100,000 for every $1.00 per share, or proportionate share for any fraction thereof, by which the merger price per share exceeds the average 30-day trading price of the Common Stock determined as of the close of business on the trading day immediately preceding the first public announcement that the Company is pursuing strategic alternatives with Jefferies (which announcement was made on February 15, 2005). That fee is payable upon consummation of the merger. Based on the merger price, the number of outstanding shares of Common Stock and the Company s outstanding liabilities as of the date of the Merger Agreement, Jefferies fee would be approximately $4,152,000. If the Merger Agreement is terminated and the Company receives the Deposit (as defined in the Merger Agreement), the Company has agreed to pay Jefferies a $400,000 fee in connection with the delivery of its opinion to the Board. In addition, the Company has agreed to reimburse Jefferies for reasonable expenses incurred, including certain fees and disbursements of Jefferies legal counsel. The Company also has agreed to indemnify Jefferies and certain related parties against liabilities arising out of or in connection with the services rendered and to be rendered by it under its engagement.

Material Federal Income Tax Consequences

General

The following summary describes the material U.S. federal income tax consequences of the merger to Stockholders. This summary is based upon the Internal Revenue Code of 1986, as amended (the Code), applicable existing and proposed U.S. Treasury Regulations promulgated thereunder, and judicial decisions and administrative pronouncements, all as in effect on the date of this proxy statement and all of which are subject to change or different interpretations, and possibly with retroactive effect. This summary is for general information only and addresses only shares of Common Stock that are held as capital assets, as defined under section 1221 of the Code. This summary does not address all aspects of U.S. federal income taxation that may be relevant to a particular Stockholder, taking into account such Stockholder s personal investment circumstances or the possible special treatment of certain Stockholders under U.S. federal income tax laws (for example, life insurance companies, tax-exempt organizations, financial institutions, expatriates, dealers in securities or commodities or traders in securities who apply the mark-to-market method of accounting). In addition, this discussion does not address the aspects of U.S. federal income taxation that may be relevant to Stockholders who hold Common Stock as part of a hedging, straddle, conversion or other integrated transaction or who acquired Common Stock through the exercise of director or employee stock options or other compensation arrangements. Furthermore, this discussion does not address any aspect of foreign, state or local tax consequences of the merger and does not purport to describe all potential U.S. federal tax consequences of the merger.

STOCKHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE MERGER.

Material Consequences of the Merger to U.S. Holders

For purposes of this discussion, a U.S. holder means:

- a citizen or resident of the U.S.;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) organized or created in the U.S. or under the laws of the U.S. or any political subdivision thereof;
- an estate, the income of which is subject to federal income tax regardless of its source; or
- a trust (i) with respect to which a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of the substantial decisions of the trust or (ii) that has a valid election in place to be treated as a U.S. person.

The treatment of a partner in a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) that holds Common Stock will generally depend on the status of the partner and upon the activities of the partnership.

The receipt of cash in exchange for shares of Common Stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. In general, for U.S. federal income tax purposes, a U.S. holder of Common Stock will recognize gain or loss equal to the difference between such holder s adjusted tax basis in Common Stock converted into cash pursuant to the merger. Gain or loss will be calculated separately for each block of shares (i.e., shares acquired at the same cost in a single transaction) converted in the merger. Such gain or loss will generally be capital gain or loss and will generally be long-term capital gain or loss if the Stockholder held the shares of Common Stock for more than one year at the time of the consummation of the merger. Certain limitations apply to the deduction of capital losses.

Material Consequences of the Merger to Non-U.S. Holders

The following discussion applies to Stockholders who are non-U.S. holders. A non-U.S. holder is a person or entity that is not a U.S. holder.

If a non-U.S. holder sells or otherwise disposes of Common Stock in the merger in a transaction that is treated as a sale or exchange for U.S. federal income tax purposes, such Stockholder generally will not be subject to U.S. federal income tax on any gain realized on the disposition of Common Stock in the merger unless:

- the gain is effectively connected with the conduct of a trade or business in the U.S. of the non-U.S. holder, subject to an applicable treaty providing otherwise; or

- the Company is or has been a United States real property holding corporation and the non-U.S. holder held, directly or indirectly, at any time during the five-year period ending on the date of disposition or such shorter period that such shares were held, more than five percent of Common Stock.

Any non-U.S. holder that falls under either of the exceptions discussed above should consult its tax advisor to discuss the potential U.S. tax implications of the disposition of Common Stock in the merger, including the application of the provisions of the Code enacted as part of the Foreign Investment in Real Property Tax Act and any potential entitlement to benefits under an applicable income tax treaty. An individual who is present in the U.S. for 183 days or more in the taxable year in which the Common Stock is disposed of in the merger should also consult a tax advisor regarding the U.S. federal income tax consequences of the receipt of cash in exchange for shares of the Common Stock pursuant to the merger.

Backup Withholding

Backup withholding rules at the applicable rate (which is currently 28%) may apply to cash payments to a Stockholder or other payee which are received pursuant to the merger if the Stockholder or other payee does not provide its taxpayer identification number or otherwise fails to comply with applicable backup withholding rules and certification requirements. Each Stockholder and, if applicable, each payee should complete and sign the substitute Form W-9 that will be part of the letter of transmittal to be returned to the payment agent in order to provide the information and certification necessary to avoid backup withholding, unless an applicable exemption exists provided that such exemption is proved in a manner which is satisfactory to the payment agent. The exemptions provide that certain Stockholders (including all corporations and certain foreign individuals) are not subject to such backup withholding requirements. In order for a foreign individual to qualify as being exempt from backup withholding, such Stockholder, in general, must submit a signed Form W-8BEN (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding) and must comply with certain procedures. Any amounts withheld will be allowed as a refund or credit against such Stockholder s U.S. federal income tax liability for that year. If withholding results in an overpayment of taxes, a refund may be obtained by filing a tax return with the Internal Revenue Service; provided that such Stockholder follows all required procedures in a timely manner.

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THE PRECEDING DISCUSSION OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT INTENDED TO BE AND SHOULD NOT BE CONSTRUED AS LEGAL OR TAX ADVICE FOR ANY PARTICULAR STOCKHOLDER. STOCKHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF ANY CHANGES IN TAX LAWS.

Governmental and Regulatory Matters

Antitrust Laws

Under the HSR Act, the merger may not be consummated until the parties have filed notifications with the FTC and the DOJ and any applicable waiting period has terminated or expired.

At any time before or after completion of the merger, the FTC, the DOJ or any state attorney general could take action under the antitrust laws as deemed necessary or desirable in the public interest, including seeking to enjoin the consummation of the merger, to rescind the merger or to require the divestiture of particular assets of the Company. Under certain circumstances, private parties could also take action under the antitrust laws. There can be no assurance that a challenge to the merger will not be made or, if such a challenge is made, that the Company and Parent will prevail.

Gaming Regulation

Nevada Gaming Regulation. The ownership and operation of casino gaming facilities in Nevada are subject to the Nevada Gaming Control Act and the regulations thereunder (collectively, the Nevada Act), and various local ordinances and regulations. The Nevada gaming operations of the Company are subject to the licensing and regulatory control of the Nevada Gaming Commission (the Nevada Commission), the Nevada State Gaming Control Board (the Nevada Board) and the Clark County Liquor and Gaming Board (comprised of the Clark County Commissioners) (collectively, the Nevada Gaming Authorities).

The Nevada Act provides that control of a registered publicly traded corporation such as the Company through a tender offer, merger, consolidation, acquisition of assets, management or consulting agreements or any form of takeover whatsoever cannot be acquired without the prior approval of the Nevada Commission. The Nevada Board reviews and investigates applications and makes recommendations on those applications to the Nevada Commission for final action. Parent has filed applications with the Nevada Board for approval of the acquisition of control of the Company through the merger. The Company is currently registered by the Nevada Commission as a publicly traded corporation and has been found suitable to own the stock of its subsidiary that operates licensed gaming facilities in Nevada.

Parent has advised the Company that after the merger, the Company will remain a publicly traded corporation, as defined in applicable Nevada laws. Parent anticipates that after the merger, the Company will issue two classes of stock, a voting class and a non-voting class. The non-voting class of stock will be registered under the Securities Exchange Act of 1934, as amended (the Exchange Act). All of the voting stock will be issued to a business entity (Voteco), and all of the non-voting stock will be issued to Parent. In connection with approval of the merger, Voteco will be required to be registered as a holding company and found suitable to own the voting stock of the Company. Registered non-voting stock will be issued to one or more investment vehicles. Any beneficial owner of the Company s voting securities or other equity securities may be required by the Nevada Commission to file an application, be investigated, and have such holder s suitability determined as part of the approval of the merger. However, because the Company will remain a publicly traded corporation, Parent anticipates that the Nevada Commission will require only that the beneficial owners of the Company s voting stock be found suitable. Because the holders of the Company s non-voting stock will have no voting or other control, such holders will not be subject to mandatory licensure or registration under the Nevada Act. Such holders will, however, remain subject to the discretionary authority of the Nevada Gaming Authorities and may be required to file an application and have their suitability determined.

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The beneficial owners of the Company s voting stock will be the following individuals, who will own the equity of and control Voteco: Paul C. Kanavos, Brett Torino, Neil G. Bluhm, Barry S. Sternlicht and Greg Carlin. Mr. Kanavos is Co-Founder and Managing Member of Flag Luxury Properties, LLC. Mr. Torino is President and CEO of The Torino Companies. Mr. Bluhm is Co-Founder and President of JMB Realty, Co-Founder and Principal of Walton Street Capital and Co-Founder and Chairman of Falls Management Company. Mr. Sternlicht is the Founder and Chairman of Starwood Capital Group and former Chairman and CEO of Starwood Hotels & Resorts Worldwide. Mr. Carlin is a Managing Director of Lamb Partners, an affiliate of Mr. Bluhm s companies.

To obtain approval of the merger, Parent must satisfy the Nevada Gaming Authorities in respect of a variety of stringent standards. The Nevada Gaming Authorities will consider all relevant material facts in determining whether to grant this approval, and may consider not only the effects of the merger but also any other facts that are deemed relevant. Such facts may include, among others:

- the business history of Parent and its affiliates including its record of financial stability, integrity and success of its operations, as well as its current business activities and financial structure;
- the sources and adequacy of the proposed financing; and
- whether the merger will create a significant risk that the Company or its subsidiaries will not satisfy their financial obligations as they become due or satisfy all financial and regulatory requirements imposed by the Nevada Act.

The Nevada Gaming Authorities may also require certain of the individuals who are appointed as officers, directors, and key employees of the Company and its licensed subsidiary in connection with the merger, if any, to be investigated and licensed or found suitable as part of the approval process relating to the transaction. The Nevada Gaming Authorities may investigate any person who has a material relationship to, or material involvement with the Company or its licensed subsidiary in order to determine whether the individual is suitable or should be licensed as a business associate of a gaming licensee. The Nevada Gaming Authorities may deny an application for licensing for any cause that it deems reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation.

If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with the Company or its Nevada gaming subsidiary, that entity would have to sever all relationships with the person. In addition, the Nevada Gaming Authorities may require the Company or its Nevada gaming subsidiary to terminate the employment of any person who refuses to file appropriate applications.

Colorado Gaming Regulation

The ownership and operation of casino gaming facilities in Colorado are subject to the Colorado Limited Gaming Act and the regulations thereunder (collectively, the Colorado Regulations). The Colorado gaming operations of the Company are subject to the licensing and regulatory control of the five-member Colorado Limited Gaming Control Commission (the Colorado Commission) and the Division of Gaming (the Colorado Division) within the Department of Revenue. The Director of the Colorado Division (the Colorado Director), subject to the review of the Colorado Commission, has been granted broad power to ensure compliance with the Colorado Regulations. The Colorado Commission is empowered to issue five types of gaming and gaming-related licenses, and has delegated authority to the Colorado Director to issue certain types of licenses and approve certain changes in ownership.

Generally, a sale, lease, purchase, conveyance or acquisition of any interest in a licensee is prohibited without the Colorado Commission s prior approval. However, because the Company is a publicly traded corporation, persons may acquire an interest in the Company (even, under current staff interpretations, a

controlling interest) without the Colorado Commission s prior approval, but such persons may be required to file notices with the Colorado Commission and applications for suitability and the Colorado Commission may, after such acquisition, find such persons unsuitable and require them to dispose of their interest. Under some circumstances, the Company may not sell any interest in the Company s Colorado gaming business without the prior approval of the Colorado Commission.

Under the Colorado Regulations, any person or entity having any direct or indirect interest in a gaming licensee or an applicant for a gaming license, including the Company or its licensed subsidiary, may be required to supply the Colorado Commission with substantial information.

Such information, investigation and licensing (or finding of suitability) as an associated person automatically will be required of all persons (other than certain institutional investors) who directly or indirectly beneficially own 10% or more of a direct or indirect beneficial ownership or interest in a licensed subsidiary, through their beneficial ownership of any class of voting securities of the Company or any holding company or intermediary company of its licensed subsidiary. Those persons must report their interest within ten days (including institutional investors) and file appropriate applications within 45 days after acquiring that interest (other than certain institutional investors).

Persons (including institutional investors) who directly or indirectly beneficially own 5% or more (but less than 10%) of a direct or indirect beneficial ownership or interest in the licensed subsidiary, through their beneficial ownership of any class of voting securities of the Company or any holding company or intermediary company of the licensed subsidiary must report their interest to the Colorado Commission within ten days after acquiring that interest and may be required to provide additional information and to be found suitable.

It is the current practice of the gaming regulators to require findings of suitability for persons beneficially owning 5% or more of a direct or indirect beneficial ownership or interest, other than certain institutional investors.

If certain institutional investors provide specified information to the Colorado Commission within 45 days after acquiring their interest (which, under the current practice of the gaming regulators is an interest of 5% or more, directly or indirectly) and are holding for investment purposes only, those investors, in the Colorado Commission s discretion, may be permitted to own up to 14.99% of the licensed subsidiary through their beneficial ownership in any class of voting of securities of the Company or any holding company or intermediary company of the licensed subsidiary before being required to be found suitable.

The Colorado Regulations define a voting security to be a security, the holder of which is entitled to vote generally for the election of a member or members of the board of directors or board of trustees of a corporation or a comparable person or persons of another form of business organization.

An application for licensure or suitability may be denied for any cause deemed reasonable by the Colorado Commission or the Colorado Director, as appropriate. If the Colorado Commission determines that a person or entity is unsuitable to directly or indirectly own interests in the Company, then the Company and the licensed subsidiary may be sanctioned, which may include the loss of the approvals and licenses of the Company and/or the licensed subsidiary.

Parent has advised the Company that after the merger, the Company will remain a publicly traded corporation, as defined in the applicable Colorado Regulations. As described above, Parent anticipates that after the merger, the Company will issue two classes of stock, a voting class and a non-voting class. All of the voting stock will be issued to Voteco, and all of the non-voting stock will be issued to Parent. The Colorado Commission does not need to approve the Change of Ownership of the Company prior to the merger (although such approval is required, it can be considered by the Colorado Commission after the merger is completed). Similarly, although the approval of the Colorado Commission is not required prior to the merger with respect to certain persons and entities associated with Parent, such approval will be required after the merger.
In this regard,

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Voteco will be required to be found suitable as an associated person. In addition, each person who owns, directly or indirectly, 5% or more of Voteco and each director and executive officer of Voteco will need to be found suitable as an associated person. The staff of the Colorado Division also currently is taking the position that Parent, which will own the non-voting stock, and each of its directors and executive officers will be required to be found suitable as an associated person. Further, the staff of the Colorado Division currently is taking the position that, with the exception of certain entities, each person or entity who, directly or indirectly, owns 5% or more of the non-voting stock of the Company through ownership in Parent, is required to file an application for, and be found suitable as, an associated person. All of the findings of suitability will be considered by the Colorado Commission when it considers the Change of Ownership, and such findings of suitability may occur after the merger. As noted above, any person or entity with any direct or indirect financial or voting interest whatsoever in the Company may be required by the Colorado Commission to file an application, be investigated and have such person s or entity s suitability determined as part of the approval of the Change of Ownership. If any such persons or entities are not found suitable, the Colorado Commission will not approve the Change of Ownership unless and until such persons or entities dispose of their interests and, if the merger has occurred, the Company could be sanctioned (including by a loss of its gaming license) unless and until such persons or entities dispose of their interests.

The Colorado Commission also has the right to request information from any person directly or indirectly interested in, or employed by, a licensee, and to investigate the moral character, honesty, integrity, prior activities, criminal record, reputation, habits and associations of related parties, including (1) all persons licensed pursuant to the Colorado Limited Gaming Act; (2) all officers, directors and stockholders of a licensed privately held corporation; (3) all officers, directors and stockholders holding either a 5% or greater interest or a controlling interest in a licensed publicly traded corporation; (4) all general partners and all limited partners of a licensed partnership; (5) all persons that have a relationship similar to that of an officer, director or stockholder of a corporation (such as members and managers of a limited liability company); (6) all persons supplying financing or loaning money to any licensee connected with the establishment or operation of limited gaming; (7) all persons having a contract, lease or ongoing financial or business arrangement with any licensee, where such contract, lease or arrangement relates to limited gaming operations, equipment devices or premises; and (8) all persons contracting with or supplying any goods and services to the gaming regulators.

The Colorado Commission and the Colorado Division have interpreted the Colorado Regulations to permit the Colorado Commission to investigate and find suitable persons or entities providing financing to, or acquiring securities from, the Company or its licensed subsidiary or any intermediary company or holding company of the licensed subsidiary. Although the Colorado Regulations do not require prior approval for the execution of credit facilities or issuance of debt securities, the Colorado regulators reserve the right to approve, require changes to, or require the termination of, any financing, including if a person or entity is required to be found suitable and is not found suitable.

Under the Colorado Regulations, the Colorado gaming subsidiary may repurchase its voting securities from anyone found unsuitable at the lesser of the cash equivalent to the original investment in the Colorado gaming subsidiary or the current market price as of the date of the finding of unsuitability unless such voting securities are transferred to a suitable person (as determined by the Colorado Commission) within 60 days after the finding of unsuitability. A licensee or affiliated company must pursue all lawful efforts to require an unsuitable person to relinquish all voting securities, including purchasing such voting securities. The staff of the Colorado Division has taken the position that a licensee or affiliated company may not pay any unsuitable person any interest, dividends or other amounts with respect to non-voting securities, other than with respect to pursuing all lawful efforts to require an unsuitable person to relinquish non-voting securities, including by purchasing or redeeming such securities. Further, the regulations require anyone with a material involvement with a licensee, including a director or officer of a holding company, to file for a finding of suitability if required by the Colorado Commission.

Because of their authority to deny an application for a license or suitability, the Colorado Commission and the Colorado Director effectively can disapprove a change in corporate position of a licensee and with respect to

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any entity which is required to be found suitable, or indirectly can cause the Company to suspend or dismiss managers, officers, directors and other key employees or sever relationships with other persons who refuse to file appropriate applications or whom the authorities find unsuitable to act in such capacities.

Interests of Certain Persons in the Merger

In considering the Board s recommendation that you vote in favor of the Merger Agreement, you should be aware that members of the Board and the Company s executive officers have interests in the merger that are in addition to, or may be different from, those of Stockholders generally. The Board was aware of those interests and considered them, among other matters, in deciding to approve the Merger Agreement and to recommend that Stockholders vote in favor of it.

Stock Options

All options under the Company s stock option plans, including those held by the Company s directors and executive officers, even if they have not yet become vested and exercisable, will be canceled at the time of the merger in exchange for a cash payment of $17.00, less the applicable option per-share exercise price for each share of Common Stock subject to the option, less any applicable withholding taxes and without interest.

As of June 23, 2006, the Company s directors and executive officers held the following in-the-money Common Stock options, all of which are vested and presently exercisable:

Name	Total Shares Subject to in-the-Money Options(1)	Weighted Average Exercise Price of in-the-Money Options(1)	Value of in-the-Money Options at $17.00 per Share(1)
Vincent L. DiVito	12,000	$ 1.87	$ 181,560
Paul A. Harvey	18,000	2.22	266,040
Tullio J. Marchionne	36,000	2.34	527,760
Jeffrey A. Silver	24,000	2.25	354,000
Robert A. Vannucci	120,000	2.45	1,745,700
Total	210,000(2)	$ 2.35	$ 3,075,060(2)

(1) In addition to the amounts reported in the table, each of the Company s non-employee directors (Messrs. DiVito, Harvey, and Silver) holds options to purchase 6,000 shares of Common Stock at an exercise price of $21.60. Because the exercise price of these options exceeds the merger price, they will not provide an economic benefit to the option holders when the merger is consummated.

(2) In addition to the amounts reported in the table, Ronald R. Johnson, who was an executive officer when the Board approved the Merger Agreement but resigned on May 16, 2006, held options to purchase 30,000 shares of Common Stock at a weighted average exercise price per share of $2.45. Mr. Johnson exercised those options on May 26, 2006, resulting in his acquisition of shares having a net value of $436,500 based on the merger price (after deducting the aggregate exercise price of the options).

Before the merger is consummated, the Company may grant additional stock options to executive officers and other employees in accordance with the Company s customary compensation practices. The exercise price of those options will not be less than the market price of the Common Stock on the date of the option grant. Consequently, based on the spread between $17.00 and the expected exercise price of those options, such options are less likely to provide an economic benefit to the recipients.

Restricted Stock

Pursuant to grants of Common Stock under the Company s Restricted Stock Plan and a May 27, 2005 grant of Common Stock to the Company s non-employee directors, executive officers and directors hold shares of restricted Common Stock. Pursuant to the Merger Agreement, all outstanding shares of restricted Common Stock, like the other outstanding shares of Common Stock, will be canceled at the time of the merger in exchange for the right to receive a cash payment of $17.00 per share of restricted Common Stock, less any applicable withholding taxes and without interest.

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As of June 23, 2006, the Company s directors and executive officers held the following shares of restricted Common Stock having the following values based on the merger price:

Name	Total Shares of Restricted Common Stock	Value of Restricted Common Stock at $17.00 Per Share
Vincent L. DiVito	4,800	$ 81,600
Paul A. Harvey	4,800	81,600
James N. Land, Jr.	9,600	163,200
Tullio J. Marchionne	15,600	265,200
Jeffrey A. Silver	4,800	81,600
Robert A. Vannucci	64,305	1,093,185
Total	103,905(1)(2)	$ 1,766,385(1)(2)

(1) The amounts reported as restricted stock do not include a total of 33,900 shares of Common Stock, valued at $576,300 based on the merger price, on which the Company imposed restrictions when the Company granted them, but which have since become unrestricted and fully vested due to a lapse of those restrictions.

(2) When the Board approved the Merger Agreement, Duane R. Krohn and Ronald R. Johnson were executive officers of the Company and they each held 24,000 shares of restricted Common Stock valued at $408,000, based on the merger price (plus an additional 6,000 shares that became unrestricted and fully vested due to a lapse of the restrictions before the Board approved the Merger Agreement). On May 2, 2006, Mr. Krohn retired and on May 16, 2006, Mr. Johnson resigned, which resulted in the cancellation of all of the 24,000 restricted shares that each of them held.

In addition, Mr. Vannucci s employment agreement entitles him to receive $25,000 in cash or restricted Common Stock each calendar quarter plus a matching amount of his annual Incentive Compensation Program award in cash or restricted Common Stock. (See Executive Compensation Employment Agreements) Also, the Company s non-employee directors can elect to receive their director fees in Common Stock instead of cash. In the Merger Agreement, the Company has agreed to make all reasonable efforts to have Mr. Vannucci and the non-employee directors accept these amounts in cash rather than Common Stock.

Incentive Compensation Program

The Company has an Incentive Compensation Program that is intended to provide executives and other significant employees with annual cash awards based on the Company s attainment of predetermined financial targets. The Incentive Compensation Program is intended to provide an incentive for superior work and to motivate participants to reach or exceed the Company s targets, to tie their goals and interests to those of the Company and its Stockholders and to enable the Company to attract and retain highly qualified personnel.

Approximately 90 executives and significant employees (including Tullio J. Marchionne, Robert A. Vannucci and Mark B. Lefever, but excluding William L. Westerman), participate in the Incentive Compensation Program. The Merger Agreement provides for continuation of the Incentive Compensation Program for the Company s 2006 fiscal year. The Merger Agreement also allows for continuation of the Incentive Compensation Program for 2007 if approved by Parent, which approval will not be unreasonably withheld if such continuation is in the ordinary course of the Company s business and consistent with the Company s past practice. For further discussion of the Incentive Compensation Program, see Executive Compensation Incentive Compensation Program.

Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan (ESOP), which is described in Executive Compensation The ESOP. The Merger Agreement requires the Company to terminate the ESOP at or prior to

the time of the merger. Upon such termination, the ESOP participants accounts will become fully vested. In the merger, ESOP participants (which do not include the Company s non-employee directors) will receive $17.00 for each share of Common Stock that they beneficially own through the ESOP. As of June 23, 2006, the Company s executive officers beneficially owned the following shares of Common Stock through the ESOP (ESOP Shares), which had the following values based on the merger price:

Name	Number of ESOP Shares	Value of ESOP Shares at $17.00 Per Share
Tullio J. Marchionne	2,975	$ 50,575
Robert A. Vannucci	5,309	90,253
William L. Westerman	4,572	77,724
Total	12,856(1)	$ 218,552(1)

(1) In addition to the amounts reported in the table, Duane R. Krohn and Ronald R. Johnson, who were executive officers when the Board approved the Merger Agreement but left the Company in May 2006, beneficially owned ESOP Shares at the time they left the Company. Mr. Krohn and Mr. Johnson each beneficially owned 5,302 ESOP Shares that are valued at $90,134 based on the merger price, and are fully vested.

The Westerman Agreement does not provide for Mr. Westerman to sell his ESOP Shares to Parent s affiliates at $15.00 per share, so his ESOP Shares are valued at $17.00 per share in the above table.

In March 2006, the Company contributed $132,000 to the ESOP. Depending on when the merger takes place, the Company might make a further contribution to the ESOP in 2007. The ESOP trustee primarily uses the Company s contributions to purchase Common Stock at such times that the trustee considers such purchases to be appropriate. Consequently, the executive officers may acquire additional ESOP Shares before the merger, but the Company cannot estimate the number of such additional shares, if any, at present.

If the Company terminates the ESOP before consummation of the merger and before the 2007 contribution date, the Company will make the 2007 contribution to the Profit Sharing and 401(k) Plan instead.

Deferred Compensation Plan

The Company has a Deferred Compensation Plan (DCP), which is described in Executive Compensation The DCP.

Currently, one executive officer of the Company, Robert A. Vannucci, participates in the DCP. A participant s DCP account consists of cash compensation from the Company that the participant elected to defer and invest in the DCP. DCP accounts are held in a Rabbi Trust and may be invested in Common Stock. Shares of Common Stock that are held through the DCP (DCP Shares) are fully vested. As of June 23, 2006, Mr. Vannucci beneficially owned 3,776 DCP Shares, which are valued at $64,192 based on the merger price.

When the Board approved the Merger Agreement, Duane R. Krohn and Ronald R. Johnson were also executive officers and DCP participants. Mr. Krohn left the Company on May 2, 2006, at which time he beneficially owned 5,559 DCP Shares which are valued at $94,503, and Mr. Johnson left the Company on May 16, 2006, at which time he beneficially owned 82,470 DCP Shares which are valued at $1,401,990, based on the merger price. Mr. Krohn s and Mr. Johnson s DCP Shares are fully vested and will be distributed to them in accordance with the DCP s distribution schedule.

Summary of Estimated Maximum Payments to Executive Officers and Directors in the Merger

The following table shows the amount of cash payments that the Company s executive officers and directors are expected to receive as a result of the consummation of the merger, based on their direct or indirect ownership

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of Common Stock or Common Stock options. The amounts reported below, however, are subject to change if the ESOP Shares change due to the ESOP trustee s purchases or sales of Common Stock prior to the merger, if the number of DCP Shares changes, if the Company s future stock option grants result in additional in-the-money stock options, or if directors or Mr. Vannucci elects to receive certain future compensation in the form of Common Stock rather than cash (which the Company does not anticipate).

Name	Cash Payment for in-the-Money Stock Options Based on $17.00 per Share(1)	Cash Payment for Restricted Stock	Cash Payment for ESOP Shares	Cash Payment for DCP Shares	Total Payment
Vincent L. DiVito	$ 181,560	$ 81,600	$ 0	$ 0	$ 263,160
Paul A. Harvey	266,040	81,600	0	0	347,640
James N. Land, Jr.	0	163,200	0	0	163,200
Tullio J. Marchionne	527,760	265,200	50,575	0	843,535
Jeffrey A. Silver	354,000	81,600	0	0	435,600
Robert A. Vannucci	1,745,700	1,093,185	90,253	64,192	2,993,330
William L. Westerman	0	0	77,724	0	77,724
Total	$ 3,075,060(3)	$ 1,766,385(4)	$ 218,552(2)	$ 64,192(2)	$ 5,124,189(2)(4)

(1) The amounts in this column exclude options to purchase 24,000 shares of Common Stock at an exercise price of $21.60 per share, which will not provide an economic benefit to the option holders based on the $17.00 per share merger price.

(2) Duane R. Krohn, who retired on May 2, 2006, beneficially owned the following shares having the following values, based on the merger price, at the time of his retirement: 24,000 shares of restricted Common Stock valued at $408,000 (excluding 6,000 shares that had previously become vested and unrestricted due to a lapse of the restrictions); 5,302 ESOP Shares valued at $90,134; and 5,559 DCP Shares valued at $94,503. Upon Mr. Krohn s retirement, his restricted Common Stock was canceled, but he retained his beneficial ownership of the ESOP Shares and the DCP Shares. These amounts are not included in the table.

Ronald R. Johnson, who resigned on May 16, 2006, beneficially owned the following shares having the following values, based on the merger price, at the time of his resignation: 24,000 shares of restricted Common Stock valued at $408,000 (excluding 6,000 shares that had previously become vested and unrestricted due to a lapse of the restrictions); 5,302 ESOP Shares valued at $90,134; and 82,470 DCP Shares valued at $1,401,990. Upon Mr. Johnson s resignation, his restricted Common Stock was canceled, but he retained beneficial ownership of the ESOP Shares and the DCP Shares. These amounts are not included in the table.

(3) Ronald R. Johnson held options to purchase 30,000 shares of Common Stock at a weighted average exercise price per share of $2.45 at the time of his resignation. Mr. Johnson exercised those options on May 26, 2006, resulting in his acquisition of shares having a net value of $436,500 based on the merger price (after deducting the aggregate exercise price). This amount is not included in the table.

(4) This amount does not include 33,900 shares of Common Stock, valued at $576,300 based on the merger price, on which the Company imposed restrictions when the Company granted them, but which have since become unrestricted and fully vested due to a lapse of those restrictions.

In addition to the amounts reported in the table above, at or immediately prior to the merger the Company expects to pay Mr. Westerman the entire balance in his retirement account, which amounts to approximately $3.6 million (including accrued interest) as of June 23, 2006. Regardless of whether the merger is consummated, however, Mr. Westerman s retirement account balance is being reduced through the Company s quarterly distributions to Mr. Westerman of $250,000 from the principal balance of his retirement account. Mr. Westerman s retirement account is more fully described in Compensation of Directors and Officers Employment Agreements and Retirement Account. Since 1998 Mr. Westerman has had the right to require the Company to pay the entire balance of his retirement account into a Rabbi Trust for his benefit at any time upon five business days notice by him, but he has not exercised that right. If Mr. Westerman does not exercise that

right before the parties are ready to consummate the merger, he will be entitled to a direct payment by the Company of his entire retirement account balance at the time of the merger.

Pursuant to the Westerman Agreement, Mr. Westerman is expected to sell to Parents affiliates, at $15.00 per share, substantially all of his shares of Common Stock prior to consummation of the merger. On January 8, 2006, Parent s affiliates completed the purchase of one million shares of Common Stock held by Mr. Westerman at $15.00 per share pursuant to the Westerman Agreement.

Also, Jeffrey A. Silver is a shareholder in the law firm that serves as legal counsel to the Company in connection with the Merger Agreement, as well as on various other legal matters.

Additionally, the Company s executive officers and certain other key employees have salary continuation agreements or severance pay provisions in their employment agreements, as described directly below.

Salary Continuation Agreements and Other Severance Pay Provisions

Mr. Marchionne has a salary continuation agreement that would entitle him to 24 months of base salary and full fringe benefits, and eligibility for an Incentive Compensation Program bonus for the year of termination if the Company terminates his employment without cause within 24 months after the merger (or after any other change in control of the Company). That salary continuation agreement is not subject to a duty to mitigate by seeking other employment.

As reported in Compensation of Directors and Executive Officers Salary Continuation Agreements, other officers and significant employees (besides Mr. Marchionne) have salary continuation agreements with the Company that would entitle them to compensation and benefits if the Company terminates their employment without cause within a specified time period after the merger (or after any other change in control of the Company).

The salary continuation agreements expire on December 31, 2006, but the Merger Agreement allows the Company to extend or renew them or enter into new salary continuation agreements in the ordinary course of business and consistently with past practice. On or about the date of the annual meeting, the Company plans to enter into new salary continuation agreements that would be in effect through December 31, 2007.

Mark B. Lefever, who was hired as an executive officer on May 22, 2006, has an employment agreement that would entitle him to six months of salary if he is terminated without cause during the first 12 months of his employment. He would also be entitled to resign and receive six months salary if the Company is sold to any party other than Parent or its affiliates during his first 12 months of employment. In lieu of these severance pay entitlements, Mr. Lefever can enter into a salary continuation agreement, which would be on terms that the Company establishes for its executive vice presidents and would be in effect through December 31, 2007, if and when the Company carries out its plan for new salary continuation agreements this year.

Mr. Westerman and Mr. Vannucci have employment agreements that would entitle them to certain payments if the Company terminates their employment without cause, regardless of whether such termination is in connection with a change in control of the Company. Mr. Westerman is also entitled to certain non-competition payments following any termination of his employment with the Company (except termination by the Company for cause). Please see Compensation of Directors and Executive Officers Employment Agreements for further information about these payments.

Indemnification, Insurance and Benefits Provisions in the Merger Agreement

The Merger Agreement provides for indemnification of the Company s directors and officers, directors and officers liability insurance for the directors and officers who were covered by such insurance as of the date of

the Merger Agreement, and the provision of employee benefits, during specified time periods after the merger. Please see The Merger Agreement Indemnification and Insurance and The Merger Agreement Employee Benefits for descriptions of these provisions.

Financing; Source of Funds

Parent and Merger Subsidiary are entities that were recently formed by the Buyers for the specific purpose of acquiring the Company through the merger. As such, neither Parent nor Merger Subsidiary has any material assets (other than Parent s right to the escrow deposit that is described below) or sources of funds to consummate the merger, other than third-party financing or capital contributions from Parent s stockholders or their affiliates.

To consummate the merger, Parent will be required to (i) provide approximately $210 million to pay for the shares of Common Stock converted into the right to receive cash and (ii) pay certain additional transaction costs related to negotiating and closing the merger. Also, in order to redeem the Company s outstanding 11% Senior Secured Notes (Senior Notes) following the consummation of the merger in accordance with the Merger Agreement, Parent will require additional funds in the amount of $227 million ($215 million principal plus $12 million call premium) if consummation occurs before June 15, 2007, or $223 million ($215 million principal plus $8 million call premium) if consummation occurs on or after June 15, 2007.

To pay such amounts, Parent will obtain a loan from a commercial lender in the approximate amount of $350 million. It is currently contemplated that all funds required to consummate the merger in excess of $350 million will be provided in the form of capital contributions to Parent from its stockholders or their affiliates.

Parent has made a $15 million cash escrow deposit as security for its obligations under the Merger Agreement. Funds for the escrow deposit were provided by Parent s stockholders and their affiliates. Upon the consummation of the merger, the deposit will be returned to Parent or paid to such person as Parent may direct.

Parent has received a commitment letter from Credit Suisse with respect to a $350 million financing facility. The terms of such financing facility are as follows:

The total financing facility will not exceed $350 million and may consist of both a mortgage loan and a mezzanine loan.

Credit Suisse s commitment to provide the financing facility has an initial term of six months. Parent may extend the term of the commitment for nine one-month periods upon written notice to Credit Suisse and payment of 12.5 basis points for each month that the commitment is extended.

Upon acceptance of the commitment, Parent will pay Credit Suisse a commitment fee equal to .375% of the aggregate principal amount of the loan (i.e. $1,312,500) in consideration, among other things, of the issuance of the commitment. Upon the sooner to occur of (x) a successful Stockholder vote or (y) the date which is 90 days from the date of the commitment letter, Parent will pay to Credit Suisse a fee equal to .375% (i.e. $1,312,500) of the aggregate principal amount of the loan. Such commitment fee, less expenses, will be refunded if (i) Parent has not breached its obligations under the commitment and (ii) Credit Suisse fails to close and fund the loan in accordance with the terms of the commitment.

Credit Suisse will be entitled to terminate the commitment upon the occurrence of certain events including, among others, (i) any material adverse change affecting the merger, the Company, the property of the Company or the capital markets, or (ii) the filing of a petition of bankruptcy, insolvency or reorganization by or against Parent, its stockholders or certain of their affiliates.

Parent will pay Credit Suisse (i) a non-refundable 1.25% origination fee upon funding of the loan and (ii) reimbursement for all reasonable and customary costs and expenses.

The mortgage loan will be secured by, among other things, (i) a perfected first mortgage on the fee simple interest in the Riviera Las Vegas real property, (ii) an assignment of all related leases, rents,

casino revenues and cash on hand, deposits, income and profits, and (iii) an assignment or a perfected security interest in all other contracts, agreements, and personal property relating to Riviera Las Vegas. Any mezzanine loan will be secured by a pledge of the equity interests of Parent.

Both the commitment and consummation of the loan will be subject to certain conditions precedent, including, among other things, (i) satisfactory completion of due diligence investigations, (ii) execution and delivery of definitive documentation relating to the loan, (iii) first-priority liens and security interests in the property (free and clear of all liens), (iv) accuracy of representations and warranties, (v) payment of fees and expenses, (vi) obtaining of satisfactory insurance, (vii) no material adverse change, (viii) receipt of legal opinions, (ix) satisfaction of all conditions to the merger, (x) governmental and applicable third party consents, and (xi) the non-occurrence of any event of default.

The stockholders of Parent or their affiliates will execute a several guaranty and indemnity with respect to the recourse obligations of Parent. The relative obligations of the guarantors will be in accordance with their direct and indirect equity interests in Parent, and the guaranty will be limited to $35 million.

Parent expects that it will be able to obtain all of the financing necessary to consummate the Merger prior to the effective date of the merger. Receipt of sufficient financing to consummate the merger is not a condition to the consummation of the merger; therefore, Parent and Merger Subsidiary may be in breach of the Merger Agreement if they fail to obtain such financing. If such a breach occurs, the Company s recourse might be limited to the Merger Agreement escrow deposit.

Effect of the Merger on the Common Stock

The Common Stock is listed on Amex under the symbol RIV. Following the merger, it is expected that the Common Stock will be delisted from Amex, Common Stock price quotations will no longer be available and all of the Common Stock will be owned by Parent.

Appraisal or Dissenters Rights

Under Nevada law, holders of Common Stock are not entitled to appraisal or dissenters rights in connection with the merger.

THE MERGER AGREEMENT

The following is a summary of the material terms of the Merger Agreement. The summary is qualified in its entirety by reference to the Merger Agreement, a copy of which is included in this proxy statement as Appendix A and is incorporated herein by reference.

Structure of the Merger and Effective Time

Pursuant to the Merger Agreement, Merger Subsidiary, a wholly-owned subsidiary of Parent, will merge with and into the Company, with the Company continuing as the surviving corporation (the Surviving Corporation) after the merger. The merger will become effective (the Effective Time) at the time the articles of merger are filed with the Secretary of State of the State of Nevada. We intend to consummate the merger as promptly as practicable, subject to receipt of the Stockholders approval and all requisite regulatory approvals and clearances.

Merger Consideration

At the Effective Time, each share of Common Stock issued and outstanding, and not held in the treasury of the Company or owned by the Company, a subsidiary of the Company, Parent or Merger Subsidiary, will be converted into the right to receive $17.00 in cash. All other shares of Common Stock will be cancelled and each holder of a certificate representing shares of Common Stock will have no further rights with respect to such shares, other than the right to receive the $17.00 per share merger consideration, without interest, applicable to those shares. All shares of Common Stock held in the treasury of the Company or owned by the Company, a subsidiary of the Company, Parent or Merger Subsidiary, will be canceled at the effective time of the merger, and no payment will be made for those shares. Contemporaneously with the execution of the Merger Agreement, Parent agreed to deposit $15 million (the Deposit) into escrow.

Payment Procedures

Merger Subsidiary is required to select a bank to act as the payment agent. The payment agent will make payment of the merger consideration upon surrender of the certificates representing shares of Common Stock. As needed after the Effective Time, Parent will cause the Surviving Corporation to provide to the paying agent cash necessary to pay for the shares of Common Stock that were converted into the right to receive cash. As soon as reasonably practicable after the Effective Time, the payment agent will send each Stockholder of record a letter of transmittal and instructions explaining how to send his or her stock certificates to the payment agent. Upon the Stockholders surrender of such certificates, they will be entitled to receive $17.00 per share of Common Stock represented by such certificates, minus any withholding taxes required by law. No interest will be paid or accrue on any cash payable upon surrender of any certificate.

Treatment of Stock Options and Restricted Stock

At the Effective Time, each outstanding option to purchase shares of Common Stock previously granted by the Company or its subsidiaries, whether or not vested or exercisable in accordance with its terms, will be cancelled automatically and the Surviving Corporation will provide the holder thereof with a lump sum cash payment equal to the product of (i) the total number of shares of Common Stock subject to such stock option immediately prior to the Effective Time and (ii) the excess of $17.00 over the exercise price per share of Common Stock subject to such stock option, less any applicable withholding taxes and without interest.

Directors and Officers

The directors of Merger Subsidiary immediately before the Effective Time will become the directors of the Surviving Corporation upon consummation of the merger.

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The officers of the Company immediately before the Effective Time will become the officers of the Surviving Corporation upon consummation of the merger. If requested by Merger Subsidiary, however, the Company is required to deliver the resignation of each officer of the Company, effective as of the Effective Time.

Representations and Warranties

The Merger Agreement contains certain standard representations and warranties by the Company concerning (i) its organization, standing and power; (ii) capitalization; (iii) authorization, execution, delivery and enforceability of the Merger Agreement; (iv) consents and absence of conflicts of legal authority; (v) SEC filings and undisclosed liabilities; (vi) information to be supplied for inclusion in this proxy statement; (vii) absence of certain changes or events; (viii) taxes; (ix) absence of changes in benefit plans; (x) employee benefit plans; (xi) litigation; (xii) compliance with applicable laws; (xiii) environmental matters; (xiv) material contracts; (xv) properties; (xvi) intellectual property; (xvii) labor matters; (xviii) brokers, fees and expenses; (xix) insurance; (xx) the Worker Adjustment and Retraining Notification Act; (xxi) bank accounts; (xxii) the opinion of the Company s financial advisor; and (xxiii) compliance with Gaming Laws (as defined below).

The Merger Agreement contains certain standard representations and warranties by Parent and Merger Subsidiary concerning (i) organization, standing and power; (ii) authorization, execution, delivery and enforceability of the Merger Agreement; (iii) consents and absence of conflicts of legal authority; (iv) adequate funds; (v) gaming approvals; (vi) litigation; (vi) brokers; (vii) information to be supplied for inclusion in this proxy statement; (viii) beneficial ownership of Parent s and Merger Subsidiary s securities; and (ix) Parent s and its affiliates status as stockholders of the Company under the Company s organizational documents and Nevada corporate law.

Covenants; Conduct of the Business Prior to the Merger

The Company has agreed to cooperate with Parent and Merger Subsidiary and take all actions necessary to delist the Common Stock from Amex and terminate the registration of the Common Stock under the Exchange Act, if requested by Parent.

The Company has agreed to certain standard covenants concerning the operation of its business prior to the merger. The Company has agreed to hold a meeting of the Stockholders for the purpose of seeking their approval of the merger and solicit the Stockholders for such approval as promptly as practicable after the date of the Merger Agreement.

Parent and Merger Subsidiary have agreed to purchase a directors and officers liability insurance policy having a six-year term commencing on the date of consummation of the merger. Parent and Merger Subsidiary have agreed to pay the severance pay, salary continuation entitlements and other compensation and entitlements due under any existing contracts with, or plans for the benefit of, officers who are required by Parent or Merger Subsidiary to resign immediately prior to the merger, as if such officers were terminated without cause immediately after the consummation of the merger.

No Solicitation

The Company has agreed not to permit any of its subsidiaries or representatives to (i) solicit, initiate, encourage, or take any other action intended to facilitate a Takeover Proposal (as defined below), (ii) enter into an agreement with respect to a Takeover Proposal or (iii) participate in discussions or furnish information regarding a Takeover Proposal.

However, prior to obtaining Stockholder approval of the Merger Agreement, the Company is permitted to, in response to an unsolicited Takeover Proposal, (i) furnish information to the person making the Superior Proposal (as defined below), subject to a customary confidentiality agreement, and (ii) participate in negotiations

with the person making the Superior Proposal if the Board determines in good faith that (x) the Takeover Proposal is reasonably likely to result in a Superior Proposal and (y) such actions are required in order for the Board to fulfill its fiduciary duties. In such event, the Company has agreed (i) within 24 hours of actual receipt of the Superior Proposal and not less than 48 hours prior to furnishing any such information or participating in any such discussions, to inform Parent of the material terms and conditions of the Superior Proposal and (ii) to promptly inform Parent of the substance of any discussions relating to the Superior Proposal and of the status of the Superior Proposal.

The Company has agreed that the Board will not withdraw or modify or propose to withdraw or modify the recommendation of the Board relating to the Merger Agreement or the transactions contemplated by it. However, prior to Stockholder approval of the Merger Agreement, the Board is permitted to withdraw or modify its approval of the transactions contemplated by the Merger Agreement, approve or recommend a Superior Proposal, or enter into an agreement with respect to a pending Superior Proposal if (i) the Company has received a Superior Proposal which is pending at the time the Board determines to take such action, (ii) the Board determines in good faith that such action is required for the Board to fulfill its fiduciary duties, (iii) at least three business days have passed following Parent s receipt of written notice from the Company advising that the Board has received such Superior Proposal which it intends to accept, specifying the material terms and conditions of such Superior Proposal, and taking into account any new offer that Parent makes within this three business day period, the Board maintains its determination that its actions are required for the Board to fulfill its fiduciary duties and (iv) the Company pays the Topping Fee (as defined below) if and when required.

The Company has agreed to advise Parent orally and in writing of the Company s receipt of any Takeover Proposal and the terms and conditions of such Takeover Proposal within 48 hours of such receipt by the Company or any of its representatives.

It should be noted, however, that nothing contained in the Merger Agreement s non-solicitation provisions prohibits the Company from disclosing to Stockholders the Company s recommendation regarding a Superior Proposal as contemplated by SEC Rule 14d-9, Rule 14e-2(a) or Item 1012(a) of Regulation M-A under the Exchange Act or otherwise making disclosure required to fulfill the Board s fiduciary duties.

Agreement to Obtain Clearance from Regulatory Authorities

Subject to the terms and conditions of the Merger Agreement, the Company, Parent and Merger Subsidiary have agreed to make all reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable law and regulations (including the HSR Act and applicable gaming laws) to consummate and make effective the transactions contemplated by the Merger Agreement.

Among other things, each party has agreed to make such efforts to (i) cooperate in responding to inquiries from governmental entities and regulatory authorities, (ii) defend against and respond to any action, suit, proceeding or investigation, whether judicial or administrative, challenging or relating to the Merger Agreement and (iii) execute and deliver any additional instruments necessary to consummate the transactions contemplated by the Merger Agreement.

The Company has further agreed (i) to take all reasonable action to ensure that no state takeover statute or regulation becomes applicable to the merger and (ii) if such state takeover statute or regulation becomes applicable to the merger, to take all reasonable action to ensure that the merger is consummated as promptly as practicable and otherwise to minimize the effect of such state statute or regulation on the merger.

Parent, Merger Subsidiary, and their controlling parties (Parent s Applicants) have agreed to (i) as soon as practicable, but not later than 45 days after the date of the Merger Agreement, file applications and cooperate with all necessary Gaming Authorities (as defined below), (ii) prepare a draft response to the anticipated

information request from the Gaming Authorities no later than 90 days after the date of the Merger Agreement and (iii) deliver to the Company a certificate from their gaming counsel, on the six-month and nine-month anniversaries of the Merger Agreement stating that such required actions have been taken. If the Outside Date (as defined below) is extended, then Parent, Merger Subsidiary and Parent s Applicants are also required to provide such a certificate to the Company on the 12-month anniversary of the Merger Agreement. In the event that any Parent s Applicants application appears reasonably likely to be denied or to delay the issuance of gaming approvals, the Merger Agreement provides that such application will be withdrawn, and following such withdrawal, the remaining Parent s Applicants, along with Parent and Merger Subsidiary, will proceed with their applications for gaming approval.

Parent and Merger Subsidiary have agreed to report to the Company at least monthly on the status of their and Parent s Applicants applications for gaming approval, and to notify the Company within three business days after Parent, Merger Subsidiary or any of Parent s Applicants has been directly or indirectly advised that a Gaming Authority has a significant concern or issue with respect to any such persons application.

Employee Benefit Plans

After the Effective Time, all Company employees who are eligible to participate in Company benefit plans will either continue to participate in such plans (other than the ESOP and equity-based plans) or participate in benefit plans provided to similarly situated employees of Parent or its subsidiaries. Company employees who participate in Parent s benefit plans will be given credit for service with the Company or any Company subsidiary, for purposes of eligibility and vesting, to the extent such service was recognized under the Company benefit plans in which such Company employees participated. The Company will terminate the ESOP no later than the Effective Time.

Indemnification and Insurance

The Surviving Corporation will honor all rights to indemnification, advancement of costs and expenses and exculpation from liabilities in favor of the officers and directors of the Company and its subsidiaries. For a period of six years after the Effective Time, the Surviving Corporation will not take any action to amend, modify or repeal any provision of the articles of incorporation or by-laws of the Surviving Corporation in any way that would impair, eliminate, restrict or limit such rights to indemnification, advancement of costs and expenses and exculpation from liabilities.

In addition, at or prior to consummation of the merger, Parent or Merger Subsidiary will purchase a directors and officers liability insurance policy having a six-year term commencing on the Effective Date, covering acts and omissions occurring prior to the Effective Time (the Tail Policy) with respect to those persons who are currently covered by the Company s current directors and officers liability insurance policy (the Current D&O Policy). The Tail Policy will not be less favorable to such directors and officers than the Current D&O Policy. The maximum premium that Parent would be required to pay for the Tail Policy is 250% of the last premium paid for the Current D&O Policy prior to April 5, 2006, multiplied by six. However, the actual cost of the Tail Policy is expected to be far less than that, and is currently estimated at $1.3 million to $1.8 million. If coverage under the Tail Policy terminates during such six-year term, the Surviving Corporation will obtain as much coverage for such directors and officers as can be obtained for the remainder of the six-year term for an annualized cost not in excess of the maximum premium mentioned above.

Board Recommendation

Under the Merger Agreement, the Company has agreed to recommend to Stockholders that they approve the Merger Agreement. However, prior to the Stockholders approval of the Merger Agreement, the Board may withdraw or modify its recommendation of the Merger Agreement, approve or recommend a Superior Proposal, or enter into an agreement with respect to a Superior Proposal, in each such case if (i) the Company receives a

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Superior Proposal, (ii) the Board determines in good faith (after consultation with outside counsel) that such action is required in order to fulfill the Board s fiduciary duties, and (iii) the Board has taken into account any new offer Parent makes to the Company within three days of receiving notice of the Superior Proposal. Under any other circumstances, the Merger Agreement does not permit the Company to withdraw or modify its recommendation that Stockholders approve the Merger Agreement.

Satisfaction of Indenture Obligation

Prior to consummation of the Merger Agreement, Parent and Merger Subsidiary have agreed to deposit funds necessary to redeem the Senior Notes with the trustee under the Indenture governing the Senior Notes.

Conditions to the Consummation of the Merger

Consummation of the merger is subject to certain conditions precedent, including (i) approval of the Merger Agreement by the Stockholders; (ii) compliance with the HSR Act; (iii) absence of injunctions or other restraints precluding the merger; (iv) material accuracy of the Company s representations and warranties; (v) performance by the Company in all material respects of its obligations under the Merger Agreement; (vi) absence of pending or threatened litigation having a reasonable likelihood of success in blocking or otherwise materially interfering with the merger; (vii) absence of a Company Material Adverse Effect (as defined below); (viii) all approvals of governmental authorities that are required to consummate the merger, including approvals of gaming authorities; and (ix) termination of the Company s revolving credit facility.

Important Definitions

Company Material Adverse Effect means any state of facts, change, development, effect, event, condition or occurrence that could reasonably be likely to be materially adverse to (i) the business, assets (including intangible assets), liabilities (contingent or otherwise), condition (financial or otherwise), or results of operations of the Company and its subsidiaries, taken as a whole; (ii) the ability of the Company to perform its obligations under the Merger Agreement; or (iii) the ability of the Company to consummate the merger or the related transactions to be performed or consummated by the Company, other than any state of facts, event, change, effect, development, condition or occurrence relating to the economy in general. Notwithstanding the preceding sentence, neither the Company s disbursement of William L. Westerman s retirement account balance nor any other severance compensation obligations with respect to covered employees will be considered (nor will any of the excluded factors specified in the preceding clause (iii) of this paragraph be considered) in determining whether there has been a Company Material Adverse Effect.

Gaming Authorities means any or all of the Nevada gaming authorities, Colorado gaming Authorities and any other licensing or regulatory authority or Governmental entity whose consent, approval, license, waiver, order, decree, determination of suitability or other authorization is necessary or appropriate under the Gaming Laws for the consummation of the merger and the other transactions contemplated by the Merger Agreement.

Gaming Laws means, with respect to any person, any federal, state or local statute, law, ordinance, rule, regulation, permit, consent, approval, license, judgment, order, decree, injunction or other authorization governing or relating to the current or contemplated casino and gaming activities and operations of such person and its subsidiaries, including the rules and regulations of the Nevada gaming authorities or the Colorado gaming authorities.

Superior Proposal means any bona fide written offer not solicited by or on behalf of the Company made by a third party to consummate a tender offer, exchange offer, merger, recapitalization, reclassification, business combination, consolidation or similar transaction which would result in such third party (or in the case of a direct merger between such third party and the Company, stockholders of such third party) owning, directly or

indirectly, 100% of the value and voting power of the Common Stock then outstanding (or of the surviving entity in a merger) or all or substantially all of the assets of the Company, which the Board determines in its good faith judgment (after consultation with a financial advisor of nationally recognized reputation) is (i) more favorable to the Stockholders than the merger from a financial point of view (taking into account the person making the offer, all the terms and conditions of such offer, the Merger Agreement and any new offer made by Parent), and (ii) reasonably capable of being completed, taking into account the person making the offer and all legal, financial, regulatory and other aspects of the proposal, within a reasonable time.

Takeover Proposal means any inquiry, proposal or offer from any person relating to, or that would reasonably be likely to lead to, any direct or indirect acquisition or purchase, in one transaction or a series of related transactions, of 30% or more of the assets of the Company and its subsidiaries, taken as a whole, or more than 30% or more of the voting power of the outstanding shares of Common Stock or any class or series of equity or voting securities of the Company or any of its subsidiaries, any tender offer or exchange offer that if consummated would result in any person beneficially owning more than 30% of the voting power of the outstanding shares of Common Stock or any class or series of equity or voting securities of the Company or any of its subsidiaries, or any merger, consolidation, business combination, recapitalization, reclassification, share exchange, liquidation, dissolution or similar transaction or series of related transactions involving the Company or any of its subsidiary, other than the contemplated by the Merger Agreement.

Termination of the Merger Agreement

Parent or Merger Subsidiary may terminate the Merger Agreement prior to consummation of the merger if: (i) the Board withdraws or adversely modifies its recommendation for approval of the merger or approves or enters into an agreement with respect to a Takeover Proposal; (ii) a tender or exchange offer relating to securities of the Company is commenced and the Board does not recommend that the Stockholders reject such tender or exchange offer within ten business days after the commencement thereof; (iii) the Board waives the provisions of applicable Nevada corporate law regarding business combinations with interested stockholders and acquisitions of controlling interests, with respect to any person other than Parent, Merger Subsidiary, or their affiliates or any group of which any of them is a member; (iv) the Company breaches its covenant not to solicit an alternative Takeover Proposal; or (v) the Company breaches or fails to perform in any material respect any of its representations, warranties or covenants in the Merger Agreement that would give rise to a breach of a closing condition and cannot be cured within 30 days after receipt of written notice regarding such breach.

Parent, Merger Subsidiary or the Company may terminate the Merger Agreement prior to consummation of the merger if: (i) any governmental entity takes any final, unappealable action precluding the merger; (ii) the approval of the Stockholders is not obtained at a meeting of the Stockholders held for such purpose; or (iii) the consummation of the merger does not take place within the later of (A) 12 months from the date of the Merger Agreement and (B) eight months after the date on which the Stockholders vote on the Merger Agreement (such later date being the Outside Date). The Outside Date may be extended by three months if, as of the Outside Date, Parent and Merger Subsidiary are still awaiting, and have a reasonable expectation of obtaining, the gaming approvals required for the consummation of the merger. If Parent and Merger Subsidiary wish to extend the Outside Date, they are required to increase the amount of the Deposit by $3 million and deliver to the Company a financing commitment from a reputable financial institution.

The Company may terminate the Merger Agreement if (i) the Company has approved a Superior Proposal in accordance with the Merger Agreement s No Solicitation provisions summarized above or (ii) Parent or Merger Subsidiary breaches or fails to perform in any material respect any of its representations, warranties or covenants in the Merger Agreement that would give rise to a breach of a closing condition and cannot be cured within 30 days after receipt of written notice regarding such breach.

Termination Fee, Topping Fee and Entitlement to the Deposit if the Merger is not Consummated

If the Merger Agreement is terminated by Parent or Merger Subsidiary due to the Company s breach or failure to perform in any material respect any of its representations, warranties or covenants in the Merger

Agreement that would give rise to a breach of a closing condition and cannot be cured within 30 days after receipt of written notice regarding such breach, then except as discussed below in this paragraph, the Company will pay a termination fee to Parent equal to Parent s and Merger Subsidiary s out-of-pocket expenses incurred on or after February 1, 2005 in connection with the Merger Agreement, subject to a maximum of $2 million. The termination fee would not include any of Parent s or Merger Subsidiary s expenses incurred prior to the date of the Merger Agreement to the extent such expenses exceed $1 million. The Company will not be liable for the termination fee if its breach of a representation or warranty that gave rise to Parent s and Merger Subsidiary s right to terminate the Merger Agreement resulted from an event, fact or circumstance that occurred after the date of the Merger Agreement and did not constitute a willful breach by the Company.

The Company has also agreed to pay to Parent a fee equal to 3.75% of the aggregate consideration payable to Stockholders in the merger (the Topping Fee) (which amounts to approximately $7.9 million) if the Merger Agreement is terminated because: (i) the Company approves a Takeover Proposal; (ii) the Board withdraws or modifies in a manner adverse to Parent or Merger Subsidiary its recommendation of the merger, or enters into an agreement with respect to a Takeover Proposal; (iii) a tender or exchange offer relating to securities of the Company is commenced and the Board does not recommend that the Stockholders reject such tender or exchange offer within ten business days after the commencement thereof; (iv) the Board waives the applicable provisions of Nevada corporate law regarding business combinations with interested stockholders and acquisitions of controlling interests with respect to any person other than Parent, Merger Subsidiary, or their affiliates or any group of which any of them is a member; or (v) the Company breaches its covenant not to solicit a Takeover Proposal.

The Company also has agreed to pay Parent the Topping Fee if: (i) the Merger Agreement is terminated because the Stockholders have not approved the merger; (ii) prior to such termination, a Takeover Proposal had been announced and had not been withdrawn; and (iii) within 12 months after such termination, the Company enters into a definitive agreement with a third party with respect to the consummation of a Takeover Proposal.

The Merger Agreement does not provide for the Company s payment of both the termination fee and the Topping Fee under any circumstances.

The Company will be entitled to the Deposit if the Merger Agreement is terminated because Parent or Merger Subsidiary (i) breaches or fails to perform in any material respect any of its representations, warranties or covenants in the Merger Agreement that would give rise to a breach of a closing condition and cannot be cured within 30 days after receipt of written notice regarding such breach or (ii) fails to obtain financing or the approval of the Gaming Authorities required for the consummation of the merger. Under any other circumstances, the Deposit will be returned to Parent upon consummation of the merger or termination of the Merger Agreement.

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MARKET PRICE OF COMMON STOCK AND DIVIDEND INFORMATION

The Common Stock is listed on Amex under the symbol RIV. As of June 23, 2006, based upon information available to the Company from its stock transfer agent and participants with The Depository Trust Company (DTC), the Company believes there were approximately 1,500 persons or entities that hold Common Stock of record or beneficially through DTC or DTC s participants.

Historical Stock Price

The following table reports the high and low Common Stock sale prices by quarter for the years ended December 31, 2004 and 2005 and for the quarter ended March 31, 2006 based on Amex-reported prices:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004				
High	$ 2.72	$ 3.32	$ 6.60	$ 14.90
Low	$ 1.80	$ 2.63	$ 2.85	$ 6.00
2005				
High	$ 16.23	$ 24.00	$ 26.83	$ 22.27
Low	$ 11.25	$ 11.30	$ 20.22	$ 12.59
2006				
High	$ 17.05	N/A	N/A	N/A
Low	$ 13.80	N/A	N/A	N/A

On June 23, 2006, the reported closing price of the Common Stock on Amex was $18.31.

The following table reports the high and low Common Stock sale prices and average daily trading volume for each trading week following the week in which the Merger Agreement was announced, based on Amex-reported prices and trading volume:

Trading Week	High	Low	Average Daily Trading Volume
April 10 April 13, 2006	$ 22.60	$ 19.03	183,450
April 17 April 21, 2006	$ 25.35	$ 21.25	218,400
April 24 April 28, 2006	$ 22.47	$ 20.12	109,660
May 1 May 5, 2006	$ 21.95	$ 20.90	116,820
May 8 May 12, 2006	$ 21.90	$ 21.06	41,880
May 15 May 19, 2006	$ 21.30	$ 21.00	78,940
May 22 May 26, 2006	$ 21.72	$ 20.25	69,640
May 30 June 2, 2006	$ 21.31	$ 20.55	60,750
June 5 June 9, 2006	$ 21.00	$ 19.94	50,820
June 12 June 16, 2006	$ 20.42	$ 17.75	89,160
June 19 June 23, 2006	$ 19.00	$ 18.30	41,240

The Company does not meet the earnings and net worth listing standards of Amex. The Company has been informed, however, that according to Amex policy, Amex will not normally consider suspending dealings in or delisting the securities of a company that does not meet the earnings and net worth standards if that company s publicly-held shares have a market value of at least $15 million. However, the Company cannot give any assurance that Amex will continue to follow that policy. Based on the number of publicly-held shares of Common Stock as of June 23, 2006, the Common Stock price would have to be at least $1.36 in order for the Company not to fall below the $15 million level. If the merger is not consummated and the Common Stock is delisted from Amex, the marketability and liquidity of the Common Stock could be materially reduced.

Dividends

The Company has never paid cash or stock dividends on the Common Stock and, prior to entering into the Merger Agreement, had no expectation of paying dividends for the foreseeable future.

The Merger Agreement does not allow the Company to declare or pay dividends (cash or otherwise) or other distributions. In addition, the Indenture governing the Senior Notes and the Company s revolving credit arrangement with Foothill Capital Corporation materially restrict the Company s ability to pay dividends or other distributions.

ADJOURNMENT OF ANNUAL MEETING (PROPOSAL NO. 2)

The Company is asking Stockholders to vote on a proposal to adjourn the annual meeting, if necessary or appropriate, in order to allow for the solicitation of additional proxies if there are insufficient votes at the time of the meeting to approve the Merger Agreement (Proposal No. 1).

The Board unanimously recommends that you vote FOR this proposal at the annual meeting.

ELECTION OF DIRECTORS (PROPOSAL NO. 3)

Directors

The following table presents information as of June 23, 2006 regarding the five nominees for election to the Board as directors:

Name	Age	Position
William L. Westerman	74	The Company s Chairman of the Board, CEO and President; Chairman of the Board and CEO of ROC
Jeffrey A. Silver	60	The Company s and ROC s director
Paul A. Harvey	68	The Company s and ROC s director
Vincent L. DiVito	46	The Company s and ROC s director
James N. Land, Jr.	76	The Company s and ROC s director

The following is a summary description of the business experience of each of the nominees, all of whom are currently directors of the Company:

Mr. Westerman has been the Company s Chairman of the Board, President and CEO since February 1993. On May 16, 2006, Mr. Westerman was appointed as President of Riviera Black Hawk, Inc. Mr. Westerman was a consultant to Riviera, Inc. (the predecessor of the Company) from July 1, 1991 until he was appointed Chairman of the Board and CEO of Riviera, Inc. on January 1, 1992. From 1973 to June 30, 1991, Mr. Westerman was President and CEO of Cellu-Craft Inc., a manufacturer of flexible packaging primarily for food products, and then had several positions with Alusuisse, a multi-national aluminum and chemical company, following its acquisition of Cellu-Craft in 1989. Mr. Westerman was on the Board of Managers of Peninsula Gaming Partners, LLC from June 1999 to December 2000.

Mr. Silver has been one of the Company s and ROC s directors since February 26, 2001. Mr. Silver is currently a shareholder with the law firm of Gordon & Silver, Ltd., in Las Vegas, Nevada. Mr. Silver served as the Chief Deputy District Attorney, Clark County, Nevada from 1972 to 1975 and was a Board Member with the Nevada Gaming Control Board from 1975 to 1978 before engaging in the private practice of law from 1979 to 1981 and 1984 to the present. Mr. Silver was the Chief Operating Officer and General Counsel of the Landmark Hotel & Casino from 1981 to 1983, CEO of Riviera, Inc. from 1983 to 1984 and Senior Vice President at Caesars Palace in 1984. Mr. Silver served on the Board of the Las Vegas Convention and Visitors Authority from 1989 to 1992 as Secretary/Treasurer and also served as trustee. He was a member of the board of directors of the Greater Las Vegas Chamber of Commerce from 1988 to 1995 and in 1988 was its Chairman. Mr. Silver served for four

years as a member of the United States Travel and Tourism Advisory Board. He was President of the International Association of Gaming Attorneys from 1992 to 1994 and Chairman of the American Bar Association Section of Gaming Law from 1994 to 1996.

Major General Paul A. Harvey USAF (Ret.) has been one of the Company s and ROC s directors since May 18, 2001. General Harvey is currently a consultant to the gaming, hotel and resort industry. General Harvey spent 32 years on active duty in the United States Air Force where he held numerous command positions throughout the United States, Europe, Africa and the Middle East. He flew 160 combat missions in Vietnam and Southeast Asia before retiring in 1991 as a command pilot with over 5,000 flying hours. Following retirement, he was an Executive in Residence and Assistant to the President of William Carey College and taught MBA studies in management and leadership. General Harvey was the Executive Director of the Mississippi Gaming Commission from 1993 through 1998 before becoming President and CEO of Signature Works, Inc., which is the largest employer of blind and visually impaired people in the world. In 2000 Signature Works, Inc. merged with LCI, Inc. His present company, PDH Associates, Inc., provides consulting service to the gaming, hotel and resort industry. Since 1996, General Harvey has served on the board of directors of the National Center for Responsible Gaming. He also serves on the board of directors of Vending Data Corporation which is headquartered in Las Vegas, Nevada and is an Amex-listed company, and on the board of directors of Mikohn Gaming Corporation, d/b/a Progressive International Corporation, also headquartered in Las Vegas, Nevada and a publicly-reporting company under the Exchange Act. General Harvey is also a Commissioner on the Mississippi Band of Choctaw Indians Athletic and Boxing Commission.

Mr. DiVito was appointed as one of the Company s and ROC s directors effective June 14, 2002. Mr. DiVito is currently Vice President, Chief Financial Officer (CFO) and Treasurer of Lonza, Inc., a global specialties chemical business headquartered in Allendale, New Jersey. Lonza, Inc. is part of Lonza Group, whose stock is traded on the Swiss Stock Exchange. Prior to September 2000, Mr. DiVito was the Vice President and CFO of Algroup Wheaton, a global pharmaceutical and cosmetics packaging company, after having served as the Director of Business Development. From 1984 to 1990, Mr. DiVito was the Vice President of Miracle Adhesives Corp. (a division of Pratt & Lambert, an Amex-listed manufacturer of paints, coatings and adhesives). He also serves on the board of directors of Vending Data Corporation, which is headquartered in Las Vegas, Nevada and is an Amex-listed company. Prior to 1984, Mr. DiVito spent two years on an audit team at Ernst & Whinney (now Ernst & Young). Mr. DiVito is a certified public accountant and certified management accountant.

Mr. Land is a corporate consultant and was appointed as one of the Company s and ROC s directors on April 12, 2004. Mr. Land was first elected as a director of the Company and ROC on January 21, 1999 and resigned on May 31, 2002. From 1956 to 1976, Mr. Land was employed by The First Boston Corporation in various capacities, including Director, Senior Vice President, Co-Head of Corporate Finance, and Head of International Operations. From 1971 through 1999, he served as a director of various companies, including Kaiser Industries Corporation, Marathon Oil Company, Castle & Cooke, Inc., Manville Corporation, Northwest Airlines Corporation, and Raytheon Company.

Executive Officers

The following table presents information as of June 23, 2006 regarding our and ROC s executive officers:

Name	Age	Position
William L. Westerman	74	The Company s Chairman of the Board, CEO and President; Chairman of the Board and CEO of ROC
Tullio J. Marchionne	51	The Company s and ROC s Secretary and General Counsel; Executive Vice President of ROC
Robert A. Vannucci	59	President and Chief Operating Officer of ROC
Mark B. Lefever	41	The Company s and ROC s Treasurer and CFO; Executive Vice President Finance of ROC

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For a description of the business experience of Mr. Westerman, see Directors above.

Mr. Marchionne became the Company s and ROC s General Counsel on January 10, 2000, was appointed as Secretary on February 17, 2000 and was elected Executive Vice President of ROC on February 26, 2001. Mr. Marchionne was initially employed by Riviera, Inc. in June 1986 as a casino games dealer and served in various capacities including Pit Manager, General Counsel and Director of Gaming Administration until September 1996, when he was transferred to the Four Queens Hotel and Casino as Director of Casino Operations pursuant to a management agreement with a Company subsidiary. He served in that position until May 1997. Mr. Marchionne served as the General Manager of the Regency Casino Thessaloniki, located in Thessaloniki, Greece, from June 1997 until December 1997. Mr. Marchionne served as a Casino Supervisor with Bally s Las Vegas from February 1998 until June 1998, Director of Casino Operations at the Maxim Hotel and Casino in Las Vegas from June 1998 until November 1998 and Director of Table Games at the Resort At Summerlin from November 1998 until December 1999.

Mr. Vannucci was elected Vice President of Marketing and Entertainment of ROC on April 26, 1994, Executive Vice President of Marketing and Entertainment on July 1, 1998 and President of ROC on October 1, 2000. Mr. Vannucci had been Director of Marketing of ROC since July 19, 1993. Mr. Vannucci was Senior Vice President of Marketing and Operations at the Sands Casino Hotel in Las Vegas from April 1991 to February 1993. He was Vice President and General Manager of Fitzgerald s Las Vegas (a hotel/casino) from 1988 to January 1991.

Mr. Lefever was hired as the Company s and ROC s Treasurer and CFO and as ROC s Executive Vice President Finance on May 22, 2006. He served as Senior Vice President and CFO at Resorts Atlantic City from May 2004 until he joined the Company. From March 2001 to December 2003, Mr. Lefever was General Manager of the Trump 29 Casino in Coachella, California. From March 1997 to December 2000, Mr. Lefever was CFO of The Desert Inn Resort & Casino and also served as Chief Operating Officer of that property from January 1999 to December 2000. Mr. Lefever was CFO of the Sheraton Casino in Tunica County, Mississippi from February 1996 to June 1997. Prior to that position, he was in the audit and business advisory practice of Arthur Andersen LLP for ten years. Mr. Lefever is a member of the New Jersey Society of Certified Public Accountants.

The Company s and ROC s officers serve at the discretion of the Company s and ROC s respective boards of directors, and they are also subject to the licensing requirements of the Nevada Gaming Commission.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company s directors and executive officers and persons who own more than 10% of the outstanding Common Stock to file with the SEC certain reports regarding Common Stock ownership. Such persons are required to furnish the Company with copies of all Section 16(a) reports they file. Based solely on the Company s review of such reports that were furnished to the Company and written representations made to the Company by reporting persons in connection with certain of these reporting requirements, the Company believes that all the reporting persons met their Section 16(a) reporting obligations on a timely basis during 2005, except that each of Messrs. Silver, Harvey, DiVito and Land made a late filing of a Form 4 to report a May 27, 2005 Common Stock acquisition.

Code of Ethics

The Company has adopted certain ethical policies that apply to all employees at the level of supervisor or higher, including the Company s principal executive officer, principal financial officer and principal accounting officer. Those policies, together with certain rules adopted by the Company s Disclosure Committee, comprise the Company s code of ethics. Those policies and rules are posted on the Company s Internet website at *www.rivierahotel.com.*

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Board and Committee Meetings

The Company has an Audit Committee composed of Messrs. DiVito, Harvey and Land. The Audit Committee recommends to the Board the selection of an auditor, reviews the plan and scope of the Company s audits, reviews the auditors critique of management and internal controls and management s response to such critique and reviews the results of the audit. In 2005 the Audit Committee met eight times.

The Company has a Compensation Committee composed of Messrs. Silver, Harvey and DiVito. The Compensation Committee is responsible for recommending executive compensation programs to the Board and for approving all compensation decisions with respect to the CEO and his compensation recommendations for the other executive officers (except for grants of stock options, which are approved by the Stock Option Committee composed of Messrs. DiVito and Harvey). In 2005 the Compensation Committee met five times.

The full Board serves as the Nominating Committee. See Nominating Committee below for further information.

In 2005, the Board held 20 meetings. No member of the Board attended in 2005 less than 75% of the aggregate of (i) the number of Board meetings held during the period for which he was a director and (ii) the total number of meetings held by all committees on which he served.

Nominating Committee

The entire Board serves as the Company s nominating committee. Four of the current five members meet the Amex independence requirements that apply to the Company for the director nomination process. Director nominations are decided upon by the Board after the Board receives the recommendations of a majority of the Board s independent directors. The Company does not have a charter governing the recommendation or nomination process, nor does the Company have a policy regarding director candidates recommended by Stockholders. That is because historically, the Company has rarely been contacted by outside Stockholders who have expressed an interest in serving on the Board or in recommending candidates to serve in that capacity. Given this lack of activity, the Company has seen no need to adopt any specific policies on this subject, nor has the Company established specific standards for evaluating director candidates recommended by Stockholders, as compared with the Company s standards for evaluating director candidates recommended by other persons.

In order for a candidate to be nominated for the Board, the candidate must have a strong business background and display a sense of leadership. Each member of the Board should possess certain skills that complement the skills of the other directors, so as to achieve the overall goal of having a well-rounded Board. Qualities and skills necessary for consideration are a financial, legal or business background or demonstrated leadership abilities.

Audit Committee Report; Audit Committee Independence

In accordance with the Audit Committee s written charter adopted by the Board, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices.

During the Company s fiscal year ended December 31, 2005, the Audit Committee met eight times, and the Audit Committee Chairman, as representative of the Audit Committee, discussed the interim financial information contained in each of the Company s quarterly earnings announcements with the Company s CFO and independent auditors prior to public release.

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from the Company s independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors independence, consistent with Independence Standards Board

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Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee discussed with the auditors any relationships that may impact the auditors objectivity and independence, and the Audit Committee satisfied itself as to the auditors independence. The Audit Committee specifically addressed and discussed the independent auditors provision of non-audit services and concluded that those services were compatible with maintaining the auditors independence. The Audit Committee also discussed with the Company s management, the Company s internal auditors and the independent auditors the quality and adequacy of the Company s internal controls and the internal audit function s organization, responsibilities, budget and staffing. The Audit Committee reviewed with both the independent auditors and the Company s internal auditors the audit plans, audit scope and identification of audit risks.

The Audit Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended (Codification of Statements on Auditing Standards, AU Section 380), and with and without the Company s management present, discussed and reviewed the results of the independent auditors examination of the Company s financial statements. The Audit Committee also discussed the results of the internal audit examinations.

The Audit Committee reviewed the audited financial statements, as of and for the year ending December 31, 2005, with the Company s management and the independent auditors. The Company s management is responsible for the preparation of the financial statements and the independent auditors are responsible for the examination of those statements.

Based on the above-mentioned reviews and discussions with management and the independent auditors, the Audit Committee recommended to the Board that the Company s audited financial statements be included in the Annual Report on Form 10-K for the year ending December 31, 2005, for filing with the SEC. The Audit Committee also recommended that the Company reappoint the independent auditors, and the Board concurred in such recommendation.

The Audit Committee presently consists of three members who all meet the independence requirements of Amex s listing standards that apply to the Company.

Date: March 1, 2006	Vincent L. DiVito	Chairman
	Paul A. Harvey	Member
	James N. Land, Jr.	Member

Security Holder Communications

Our security holders may send communications to our Board by directing such communications to our Secretary and General Counsel, Tullio J. Marchionne. Communications may be sent to Mr. Marchionne by mail at our corporate offices located at 2901 Las Vegas Boulevard South, Las Vegas, NV 89109; by telephone or fax at (702) 794-9504 or (702) 794-9560, respectively; or by e-mail at tmarchionne@theriviera.com. Mr. Marchionne will direct all relevant communications to the appropriate members of the Board.

Members of the Board are strongly encouraged to attend all of our annual meetings of Stockholders. All of the members of the Board were in attendance at our 2005 annual meeting of Stockholders.

The Board unanimously recommends that you vote FOR the election of each of the five director nominees named above at the annual meeting.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The following table presents a summary of the compensation we paid in the years ended December 31, 2005, 2004 and 2003 to the Company s and ROC s CEO, and to the Company s four other most highly compensated executive officers who received over $100,000 in compensation during 2005 (collectively, the Named Executive Officers).

		Annual Compensation				
Name and Principal Position	**Year**	**Salary($)**	**Bonus($)**	**Other Annual Compensation ($)[1] [4]**	**Restricted Stock Awards ($)[6]**	**All Other Compensation ($)[2]**
William L. Westerman	2005	$ 1,000,000	$	$ 295,293(3)	$	$ 1,283
Chairman of the Board,	2004	1,000,000		446,178(3)		1,438
President and CEO;	2003	1,000,000		547,591(3)		1,438
Chairman of the Board and CEO of ROC						
Robert A. Vannucci	2005	300,000		103,500[5]	814,998	1,720
President and Chief	2004	300,000	114,000	104,000[5]		1,720
Operating Officer of ROC	2003	300,000		103,000[5]		1,720
Ronald P. Johnson[7]	2005	250,000	54,000	4,500	407,499[7]	1,438
Executive Vice President	2004	250,000				