

Edgar Filing: RIVIERA HOLDINGS CORP - Form 10-K

RIVIERA HOLDINGS CORP  
Form 10-K  
March 13, 2008

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

FORM 10-K  
FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTIONS 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2007  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-21430

RIVIERA HOLDINGS CORPORATION  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

88-0296885  
(I.R.S. Employer Identification No.)

2901 Las Vegas Boulevard South  
Las Vegas, Nevada  
(Address of principal executive offices)

89109  
(Zip Code)

Registrant's telephone number, including area code: (702) 734-5110

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.001 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.001 par value  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as  
defined in Rule 405 of the Securities Act.  
YES \_\_\_\_\_ NO ☒

Indicate by check mark if the registrant is not required to file reports  
pursuant to Section 13 or Section 15(d) of the Act.  
YES \_\_\_\_\_ NO ☒

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing

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requirements for the past 90 days. YES X NO\_\_\_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or amendment to this Form 10-K. [ X ]

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

Large accelerated filer	Accelerated filer	X
Non-accelerated filer	Smaller reporting company	

(Do not check if a smaller reporting company)

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

Based on the closing sale price of the registrant's common stock on the American Stock Exchange on June 30, 2007, the aggregate market value of the common stock held by non-affiliates of the registrant was \$443,999,838.

As of February 22, 2008 the number of outstanding shares of the registrant's common stock was 12,456,555.

Documents incorporated by reference: Portions of the registrant's 2008 definitive annual meeting proxy statement on Schedule 14A (to be filed pursuant to Regulation 14A) are incorporated by reference into Part III of this Form 10-K.

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Page 1 of 59 pages  
Exhibit Index Appears on Page 51 hereof.

### RIVIERA HOLDINGS CORPORATION AND SUBSIDIARY ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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### PART I

#### Item 1. Business

##### General

Riviera Holdings Corporation, a Nevada corporation (the "Company"), through its wholly-owned subsidiary, Riviera Operating Corporation, owns and operates the Riviera Hotel & Casino ("Riviera Las Vegas") located on the Las Vegas Boulevard in Las Vegas, Nevada. Riviera Las Vegas opened in 1955, and has a long-standing reputation for delivering traditional Las Vegas-style gaming, entertainment and other amenities. The Company was incorporated in Nevada on January 27, 1993.

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

The Company determines segments based upon geographic gaming markets and also reviews corporate expenses separately. The Company has two segments: the Las Vegas, Nevada market and the Black Hawk, Colorado market. The segment information can be found in Note 18 of the Notes to the Consolidated Financial Statements included in this document.

The Company maintains an Internet website at [www.rivierahotel.com](http://www.rivierahotel.com) and makes available on the website, free of charge, the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any and all amendments to such reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the United States Securities and Exchange Commission (the "SEC"). The Company has included its website address in this filing only as a textual reference. The information contained on that website is not incorporated by reference into this Annual Report on Form 10-K.  
Riviera Las Vegas

### General

Riviera Las Vegas is located on the corner of Las Vegas Boulevard and Riviera Boulevard in Clark County, Nevada, across from Circus Circus and the estimated \$5.0 billion Echelon construction project on the site of the former Stardust Hotel & Casino, and just south of the estimated \$2.9 billion Fontainebleau construction project. Riviera Las Vegas targets slot and low to mid-level table game customers and various convention groups with a focus on creating repeat customers and increasing our loyalty program membership. Key elements of this strategy includes offering a value-oriented experience by providing a variety of hotel rooms, restaurants and entertainment, with traditional Las Vegas shows, all at reasonable prices.

### Gaming

Riviera Las Vegas has approximately 100,000 square feet of casino space. The casino currently has approximately 915 slot machines and 35 gaming tables, including blackjack, craps, roulette, pai gow poker, Caribbean Stud(R) Poker, Three Card Poker, Let It Ride(R), 3-5-7 Poker, Texas Hold'em Bonus Poker and mini-baccarat. The casino also includes a poker room and a race and sports book, which is operated by Leroy's, a subsidiary of American Wagering, Inc.

We continually update gaming operations at Riviera Las Vegas to respond to both changing market conditions and customer demand in an effort to attract new customers and encourage repeat customer business through player tracking and database management. We maintain a players club, through which members receive special promotions and targeted mailings. New and innovative slot and table games continue to be introduced and evaluated based on performance and customer feedback. We devote substantial time and attention to the type, location and player activity of all of our slot machines. We maintain a capital investment program for the upgrade of our general casino area, slot machines and related equipment.

Our current marketing programs are directed at mid-level gaming customers as opposed to high-stakes bettors. Mid-level gaming customers tend to provide us with a less volatile, more consistent gaming revenue stream. Consistent with our

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focus on mid-level gaming customers is our tendency to offer lower table game limits, stricter credit policies and more emphasis on slot machine play.

During 2007, we continued a number of initiatives at Riviera Las Vegas to increase slot play, including the upgrade of our entire casino floor, the completion of our ticket-in ticket-out ("TITO") upgrade to 100% of our slot machines and the transformation, redevelopment and upgrade of our Penny Town area into Crazy Leroy's Race and Sports Book, Bar & Cafe. Our slot hosts are located in a visible and accessible area to improve service and convenience to our customers. Slot hosts are our employees who interact with patrons as goodwill ambassadors to generate loyalty. Our strategy is to continue to increase slot play through marketing programs and other improvements, including (1) our ongoing slot upgrade program, (2) operation of our player tracking system, (3) a multi-tiered players club, called Club Riviera, (4) sponsorship of slot tournaments, and (5) creation of promotional programs.

### Hotel

Riviera Las Vegas' hotel is comprised of five towers with 2,075 guest rooms, including 177 suites, as follows:

Tower Description	Year Built	Std. Rooms	Suites	Total	Latest Remodel Year
North Tower	1955	379	11	390	2004
South Tower	1967	132	30	162	2007
Monte Carlo	1974	216	81	297	2005
San Remo	1977	241	6	247	2007
Monaco	1988	930	49	979	2004
		-----	----	-----	
Total		1,898	177	2,075	
		=====	=====	=====	

During 2007, we announced, as part of our \$25 million capital improvement plan, a complete remodel of all of our guest rooms at our Las Vegas property. Our plan includes upgrades of between \$2,500 and \$14,500 per guest room and upgrades to the hotel elevators and corridors, and is expected to be completed by mid to late 2009.

Despite the significant increase in rooms on the Las Vegas Strip since 1997, we believe Riviera Las Vegas has attained room occupancy rates that are consistent with other properties on the Las Vegas Strip. From 2004 to 2006, the hotel occupancy rate on the Strip ranged from 91.8% to 93.2%, (based on available rooms). The average hotel occupancy rate on the Strip through December 2007, was 94.0% in 2007 according to the Las Vegas Convention and Visitors Authority (the "LVCVA").

### Restaurants

The quality, value and variety of food services are critical to attracting Las Vegas visitors. Riviera Las Vegas offers six bars, four restaurants and serves an average of approximately 4,500 meals per day, including banquets and room service. Riviera Las Vegas last completely remodeled its buffet in 2001, upgrading the ambiance and food quality, and featuring cuisine from various countries as well as a carving station. In 2006, Kady's Coffee Shop was remodeled with new carpet, chairs and flat panel tv's. The following outlines for each restaurant, the type of service provided and total seating capacity:

Name ----	Type ----	Seating Capacity -----
Kady's	Coffee Shop	290
Kristofer's	Steak and Seafood	162
Ristorante Italiano	Italian	126
World's Fare Buffet	All-you-can-eat	366
		---
Total		944
		===

In addition, Riviera Las Vegas operates two snack bars and continental breakfast, and has a fast-food "food court" operated by a third party. The food court has 200 seats and several fast-food restaurants, including A&W/KFC Express, Pizza Hut Express(R), Quiznos(R) and La Salsa(R). Riviera Las Vegas has also contracted with a third party, who owns and operates The Banana Leaf, which opened in the first quarter of 2007. Banana Leaf serves breakfast, lunch and dinner, and features Asian cuisine.

#### Convention Center

Riviera Las Vegas features 160,000 square feet of convention, meeting and banquet space. The convention center is one of the larger ones in Las Vegas and is an important feature that attracts customers. The facility can be reconfigured for multiple meetings of small groups or large gatherings of up to 5,000 people. Riviera Las Vegas hosted 322 conventions in 2007. The hotel currently has over 750,000 convention-related advance bookings of rooms through 2012, consisting of over 386,000 definite bookings and over 371,000 tentative bookings. In 2007 approximately 34% of the hotel's rooms were occupied for conventions. Based on current bookings we estimate that 35% of the rooms will be occupied for conventions in 2008.

The Royal Pavilion portion of the convention center, which opened in February 1999 and comprises approximately 60,000 square feet of our convention facility, features convention, meeting and banquet facilities, teleconferencing, wireless Internet and satellite uplink capability, and 12 skyboxes. The convention space at the Las Vegas, Venetian and Mandalay convention centers and others has enabled Las Vegas to attract and book new conventions that may have had date and exhibit space conflicts in the past. Our flexibility of meeting space and proximity to the Las Vegas Convention Center continues to position us to increase our mix of small meetings and conventions, as well as new multi-hotel conventions booked into the Las Vegas Convention Center.

#### Entertainment

Riviera Las Vegas has one of the most extensive entertainment programs in Las Vegas, offering a variety of regularly scheduled shows. We believe entertainment provides an effective marketing tool to attract our customers. Riviera Las Vegas' entertainment program includes such well received shows as An Evening at La Cage(R) (a female impersonation show), Crazy Girls(R) (an adult revue), and featured comedians at the Riviera Comedy Club as well as a variety of regularly scheduled shows in our Le Bistro Theater. In addition, a new ice show entitled "ICE/Direct From Moscow" opened in our Versailles Showroom in

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April 2007. We update our shows continually in response to customer surveys and to keep them fresh. Tickets for the shows are offered at reasonable prices in keeping with our emphasis on mid-level customers.

The following outlines for each entertainment center, the type of service provided and total seating capacity:

Name ----	Type -----	Seating Capacity -----
ICE/Direct		
From Moscow	Variety	875
La Cage	Female Impersonation	575
Crazy Girls	Adult Revue	375
Comedy Club	Comedy	350
Le Bistro	Variety	190
		-----
		2,365
		=====

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A majority of our shows are owned and operated by third parties, which gives us financial flexibility in utilizing our marketing dollars. In most cases we receive rent, ticket sales commissions, and a number of comp seats for use by our marketing department.

### Future Expansion Possibilities

We continue to explore the possible development of an approximately 60,000 square-foot entertainment complex that would be constructed directly over the casino, and could contain specialty-themed entertainment that would appeal to Riviera Las Vegas' main target audience, adults aged 45 to 65. The exit from the complex would deliver patrons to the casino.

### Marketing Strategies-Las Vegas

Our tiered marketing program, Club Riviera, is intended to develop and retain a loyal following of repeat slot and low to mid-level table game customers. We believe we have been able to successfully attract these patrons using Riviera Las Vegas' restaurants, hotel accommodations and entertainment and by focusing on customer service. We have adopted a selective approach to the extension of credit to these customers in order to reduce volatility of operating results. We use our research data to tailor promotional offers to the specific tastes and level of play of our targeted customers.

Riviera Las Vegas will continue to emphasize marketing programs that appeal to slot and mid-level table game customers with a focus on creating repeat customers and increasing walk-in traffic. In addition, a key marketing focus is expanding Riviera Las Vegas' core conventioner customer base. In developing an overall marketing program, we conduct extensive, ongoing research of our target customers' preferences through surveys, one-on-one interviews and focus groups.

### Create Repeat Customers

Generating customer loyalty is a critical component of our business strategy, as retaining customers is less expensive than attracting new ones. We have developed a focused and coordinated multi-tiered marketing program intended to develop a loyal customer base which emphasizes (1) providing a high level of service to our customers to ensure an enjoyable experience while at the Riviera Las Vegas, (2) focusing marketing efforts and promotional programs on customers with positive gaming profiles and (3) rewarding loyalty with increased

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incentives to our higher-tiered members. We believe our player tracking system helps us retain customers and use our player data to tailor promotional offers to the specific tastes and level of play of our targeted customers. All slot and table players are encouraged to join Club Riviera, which tracks their level of play and provides us with helpful information and personal preferences. Members of Club Riviera earn bonus points based upon their level of play, redeemable for free gifts, complimentary services or bonus credits. We make promotional offers to qualifying customers through direct mail, telemarketing and e-mail. We design promotional offers targeted at certain mid-level gaming patrons that are expected to provide significant revenues based upon their historical gaming patterns. We contact these customers through a combination of direct mail and telemarketing by an in-house marketing staff and independent representatives located in major cities. We use a proprietary database which is linked to our player tracking system to help identify customers' requirements and preferences, thereby allowing us to customize promotions to attract repeat visitors. We offer customers personalized service, credit availability and access to a variety of complimentary or reduced-rate room, dinner and entertainment reservations all based on the customer's profile. We use a specialized multi-tiered marketing approach to attract customers in each of our major markets. We design slot and table game tournaments and special events for specific levels of play. Utilizing our proprietary database, our marketing department targets and invites the most appropriate customers for the customized events. In addition, we host an array of special events, including slot and table game tournaments, designed to attract customers for an extended stay. We have found that this individualized marketing approach has provided significant revenues and profitable repeat business.

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### Provide Extensive Entertainment Options

We also focus on attracting guests through a range of entertainment options. We have one of the most extensive entertainment programs in Las Vegas with a variety of regularly scheduled shows and special limited engagement shows. The shows attract additional gaming revenue as well as provide us rental and commission revenue.

### Attract Walk-In Traffic

We seek to maximize the number of people who patronize the Riviera Las Vegas but who are not guests in the hotel by capitalizing on Riviera Las Vegas' prime Las Vegas Strip location, convention center proximity and several popular in-house productions. Riviera Las Vegas is well situated on the Las Vegas Strip near Circus Circus, Sahara, Las Vegas Hilton, the Las Vegas Convention Center, Wynn Las Vegas, the estimated \$5.0 billion Echelon project on the site of the former Stardust and the estimated \$2.9 billion Fontainebleau project just to our north, as well as numerous non-gaming condominium and time-share projects which are either planned or under construction within walking distance of our casino. However, recent closures and construction in our immediate area, has caused a significant reduction in walk-in traffic and may continue to do so for the foreseeable future. We continue to strive to attract customers from those facilities that are currently open, as well as capitalize on the visitors in Las Vegas in general, with the goal of increasing walk-in traffic by (1) the addition of the 11,000 square foot Leroy's Race & Sports Book in our former Penny Town area, which was opened in February, 2008 (2) providing a variety of quality, value-priced entertainment and dining options, and (3) offering the "\$40 for \$20" slot promotions.

### Focus on Convention Customers

This market consists of two groups: (1) those trade organizations and



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groups that hold their events in the banquet and meeting space provided by a single hotel and (2) those attending city-wide events, usually held at the Las Vegas Convention Center. We target convention business because it typically provides patrons willing to pay higher room rates and we are able to provide certain advance planning benefits, because conventions are usually booked two years in advance of the event date. We focus our marketing efforts on conventions whose participants have the most active gaming profile and higher room rates, banquet and function spending habits. We also benefit from our proximity to the Las Vegas Convention Center, which makes us attractive to city-wide conventioners looking to avoid the congestion that occurs during a major convention, particularly at the south end of the Las Vegas Strip. In 2007 we derived 34% of our hotel occupancy and 41% of our room revenues from convention customers and we consider them to be a critical component of our customer base. We believe that the expansion of Riviera Las Vegas' convention facility in February 1999, from 100,000 to 160,000 square feet, has accommodated the growth in the size and number of groups that presently use the facility, attracted new convention groups and increased the percentage of rooms occupied by conventioners.

We have found that our customers also use tour and travel "package" options to reduce the cost of travel, lodging and entertainment. These packages are produced by wholesale operators and travel agents and emphasize mid-week stays. Tour and travel patrons often book at off-peak periods, enabling us to maintain occupancy rates at the highest levels throughout the year. We have developed specialized marketing programs and cultivated relationships with wholesale operators, travel agents and major domestic air carriers to expand this market. We make an effort to convert many tour and travel customers who meet our target customer gaming profile into repeat slot customers. While we continue to pursue the tour and travel market, we have allocated less room inventory to this market due to the lower room rates. As a result, we are placing more emphasis and dedicating more rooms to our rated slot customers, which we believe generates greater revenue.

### Internet

The Internet segment of our business increased during 2007. This segment attracts customers in search of a bargain, those making last-minute travel arrangements and those who have the confidence in and find it convenient to book rooms over the Internet. In 2007, our Internet bookings accounted for approximately 15% of total occupied rooms.

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### Riviera Black Hawk

#### Business

Riviera Black Hawk opened on February 4, 2000. Located in Black Hawk, Colorado, approximately 40 miles west of Denver, our casino is the first casino encountered by visitors arriving from Denver on Highway 119. Our casino features the fourth largest number of gaming devices in the market with 885 slot machines and 8 live gaming tables. For Colorado gaming and tax law purposes, each slot machine or table game is considered one gaming device.

We also offer a variety of non-gaming amenities designed to help differentiate our casino, including:

- o parking spaces for 520 vehicles, of which 92% are covered, with convenient and free self-park and valet options;
- o a 252-seat casual buffet-styled restaurant;
- o a delicatessen;

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- o one casino bar; and
- o a ballroom with seating for approximately 300 people.

The initial participants in this market were small, privately held gaming facilities whose inability to offer convenient parking and a full range of traditional casino amenities limited the growth of this market. Subsequently, larger casinos offering such amenities have entered the market, have been gaining market share and have contributed to the consistent growth in the overall market. As of December 31, 2007, there were 26 casinos in the Black Hawk/Central City market, with 11 casinos each offering more than 400 gaming devices. The Isle of Capri, located across the street from our casino, has 1,375 gaming machines, 18 gaming tables, 1,100 covered parking spaces and 238 hotel rooms, and it owns and is connected by inside walkways to the Colorado Central Station, which has 640 gaming machines, 18 gaming tables, 1,200 parking spaces and 164 hotel rooms.

### Marketing strategy

We attract customers to our casino by implementing marketing strategies and promotions designed specifically for this market. In so doing, we hope to create customer loyalty and benefit from repeat visits by our customers. Specific marketing programs to support this strategy include the Riviera Black Hawk Player's Club and "V.I.P." services offered to repeat gaming customers. The Riviera Black Hawk Player's Club is a loyalty program that rewards casino play and repeat visits to the casino with various privileges and amenities such as free play, logo gift items and invitations to special events, such as parties, concerts and complimentary accommodations at our Las Vegas property. We have used the Player's Club promotion in Riviera Las Vegas and have tailored it for the Black Hawk/Central City market to implement it at Riviera Black Hawk. "V.I.P." services are available to the highest level of players and include special valet and self-parking services, complimentary food and entertainment offerings and special events specifically designed for this group of customers.

We benefit from strong walk-in traffic due to the proximity of our casino to the Colorado Central Station and the Isle of Capri. We have and continue to develop specific marketing programs designed to attract these walk-in customers. We emphasize quality food and beverage amenities with friendly service as a marketing tool. In addition, we provide entertainment programs designed to meet the tastes of the Black Hawk/Central City market, such as live music performances by popular regional and national groups.

We rely on database marketing in order to best identify target customer segments of the population and to tailor our casino's promotions and amenities to our core group of customers. We use the database to identify and stratify slot players living primarily in Colorado for appropriate incentives. Approximately 325,000 of these slot players have been identified as of December 31, 2007. In addition, we promote our casino by advertising in newspapers and on the radio in the local areas.

### Geographical Markets

#### The Las Vegas Market

Las Vegas is one of the largest and fastest growing entertainment markets in the country. According to the LVCVA, the number of visitors who traveled to Las Vegas increased to approximately 39.2 million in 2007. Approximately 37.4 million people visited Las Vegas in 2004, 38.6 million in 2005, and 38.9 million in 2006. Clark County gaming continues to be a strong and growing business. Clark County gaming revenues were \$8.7 billion in 2004, \$9.7 billion in 2005,

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\$10.6 billion in 2006, and \$10.9 Billion in 2007. The terrorist attacks of September 11, 2001 had an adverse effect on the number of visitors traveling to Las Vegas. Similar events in the future could have an adverse effect on the number of visitors traveling to Las Vegas

Gaming and tourism are the major attractions of Las Vegas, complemented by warm weather and the availability of many year-round recreational activities. Although Las Vegas' principal market is the western region of the United States, most significantly southern California and Arizona, Las Vegas also serves as a destination resort for visitors from all over the world. Significant percentages of visitors to Las Vegas are international visitors.

Historically, Las Vegas has had one of the strongest hotel markets in the country. The number of hotel and motel rooms in Las Vegas has increased by 98.4% from approximately 67,000 at the end of 1989 to 132,947 at the end of 2007, giving Las Vegas the most hotel and motel rooms of any metropolitan area in the world. Despite this significant increase in the number of rooms, the Las Vegas hotel occupancy rate equaled or exceeded 84% each year from 1993 through 2007, with a hotel occupancy rate of 94.0% in 2007.

We believe that the growth in the Las Vegas market has been enhanced as a result of: (1) a dedicated program by the LVCVA and major Las Vegas casino/hotels to promote Las Vegas as a major convention site, (2) the increased capacity of McCarran International Airport and (3) the introduction of large themed "must see" destination resorts in Las Vegas. In 1988, approximately 1.7 million people attended conventions in Las Vegas and generated approximately \$1.2 billion of economic impact. The number of convention attendees was up to approximately 6.2 million in 2007 with an economic impact of \$8.4 billion.

During recent years, McCarran International Airport has expanded its facilities to accommodate the increased number of airlines and passengers, which it services. The number of passengers traveling through McCarran International Airport has increased from approximately 22.5 million in 1993 to an estimated 47.7 million in 2007. Work continues on the nearly \$4 billion capital additions planned for McCarran International Airport.

### The Black Hawk/Central City Market

Gaming was introduced to the Black Hawk/Central City market in October 1991 following a statewide referendum where Colorado voters approved limited stakes gaming for three historic mining towns, namely Black Hawk, Central City and Cripple Creek. Limited stakes gaming is defined as a maximum single bet of \$5.00. Black Hawk and Central City are contiguous cities located approximately 40 miles west of Denver and about 10 miles north of Interstate Highway 70, the main east-west artery from Denver. Historically, these two gold mining communities were popular tourist towns. However, since the inception of casino gaming in October 1991, gaming establishments have displaced many of the former tourist-related businesses.

The first casino in the Black Hawk/Central City market opened in October 1991, with 13 casinos open by the end of that year. The pace of expansion increased in 1992 with the number of casinos in the market peaking at 42. However, due to a trend of consolidation in the market and the displacement of small casinos by the entry of larger, better-capitalized operators, the number of casinos is 26 as of December 31, 2007.

The Black Hawk/Central City market primarily caters to "day-trip" customers from Denver, Boulder, Fort Collins and Golden as well as Cheyenne, Wyoming. The United States Census Bureau estimates that in 2006 the population of the Denver-Aurora-Boulder Combined Statistical area was 1.4 million. Since 1992, the number of gaming devices in the Black Hawk/Central City market has grown approximately 64.5% from 7,252 in 1992 to 11,932 in 2007. Gaming revenues in the

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Black Hawk/Central City market increased by approximately 4.8% in 2007 over 2006.

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The City of Black Hawk has experienced more significant growth in gaming revenues than Central City from 1992 through 2004. The popularity of Black Hawk in comparison to Central City was due primarily to Black Hawk's superior access to major highways, as patrons had to first pass through Black Hawk to access Central City from Denver. However, a new road opened in November 2004, which links Central City directly with Interstate 70, and allows customers to reach Central City without driving through Black Hawk. As a result of this new access road, Central City gaming revenues grew by 36% in 2005, 2.7% in 2006 and 7.4% in 2007, as compared to 2.6%, 4.3% and 4.4% growth for Black Hawk in 2005, 2006 and 2007, respectively. Despite the impressive growth experienced by Central City casinos from 2005 to 2007, gaming revenues in Central City still represent only 12% of the total gaming revenues for the Central City/Black Hawk market. Although the new road allows customers direct access to Central City, most customers continue to frequent Black Hawk casinos because of the superior amenities Black Hawk casinos offer. Due to this superior location, most of the larger casino operators have focused on building in Black Hawk. As a result, casinos in Black Hawk now generally feature a larger average number of gaming devices, a wider variety of amenities and convenient free parking for patrons.

### Competition

#### Las Vegas, Nevada

Intense competition exists among companies in the gaming industry, many of which have significantly greater resources than we do. Riviera Las Vegas faces competition from all other casinos and hotels in the Las Vegas area. We believe that our most direct competition comes from certain large casino/hotels located on or near the Las Vegas Strip, which offer amenities and marketing programs similar to those offered by Riviera Las Vegas.

Las Vegas gaming square footage and room capacity are continuing to grow and are expected to continue to increase during the next several years.

As of December 31, 2007, there were approximately 48,000 Las Vegas rooms slated for completion by 2012, including the development or expansion of existing casino/hotels and timeshare facilities. Current and future expansions, additions and enhancements to existing properties and construction of new properties by our competitors could divert business from our facilities. There can be no assurance that we will compete successfully in the Las Vegas market in the future.

During 2007, room inventory in Las Vegas increased less than 1%, to 132,947. Room nights occupied increased 1.1%, to approximately 44.0 million. At the Riviera Las Vegas, room occupancy increased slightly from 92.2% in 2006 to 92.9% in 2007. The average room rate increased by \$4.40 or 5.6%, from \$78.47 in 2006 to \$82.87 in 2007. Revenue per available room ("Rev/Par") increased \$4.68 or 6.5%, from \$72.37 in 2006 to \$77.05 in 2007.

We also compete to some extent with casinos in other states, riverboat and Native American gaming ventures, state-sponsored lotteries, on- and off-track wagering, card parlors and other forms of legalized gaming in the United States. To a lesser extent we also compete with gaming on cruise ships and gaming in other parts of the world. In addition, certain states have recently legalized or are considering legalizing casino gaming in specific geographical areas within those states and internationally. Any future development of casinos, lotteries or other forms of gaming in other states and internationally, could have a

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material adverse effect on our results of operations.

The number of casinos on Native American lands has increased since the enactment of the Indian Gaming Regulatory Act of 1988. California voters addressed this issue on March 7, 2000 when they voted in favor of an amendment to the California Constitution that allows Las Vegas-style gambling on Native American lands in that state. Additionally, California voters just recently passed Propositions 94, 95, 96 and 97 which allow two tribes near San Diego to each increase their slot machine volume from 2,000 slot machines to 7,500 slot machines and two tribes near Palm Springs to each increase their slot machine volume from 2,000 slot machines to 5,000 slot machines. While new gaming jurisdictions generally have not materially impacted Las Vegas, the expansion of gaming in California poses a more serious threat to the continued growth of Las Vegas.

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Our current business is highly dependent on gaming in Las Vegas. Riviera Las Vegas derives a substantial percentage of its business from tourists, including customers from southern California and the southwestern United States. Weakness in the economy of southern California has in the past, and could in the future, adversely affect our financial results. The events of September 11, 2001 had the most serious effect on our financial results. Similar events in the future could also have a material adverse effect on our financial results.

Black Hawk, Colorado

The Black Hawk/Central City gaming market is characterized by intense competition. The primary competitive factors in the market are location, availability and convenience of parking, number of slot machines and gaming tables, promotional incentives, hotel rooms, types and pricing of non-gaming amenities, name recognition and overall atmosphere. Our main competitors are the larger gaming facilities, particularly those with considerable on-site parking, hotel rooms and established reputations in the local market. As of December 31, 2007, there were 26 gaming facilities in the Black Hawk/Central City market with 11 casinos each offering more than 400 gaming positions. Additional construction projects are in progress in the Black Hawk/Central City market.

The gaming facilities near the intersection of Main and Mill Streets provide significant competition to our casino. Colorado Central Station which is wholly owned by Isle of Capri and is connected via inside walkways to the Isle of Capri, is located across the street from our casino and has 640 slot machines, 18 gaming tables, approximately 1,200 parking spaces and 164 hotel rooms. The Isle of Capri, one of the most successful casinos in Colorado, is located directly across the street from our casino and features 1,375 slot machines, 18 table games, 1,100 parking spaces, and 238 hotel rooms. An expansion and renovation of Main Street was completed in the second quarter of 2006. As a result of the Main Street expansion, Riviera Black Hawk is the first property on Main Street accessible to all customers traveling to Black Hawk from the Denver Metro area via State Route 119. Our parking garage is the first and most easily accessible parking garage directly from Main Street.

The number of hotel rooms currently in the Black Hawk/Central City market is 596, with only 5 gaming facilities providing hotel accommodations. These include Fortune Valley with 118 rooms, Century Casino with 26 rooms, the Lodge at Black Hawk with 50 rooms, the Isle of Capri with 238 rooms and Colorado Central Station with 164 rooms. Casinos offering hotel accommodations for overnight stay have a competitive advantage over our casino. However, we believe that self-parking is a more effective utilization of our available space providing hotel accommodations is not a cost-effective use of our capital resources at this time.

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The Ameristar Black Hawk property was re-branded in the Ameristar name on April 1, 2006, and received significant increased traffic to the property in the second half of 2006. Ameristar is adding a hotel tower as part of its \$260 million capital expansion, with the first phase completed in November 2005, which included an expansion of the parking garage to 1,550 parking spaces. Ameristar has approximately 1,600 gaming machines, 12 blackjack tables and 14 live poker tables. Hotel construction has commenced with 536 rooms slated to open in the first quarter of 2009.

Historically, the City of Black Hawk has enjoyed an advantage over Central City because customers have to drive through Black Hawk to reach Central City. However, there is a new road that opened in November 2004, which links Central City directly with Interstate 70 and allows customers to reach Central City without driving through Black Hawk. Although this road allows customers to directly access Central City, we believe that most customers will continue to frequent Black Hawk casinos because of the superior amenities Black Hawk casinos offer. This new road provides additional access to the Black Hawk/Central City market, which is especially important on weekends when the traditional road system is overburdened. We believe the new access road is important for the continued growth of the market. The new access road proved valuable between June 21st and September 13th of 2005 when a major rockslide closed Highway 6, the major route customers from the Denver area take to the Black Hawk/Central City market.

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Limited stakes gaming in Colorado is constitutionally authorized in Central City, Black Hawk, Cripple Creek and two Native American reservations in southwest Colorado. However, gaming could be approved in other Colorado communities in the future. The legalization of gaming closer to Denver would likely have a material adverse effect on our results of operations. We also compete with other forms of gaming in Colorado, including lottery gaming, and horse and dog racing, as well as other forms of entertainment.

It is also possible that new forms of gaming could compete with our casino. Currently, Colorado law does not authorize video lottery terminals. However, Colorado law permits the legislature, with executive approval, to authorize new types of lottery gaming, such as video lottery terminals. Video lottery terminals are games of chance, similar to slot machines, in which the player pushes a button that causes a random set of numbers or characters to be displayed on a video screen. The player may be awarded a ticket, which can be exchanged for cash or credit play. This form of gaming could compete with slot machine gaming. Voters in the State of Colorado have in the past rejected a proposal which would have authorized video lottery terminals in five racetracks in Colorado. However, there is no guarantee that such a proposal or similar one will not be approved now or in the future and we understand that proponents of video lottery terminals and/or slot machines at racetrack are again seeking approval to put a new initiative before the Colorado voters in 2008. If either of these types of initiatives were to be pursued further in Colorado and gain the necessary approvals, then our Colorado operations would likely be adversely affected.

In addition, Colorado enacted a smoking ban in 2006, which at the time excluded casinos. That smoking ban was subsequently amended to include casinos effective January 1, 2008. Although we have constructed outdoor smoking areas to permit smoking in those areas, the amended smoking ban could nonetheless have a material adverse effect on our long term results of operations.

Pursuant to a license agreement, Riviera Las Vegas licenses the use at

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Riviera Black Hawk of all of the trademarks, service marks and logos used by Riviera Las Vegas. The license agreement provides that additional trademarks, service marks and logos acquired or developed by us and used at our other facilities will be subject to the license agreement.

### Employees and Labor Relations

#### Riviera Las Vegas

As of December 31, 2007, Riviera Las Vegas had 1,248 full-time equivalent employees and had collective bargaining contracts with eight unions covering approximately 700 of such employees, including food and beverage employees, rooms department employees, carpenters, engineers, stagehands, musicians, electricians, painters and teamsters. Riviera Las Vegas' agreement with the Painters Union expires on May 31, 2010. The Carpenters' Union agreement expired on July 31, 2005, and an initial one-year and subsequent open-ended extensions were agreed to by us and the Union and in 2007, we and the Carpenters' Union entered into an agreement that expires on July 31, 2011. Agreements with the Southern Nevada Culinary and Bartenders Union, covering the majority of our unionized employees, were renewed in 2007 and expire in 2012. Our agreement with the Stagehands Union expired in 2007. Negotiations with the Stagehands Union for a new multiyear agreement commenced in 2007 and are ongoing. Our agreement with the Teamsters Union expires in 2008 and the Operating Engineers Union and Electrician Union agreements expire in 2009. Our collective bargaining agreement with the Musicians Union expired in 1999 and we continue to operate under the terms of that agreement. Although unions have been active in Las Vegas, Riviera Las Vegas considers its employee relations to be satisfactory. There can be no assurance, however, that new agreements will be reached without union action or on terms satisfactory to Riviera Las Vegas.

#### Riviera Black Hawk

As of December 31, 2007, Riviera Black Hawk had 233 full-time equivalent employees, none of whom are covered by collective bargaining agreements. The Black Hawk/Central City labor market is very competitive. Riviera Black Hawk believes that it will be able to maintain its current employee level. There can be no assurance, however, that new and existing casinos will not affect Riviera Black Hawk's ability to maintain its current employee level.

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Although there are no collective bargaining agreements in Black Hawk casinos, we became aware in 2006 of organization activity by Local 7 of the United Food & Commercial Workers International Union. This activity is targeting casino employees in Black Hawk and Central City. There can be no assurance that the union will not succeed in its organization effort, and if successful, that an agreement will be reached without union action or on terms satisfactory to

Riviera Black Hawk.

### Regulation and Licensing

#### Nevada

##### Nevada Gaming Authorities

The ownership and operation of casino gaming facilities in Nevada are subject to: (1) The Nevada Gaming Control Act and the regulations promulgated thereunder (collectively, the "Nevada Act") and (2) various local ordinances and regulations. Our gaming operations are subject to the licensing and regulatory control of the Nevada Gaming Commission (the "Nevada Commission"), the State of Nevada Gaming Control Board (the "Nevada Board"), the Clark County Business

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Department and the Clark County liquor/gaming authorities (collectively, the "Clark County Board"), all of which are collectively referred to as the "Nevada Gaming Authorities."

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy which are concerned with, among other things: (1) the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time and in any capacity; (2) the establishment and maintenance of responsible accounting practices and procedures; (3) the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities; (4) the prevention of cheating and fraudulent practices; and (5) providing a source of state and local revenues through taxation and licensing fees. Changes in such laws, regulations and procedures could have an adverse effect on our operations.

Riviera Operating Corporation is required to be and is licensed by the Nevada Gaming Authorities (a "Corporate Licensee"). The gaming license held by Riviera Operating Corporation requires the periodic payment of fees and taxes and is not transferable. Riviera Operating Corporation is also licensed as a manufacturer and distributor of gaming devices. Such licenses require the periodic payment of fees and are not transferable. We are registered by the Nevada Commission as a publicly traded corporation (a "Registered Corporation") and have been found suitable to own the stock of Riviera Operating Corporation. As a Registered Corporation, we are required periodically to submit detailed financial and operating reports to the Nevada Commission and to furnish any other information, which the Nevada Commission may require. No person may become a stockholder of, or receive any percentage of profits from, Riviera Operating Corporation without first obtaining licenses and approvals from the Nevada Gaming Authorities. We and Riviera Operating Corporation have obtained, from the Nevada Gaming Authorities, the various registrations, approvals, permits, findings of suitability and licenses required in order to engage in gaming activities and manufacturing and distribution activities in Nevada.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, us or Riviera Operating Corporation in order to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Officers, directors and certain key employees of Riviera Operating Corporation must file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. Our officers, directors and key employees who are actively and directly involved in the gaming activities of Riviera Operating Corporation may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause, which they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. The applicant for licensing or a finding of suitability must pay all the costs of the investigation. Any change in a corporate position by a licensed person must be reported to the Nevada Gaming Authorities. In addition to their authority to deny an application for a finding of suitability or licensure, the Nevada Gaming Authorities have jurisdiction to disapprove a change in a corporate position.

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 Riviera Operating Corporation or us, we would have to sever



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all relationships with such person. In addition, the Nevada Commission may require us or Riviera Operating Corporation to terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or questions pertaining to licensing are not subject to judicial review in Nevada.

We and Riviera Operating Corporation are required to submit detailed financial and operating reports to the Nevada Commission. Substantially all material loans, leases, sales of securities and similar financing transactions by Riviera Operating Corporation must be reported to or approved by the Nevada Commission.

If it were determined that the Nevada Act was violated by Riviera Operating Corporation, the gaming license it holds could be limited, conditioned, suspended or revoked, subject to compliance with certain statutory and regulatory procedures. In addition, we or Riviera Operating Corporation and the persons involved could be subject to substantial fines for each violation of the Nevada Act, at the discretion of the Nevada Commission. Further, a supervisor could be appointed by the Nevada Commission to operate our casino and, under certain circumstances, earnings generated during the supervisor's appointment (except for reasonable rental value of the casino) could be forfeited to the State of Nevada. Limitation, conditioning or suspension of the gaming license of Riviera Operating Corporation or the appointment of a supervisor could (and revocation of any gaming license would) materially adversely affect our gaming operations.

Any beneficial holder of our voting securities, regardless of the number of shares owned, may be required to file an application, be investigated, and have its suitability as a beneficial holder of our voting securities determined if the Nevada Commission has reason to believe that such ownership would otherwise be inconsistent with the declared policies of the State of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Act requires any person who acquires more than 5% of a Registered Corporation's voting securities to report the acquisition to the Nevada Commission. The Nevada Act requires that beneficial owners of more than 10% of our voting securities apply to the Nevada Commission for a finding of suitability within thirty days after the Chairman of the Nevada Board mails the written notice requiring such filing. Under certain circumstances, an "institutional investor," as defined in the Nevada Act, which acquires more than 10%, but not more than 15%, of our voting securities may apply to the Nevada Commission for a waiver of such finding of suitability if such institutional investor holds our voting securities for investment purposes only. An institutional investor that has obtained a waiver may, in certain circumstances, hold up to 19% of our voting securities and maintain its waiver for a limited period of time. An institutional investor shall not be deemed to hold our voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of our board of directors, any change in our corporate charter, bylaws, management, policies or operations, or any of our gaming affiliates, or any other action which the Nevada Commission finds to be inconsistent with holding our voting securities for investment purposes only. Activities which are deemed consistent with holding our voting securities for investment purposes only include: (1) voting on all matters voted on by stockholders; (2) making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in management, policies or operations; and (3) such other activities as the Nevada Commission may determine to be consistent with such investment intent. If the beneficial holder of our voting securities who must be found suitable is a business entity or trust, it must submit detailed business and

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financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within thirty days after being ordered to do so by the Nevada Commission or the Chairman of the Nevada Board may be found unsuitable. The same restrictions apply to a record owner of stock if the record owner, after request, fails to identify the beneficial owner. Any stockholder who is found unsuitable and who holds, directly or indirectly, any beneficial ownership of stock beyond such period of time prescribed by the Nevada Commission may be guilty of a criminal offense. We are subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any

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other relationship with us or Riviera Operating Corporation, we (1) pay that person any dividend or interest upon voting our securities, (2) allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person, (3) pay remuneration in any form to that person for services rendered or otherwise, or (4) fail to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities including, if necessary, the immediate purchase of said voting securities for cash at fair market value. Additionally, the Clark County Board has the authority to approve all persons owning or controlling the stock of any corporation controlling a gaming licensee.

The Nevada Commission may, in its discretion, require any holder of our debt securities to file applications, be investigated and be found suitable to own such securities, if it has reason to believe that such ownership would be inconsistent with the declared policies of the State of Nevada. If the Nevada Commission determines that a person is unsuitable to own such security, then we can be sanctioned (which may include the loss of our approvals) if, without the prior approval of the Nevada Commission, we (1) pay to the unsuitable person any dividend, interest, or any distribution whatsoever, (2) recognize any voting right by such unsuitable person in connection with such securities, (3) pay the unsuitable person remuneration in any form or (4) make any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation, or similar transaction.

We are required to maintain a current stock ledger in Nevada, which may be examined by the Nevada Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada Gaming Authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner. The Nevada Commission has the power to require our stock certificates to bear a legend indicating that the securities are subject to the Nevada Act. However, the Nevada Commission has not imposed such a requirement on us.

We may not make a public offering of our securities without the prior approval of the Nevada Commission if the securities or proceeds therefrom are intended to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for such purposes. On September 20, 2007, the Nevada Commission granted us prior approval to make public offerings for a period of two years, subject to certain conditions (the "Shelf Approval"). The Shelf Approval also applies to any affiliated company wholly owned by us which is a publicly traded corporation or would thereby become a publicly traded corporation pursuant to a public offering. The Shelf Approval may be rescinded for good cause without prior notice upon the issuance of an interlocutory stop order by the Chairman of the Nevada Board. The Shelf

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Approval does not constitute a finding, recommendation or approval by any of the Nevada Gaming Authorities as to the accuracy or adequacy of the offering memorandum or the investment merits of the securities. Any representation to the contrary is unlawful.

Changes in control of a Registered Corporation through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby he obtains control, may not occur without the prior approval of the Nevada Commission. Entities seeking to acquire control of a Registered Corporation must meet a variety of stringent standards of the Nevada Board and Nevada Commission prior to assuming control. The Nevada Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defensive tactics affecting Nevada corporate gaming licensees and Registered Corporations that are affiliated with those operations may be injurious to stable and productive corporate gaming. The Nevada Commission has established regulations to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to: (1) assure the financial stability of corporate gaming licensees and their affiliates; (2) preserve the beneficial aspects of conducting business in the corporate form; and (3) promote a neutral environment for the orderly governance of corporate affairs. Approvals are, in certain circumstances, required from the Nevada Commission before the Registered Corporation can make exceptional repurchases of voting securities above the current market price and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of recapitalization proposed by the Registered Corporation's board of directors in response to a tender offer made directly to the Registered Corporation's stockholders for the purposes of acquiring control of the Registered Corporation.

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License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada and to the county in which Riviera Operating Corporation's operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable monthly, quarterly or annually and are based upon: (1) a percentage of the gross revenues received; (2) the number of gaming devices operated; or (3) the number of table games operated. A live entertainment tax is also paid by casinos where live entertainment is furnished in connection with admission charges, the serving or selling of food, refreshments or the selling of merchandise. Nevada licensees that hold a license to manufacture and distribute slot machines and gaming devices, such as Riviera Operating Corporation, also pay certain fees and taxes to the State of Nevada.

Any person who is licensed, required to be licensed, registered, or required to be registered, or a person who is under common control with any of such persons (collectively, "Licensees"), and who proposes to become involved in a gaming venture outside of Nevada, is required to deposit with the Nevada Board, and thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expenses of investigation by the Nevada Board of such person's participation in such foreign gaming. The revolving fund is subject to increase or decrease in the discretion of the Nevada Commission. Thereafter, Licensees are required to comply with certain reporting requirements imposed by the Nevada Act. Licensees are also subject to disciplinary action by the Nevada Commission if they knowingly violate any laws of the foreign jurisdiction pertaining to the foreign

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gaming operation, fail to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations, engage in activities or enter into associations that are harmful to the State of Nevada or its ability to collect gaming taxes and fees, or employ, have contact with or associate with a person in the foreign operation who has been denied a license or finding of suitability in Nevada on the ground of personal unsuitability.

### Other Nevada Regulation

The sale of alcoholic beverages at Riviera Las Vegas is subject to licensing, control and regulation by the Clark County Board. All such licenses are revocable and none of them are transferable. The Clark County Board has full power to limit, condition, suspend or revoke any such license, and any such disciplinary action could (and revocation would) have a material adverse effect on our operations.

### Colorado

#### Colorado Gaming and Liquor Regulation

##### Summary

In general, Riviera Black Hawk, its principal executive officers and those of Riviera Holdings Corporation, and any Riviera Black Hawk employees who are involved in Colorado gaming operations are required to be found suitable for licensure by the Colorado Gaming Commission (the "Colorado Commission"). Colorado also requires that persons owning, directly or indirectly, 5% or more of our stock be certified as suitable for licensure. Riviera Black Hawk's original retail gaming license was approved by the Colorado Commission on November 18, 1999, and has been renewed each subsequent year.

##### Background

Pursuant to an amendment to the Colorado Constitution (the "Colorado Amendment"), limited stakes gaming became lawful in the cities of Central City, Black Hawk and Cripple Creek on October 1, 1991. Limited stakes gaming means a maximum single bet of five dollars on slot machines and in the card games of blackjack and poker.

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Limited stakes gaming is confined to the commercial district of Black Hawk, as defined by Black Hawk on May 4, 1978. In addition, the Colorado Amendment restricts limited stakes gaming to structures that conform to the architectural styles and designs that were common to the areas prior to World War I, and which conform to the requirements of applicable city ordinances regardless of the age of the structures. Under the Colorado Amendment, no more than 35% of the square footage of any building and no more than 50% of any one floor of any building may be used for limited stakes gaming. Persons under the age of 21 cannot participate in limited stakes gaming. The Colorado Amendment also prohibits limited stakes gaming between the hours of 2:00 a.m. and 8:00 a.m., and allows limited stakes gaming in establishments licensed to sell alcoholic beverages.

Further, the Colorado Limited Gaming Act of 1991 (the "Colorado Act") provides that, in addition to any applicable license fees, a gaming tax shall be imposed upon retail gaming licensees (casinos) up to a maximum of 40% of the adjusted gross proceeds ("AGP") derived from limited stakes gaming. AGP is generally defined as the total amounts wagered less payouts to players, except for poker in which AGP means the monies retained by the casino as compensation (the "rake"). The tax rates are set by the Colorado Commission annually.

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The Colorado Act declares public policy on limited stakes gaming to be that: (1) the success of limited stakes gaming is dependent upon public confidence and trust that licensed limited stakes gaming is conducted honestly and competitively; the rights of the creditors of licensees are protected; gaming is free from criminal and corruptive elements; (2) public confidence and trust can be maintained only by strict regulation of all persons, locations, practices, associations and activities related to the operation of licensed gaming establishments and the manufacture or distribution of gaming devices and equipment; (3) all establishments where limited gaming is conducted and where gambling devices are operated, and all manufacturers, sellers and distributors of certain gambling devices and equipment must therefore be licensed, controlled and assisted to protect the public health, safety, good order and the general welfare of the inhabitants of the state to foster the stability and success of limited stakes gaming and to preserve the economy, policies and free competition in Colorado; and (4) no applicant for a license or other affirmative Colorado Commission approval has any right to a license or to the granting of the approval sought. Any license issued or other Colorado Commission approval granted pursuant to the provisions of the Colorado Act is a revocable privilege, and no holder acquires any vested rights therein.

### Regulatory Structure

The Colorado Act subjects the ownership and operation of limited stakes gaming facilities in Colorado to extensive licensing and regulation by the Colorado Commission. The Colorado Commission has full and exclusive authority to promulgate, and has promulgated, rules and regulations governing the licensing, conduct and operation of limited stakes gaming. The Colorado Act also created the Colorado Division of Gaming within the Colorado Revenue Department to license, regulate and supervise the conduct of limited stakes gaming in Colorado. The division is supervised and administered by the Director of the Division of Gaming.

### Gaming Licenses

The Colorado Commission may issue the following licenses applicable to the operation of Riviera Black Hawk:

- o operator;
- o retail gaming;
- o support; and
- o key employee.

The first two licenses require annual renewal by the Colorado Commission. Support and key employee licenses are issued for two-year periods and are renewable by the Division of Gaming Director. The Colorado Commission has broad discretion to condition, suspend for up to six months, revoke, limit or restrict a license at any time and also has the authority to impose fines.

An applicant for a gaming license must complete comprehensive application forms, pay required fees and provide all information required by the Colorado Commission and the Division of Gaming. Prior to licensure, applicants must satisfy the Colorado Commission that they are suitable for licensing. Applicants have the burden of proving their qualifications and must pay the full cost of any background investigations. There is no limit on the cost of, or the time it takes to complete, such background investigations.

Gaming employees must hold either a support or key employee license. Every large retail gaming licensee, such as Riviera Black Hawk, must have a key

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employee licensee on premises and in charge of all limited stakes gaming activities when limited stakes gaming is being conducted. The Colorado Commission may determine that a gaming employee is a key employee and require that such person apply for a key employee license.

A retail gaming license is required for all persons conducting limited stakes gaming on their premises. In addition, an operator license is required for all persons who engage in the business of placing and operating slot machines on the premises of a retailer. However, a retailer is not required to hold an operator license. No person may have an ownership interest in more than three retail gaming licenses. The definition of "ownership interest" for purposes of the multiple license prohibition, however, has numerous exclusions based on percentages of ownership interest or voting rights.

A slot machine manufacturer or distributor license is required for all persons who manufacture, import and distribute slot machines in Colorado. No manufacturer or distributor of slot machines or associated equipment may knowingly, without notification being provided to the Colorado Division within ten days, have any interest in any casino operator, allow any of its officers or any other person with a substantial interest in such business to have such an interest, employ any person employed by a casino operator, or allow any casino operator or any person having a substantial interest therein, to have any interest in such business.

The Colorado Act and regulations thereunder (the "Colorado Regulations") require that every officer, director, and stockholder of private corporations, or equivalent office or ownership holders for non-corporate applicants, and every officer, director or stockholder holding a 5% or greater interest or controlling interest in a publicly traded corporation, or owners of an applicant or licensee, shall be a person of good moral character and submit to a full background investigation conducted by the Division of Gaming and the Colorado Commission. The Colorado Commission may require any person having an interest, of any kind, in a license to undergo a full background investigation and pay the cost of investigation in the same manner as an applicant.

Persons found unsuitable by the Colorado Commission may be required immediately to terminate any interest, association, or agreement with, or relationship to, a licensee. A finding of unsuitability with respect to any officer, director, employee, associate, lender or beneficial owner of a licensee or applicant also may jeopardize the licensee's license or the applicant's application. A license approval may be conditioned upon the termination of any relationship with unsuitable persons. A person may be found unsuitable because of prior acts, associations or financial conditions. Acts that would lead to a finding of unsuitability include, among others, those that would violate the Colorado Act or the Colorado Regulations or that contravene the legislative purpose of the Colorado Act.

### Duties of Licensees

A licensee must keep the Division of Gaming advised of its business operations including, but not limited to, gaming contracts and leases. All rules for the conduct of gaming activity pursuant to the Colorado Act or the Colorado Regulations must be strictly followed.

Licensees, such as Riviera Black Hawk, have a continuing duty to report immediately to the Division of Gaming the name, date of birth and social security number of each person who obtains an ownership, financial or equity interest in the licensee of 5% or greater, who has the ability to control the licensee, who has the ability to exercise significant influence over the licensee or who loans any money or other thing of value to the licensee. Licensees must report to the Division of Gaming all gaming licenses, and all applications for gaming licenses, in foreign jurisdictions.

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With limited exceptions applicable to licensees that are publicly traded entities, no person may sell, lease, purchase, convey or acquire any interest in a retail gaming or operator license or business without the prior approval of the Colorado Commission.

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All agreements, contracts, leases, or arrangements in violation of the Colorado Amendment, the Colorado Act or the Colorado Regulations are void and unenforceable.

A licensee must comply with Colorado's Gambling Payment Intercept Act, which governs the collection of unpaid child support costs on cash winnings from limited gaming.

### Taxes, Fees and Fines

The Colorado Amendment requires each retail gaming licensee to pay in monthly increments an annual tax of up to 40% of its AGP derived from limited stakes gaming. Annually during April, May, and June, the Colorado Commission, as mandated by the Colorado Regulations, conducts rule-making hearings concerning the gaming tax rate and device fee rate for the subsequent gaming year. The gaming year begins on July 1st. However, during such hearings rigid adherence to addressing only specific, designated subjects related to the gaming taxes is not required, and there is not a limit to the time or practical restriction on the subject matters which the Colorado Commission may consider in determining the various tax rates. Currently, the gaming tax is:

- o 0.25% on the first \$2 million of these amounts;
- o 2% on amounts from \$2 million to \$4 million;
- o 4% on amounts from \$4 million to \$5 million;
- o 11% on amounts from \$5 million to \$10 million;
- o 16% on amounts from \$10 million to \$15 million; and
- o 20% on amounts over \$15 million.

The City of Black Hawk assesses an annual device fee of \$750.00 per device on all gaming devices exceeding 50. There is no statutory limit on state or city device fees, which may be increased at the discretion of the Colorado Commission or the city. In addition, a business improvement fee of as much as \$7.42 per device and a monthly transportation authority device fee of \$6.41 per device also may apply depending upon the location of the licensed premises in Black Hawk.

Black Hawk also imposes taxes and fees on other aspects of the businesses of retail gaming licensees, such as parking, alcoholic beverage licenses and other municipal taxes and fees. Significant increases in these fees and taxes, or the imposition of new taxes and fees, may occur.

Violation of the Colorado Act or the Colorado Regulations generally constitutes a class 1 misdemeanor, except as may be specifically provided otherwise in the Colorado Act, which may subject the violator to fines or incarceration or both. A licensee who violates the Colorado Act or Colorado Regulations or Gambling Payment Intercept Act is subject to suspension of the license for a period of up to six months, fines or both, or to license revocation.

### Requirements for Publicly Traded Corporations

The Colorado Commission has enacted Rule 4.5, which imposes requirements on publicly traded corporations holding gaming licenses in Colorado and on gaming

licenses owned directly or indirectly by a publicly traded corporation, whether through a subsidiary or intermediary company. The term "publicly traded corporation" includes corporations, firms, limited liability companies, trusts, partnerships and other forms of business organizations. Such requirements automatically apply to any ownership interest held by a publicly traded corporation, holding company or intermediary company thereof, where the ownership interest directly or indirectly is, or will be upon approval of the Colorado Commission, 5% or more of the entire licensee. In any event, if the Colorado Commission determines that a publicly traded corporation, or a subsidiary, intermediary company or holding company, has the actual ability to exercise influence over a licensee, regardless of the percentage of ownership possessed by said entity, the Colorado Commission may require the entity to comply with the disclosure regulations contained in Rule 4.5.

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Under Rule 4.5, gaming licensees, affiliated companies and controlling persons commencing a public offering of voting securities must notify the Colorado Commission no later than ten business days after the initial filing of a registration statement with the SEC. Licensed, publicly traded corporations are also required to send proxy statements to the Division of Gaming within five days after their distribution. Licensees to whom Rule 4.5 applies must include in their charter documents provisions that: restrict the rights of the licensees to issue voting interests or securities except in accordance with the Colorado Act and the Colorado Regulations; limit the rights of persons to transfer voting interests or securities of licensees except in accordance with the Colorado Act and the Colorado Regulations; and provide that holders of voting interests or securities of licensees found unsuitable by the Colorado Commission may, within 60 days of such finding of unsuitability, be required to sell their interests or securities back to the issuer at the lesser of the cash equivalent of the holders' investment or the market price as of the date of the finding of unsuitability. Alternatively, the holders may, within 60 days after the finding of unsuitability, transfer the voting interests or securities to a suitable person, as determined by the Colorado Commission. Until the voting interests or securities are held by suitable persons, the issuer may not pay dividends or interest, the securities may not be voted, they may not be included in the voting or securities of the issuer, and the issuer may not pay any remuneration in any form to the holders of the securities.

Pursuant to Rule 4.5, persons who acquire direct or indirect beneficial ownership of either (1) 5% or more of any class of voting securities of a publicly traded corporation that is required to include in its articles of organization the Rule 4.5 charter provisions, or (2) a 5% or greater beneficial interest in a gaming licensee, directly or indirectly through any class of voting securities of any holding company or intermediary company of a licensee (collectively such persons are hereinafter referred to as the "qualifying persons"), must notify the Division of Gaming within 10 days of such acquisition, must submit all requested information, and are subject to a finding of suitability as required by the Division of Gaming or the Colorado Commission. Licensees also must notify any qualifying persons of these requirements. A qualifying person other than an institutional investor whose interest equals 10% or more must apply to the Colorado Commission for a finding of suitability within 45 days after acquiring such securities. Licensees must also notify any qualifying persons of these requirements. Whether or not notified, qualifying persons are responsible for complying with these requirements.

A qualifying person who is an institutional investor under Rule 4.5 and who, individually or in association with others, acquires, directly or indirectly, the beneficial ownership of 15% or more of any class of voting securities must apply to the Colorado Commission for a finding of suitability within 45 days after acquiring such interests.



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The Colorado Regulations also provide for exemption from the requirements for a finding of suitability when the Colorado Commission finds such action to be consistent with the purposes of the Colorado Act.

Pursuant to Rule 4.5, persons found unsuitable by the Colorado Commission must be removed from any position as an officer, director, or employee of a licensee, or from a holding or intermediary company. Such unsuitable persons also are prohibited from any beneficial ownership of the voting securities of any such entities. Licensees, or affiliated entities of licensees, are subject to sanctions for paying dividends or distributions to persons found unsuitable by the Colorado Commission, or for recognizing voting rights of, or paying a salary or any remuneration for services to, unsuitable persons. Licensees or their affiliated entities also may be sanctioned for failing to pursue efforts to require unsuitable persons to relinquish their interest. The Colorado Commission may determine that anyone with a material relationship to, or material involvement with, a licensee or an affiliated company must apply for a finding of suitability or must apply for a key employee license.

### Alcoholic Beverage Licenses

The sale of alcoholic beverages in gaming establishments is subject to strict licensing, control and regulation by state and local authorities. Alcoholic beverage licenses are revocable and nontransferable. State and local licensing authorities have full power to limit, condition, suspend for as long as six months or revoke any such licenses. Violation of state alcoholic beverage laws may constitute a criminal offense resulting in incarceration, fines, or both.

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There are various classes of retail liquor licenses, which may be issued under the Colorado Liquor Code. A gaming licensee may sell malt, vinous or spirituous liquors only by the individual drink for consumption on the premises. Even though a retail gaming licensee may be issued one of the various classes of retail liquor licenses, such gaming licensee, and persons affiliated with that licensee, are subject to restrictions concerning what other types of liquor licenses they may hold. An application for an alcoholic beverage license in Colorado requires notice, posting and a public hearing before the local liquor licensing authority (e.g., the City of Black Hawk) prior to approval of the same. The Colorado Department of Revenue's Liquor Enforcement Division must also approve the application. Riviera Black Hawk's hotel and restaurant license has been approved by both the local licensing authority and the State Division of Liquor Enforcement. Such license must be, and has been, renewed annually since its issuance.

### Federal Registration

Riviera Operating Corporation is required to annually file with the Attorney General of the United States in connection with the sales, distribution, or operations of slot machines. All requisite filings for 2007 have been made.

### Item 1A. Risk Factors

An investment in our securities involves a high degree of risk. We operate in a highly competitive, dynamic and rapidly changing industry that involves numerous risks and uncertainties. Moreover, our debt instruments impose restrictions on us that are for the benefit of certain of our creditors, but not necessarily for our stockholders or us. Anyone who is making an investment

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decision regarding our securities should carefully consider the following risk factors, as well as the other information contained or incorporated by reference in this report. The risks and uncertainties described below are those that we currently believe may materially affect our company or your investment. Other risks and uncertainties that we do not presently consider to be material, or of which we are not presently aware, may become important factors that adversely affect our security holders or us in the future. If any of the risks discussed below actually materialize, then our business, financial condition, operating results, cash flows and future prospects, or your investment in our securities, could be materially and adversely affected, resulting in a loss of all or part of your investment.

### Risks Relating To Our Business And Our Capital Structure

#### We Face Intense Competition In The Two Markets Where We Operate

In Las Vegas, intense competition has resulted from, among other things, significant increases in new hotel rooms, casino sizes and convention, trade show and meeting facilities. Our success depends on the success of Riviera Las Vegas and its ability to attract visitors and to continue operating successfully. Riviera Las Vegas competes with high-end, middle market and other casinos resort properties and hotels, including those located on or near the Las Vegas Strip or in downtown Las Vegas, on the basis of overall atmosphere, range of amenities, level of service, price, location, entertainment offered, shopping and restaurant facilities, theme and size. Currently, there are approximately 30 major gaming properties located on or near the Las Vegas Strip, approximately ten additional major gaming properties in the downtown area and many additional gaming properties located in other areas of Las Vegas. Companies that have more than one hotel/casino facility operate many of these properties, and many have greater name recognition and financial and marketing resources than we do and market to the same target demographic groups as we do. Furthermore, additional major hotel/casino openings and significant expansion of existing properties, containing a large number of hotel rooms and attractions, are expected to occur in Las Vegas in the coming years, which will put even further pressure on us to remain competitive.

In Black Hawk/Central City, the primary competitive factors are location, availability and convenience of parking, number of slot machines and gaming tables, promotional incentives, hotel rooms, types and pricing of non-gaming amenities, name recognition and overall atmosphere. Our main competitors are the larger gaming facilities, particularly those with considerable on-site or nearby parking, hotel, rooms and established reputations in the local market. Two of the most successful casinos in Colorado are located across the street from, and are considerably larger than, Riviera Black Hawk. Three other casinos in our market offer hotel accommodations as well as gaming facilities, and thereby have some competitive advantages over us. Also, a road which opened in November 2004 and which enables drivers to bypass Black Hawk on their way to Central City, has led to significant recent growth in the Central City gaming market and may give our Central City competitors an advantage over us.

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There have also been efforts in Colorado by Native American tribes to acquire land to use for construction of a casino that would operate without the limitations imposed on the Colorado casino industry, and efforts by other parties to amend the Colorado Constitution to permit installation of slot machines at five racetracks. Thus far, the Native American casino initiatives in Colorado have either been rejected or have failed to win support from government authorities, and in 2003 a race track/slot machine initiative was rejected by Colorado voters. However, we understand that proponents of video lottery terminals and/or slot machines at racetrack are again seeking approval to put a

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new initiative before the Colorado voters in 2008. If either of these types of initiatives were to be pursued further in Colorado and gain the necessary approvals, then our Colorado operations could be adversely affected.

In addition to the competition that we face from our competitors in Las Vegas and Colorado, we face substantial competition from other companies in the gaming industry generally, such as land-based casinos, dockside casinos, riverboat casinos, casinos located on Native American land in California and elsewhere, and other forms of legalized gambling. If other casinos operate more successfully, if other existing gaming properties continue to be enhanced or expanded, or if additional hotels and casinos are established in or around the locations where we conduct business, we may lose market share.

The number of casinos on Native American lands has increased since enactment of the Indian Gaming Regulatory Act of 1988. In 2000 California voters approved an amendment to the California Constitution that allows Las Vegas-style gaming on Native American lands in that state. Additionally, California voters just recently passed Propositions 94, 95, 96 and 97 which allow two tribes near San Diego to each increase their slot machine volume from 2,000 slot machines to 7,500 slot machines and two tribes near Palm Springs to each increase their slot machine volume from 2,000 slot machines to 5,000 slot machines. While new gaming jurisdictions generally have not materially impacted Las Vegas, the continued expansion of gaming in California poses a more serious threat to the continued growth of Las Vegas.

We also compete, to some extent, with other forms of gaming on both a local and national level, including state-sponsored lotteries, Internet gaming, on- and off-track wagering and card parlors.

In particular, the legalization of gaming or the expansion of legalized gaming in or near any geographic area from which we attract or expect to attract a significant number of our customers could have a significant adverse effect on our business, financial condition, results of operations and future prospects.

Increased competition may also require us to make substantial capital expenditures to maintain or enhance the competitive positions of our two properties. Because we are highly leveraged, after we satisfy our obligations under our outstanding indebtedness we might not have sufficient financing to make such expenditures. If we are unable to make such expenditures, our competitive position, results of operations and future prospects could be materially and adversely affected.

Our Company Operates In Only Two Markets, Las Vegas And Black Hawk, Which  
Exposes Us To Greater Risks Than Gaming Companies  
With More Operating Properties Or A Presence In More Markets

We do not have material assets or operations other than Riviera Las Vegas and Riviera Black Hawk. Therefore, we are entirely dependent upon these two properties for our cash flow. This makes us more sensitive to events and conditions affecting the markets in which we operate, including the following:

- o local economic and competitive conditions,
- o inaccessibility due to weather conditions, road construction or closure of primary access routes;
- o decline in air passenger traffic due to higher ticket costs or fears concerning air travel;
- o a decline in automobile traffic due to higher gasoline prices;
- o changes in state and local laws and regulations, including

those affecting gaming;

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- o an increase in the cost of electrical power for Riviera Las Vegas as a result of, among other things, power shortages in California or other western states with which Nevada shares a single regional power grid;
- o a decline in the number of visitors to Las Vegas or the number of Colorado residents who visit Black Hawk; and
- o a potential increase in the gaming tax rate in any jurisdiction in which we operate, specifically in Nevada, where various initiatives are being pursued to place a referendum on the November, 2008, ballot to increase gaming taxes.

Our Significant Indebtedness Could Adversely Affect Our Financial Health And  
Prevent Us From Fulfilling Our Obligations  
Under Our Outstanding Indebtedness

We have a significant amount of debt, which could have important consequences to our stockholders and significant effects on our business and our ability to satisfy our debt obligations. For example, it could:

- o increase our vulnerability to adverse economic or industry conditions or a downturn in our business;
- o limit our ability to repay the new credit facility entered into on June 8, 2007, if we are required to do so as a result of a change in control of our company or regulatory requirements;
- o result in an event of default if we fail to comply with the restrictive covenants in our Credit Facility or our senior secured credit facility, which could result in all of our indebtedness becoming immediately due and payable and would permit certain lenders to foreclose on our assets securing that indebtedness;
- o limit our ability to fund or obtain additional financing for future working capital needs, capital expenditures and other general financial requirements;
- o require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital needs, capital expenditures, development projects, acquisitions and other general corporate purposes;
- o limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- o place us at a disadvantage compared to our competitors that have less debt.

We Are Dependent On Key Personnel Whom We Might Have Difficulty Replacing,  
Due To A Shortage Of Management-Level Personnel In Our Industry And  
Market Perceptions About Our Prospects

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Our ability to operate successfully is dependent, in part, upon the continued services of certain of our executive personnel. Our loss of any of them or our inability to attract or retain key employees in the future could have a material adverse effect on us. We have an employment agreement with William L. Westerman, our Chairman of the Board, President and Chief Executive Officer ("CEO") who has been with us or our predecessor company since 1991. Mr.

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Westerman is employed for calendar year periods which renew automatically unless he provides 180 days written notice or we provide 90 days written notice of our respective intention not to renew. Mr. Westerman's contract is also subject to earlier termination upon the occurrence of certain events. We cannot assure you that we would find a suitable replacement for Mr. Westerman if he retires or his employment terminates for any other reason. There is a shortage of skilled management-level employees in the gaming industry. This shortage, combined with our relatively limited financial and marketing resources, competitive position and market perceptions about our future prospects, together with (a) the termination of our March 7, 2008 announcement, that we had (i) completed our strategic review process that we commenced in May 2007 when we retained Jefferies & Company, Inc. as our financial advisor to assist us in exploring a range of potential strategic and financial alternatives in order to enhance shareholder value, and (ii) that we would continue to review all opportunities and consider all proposals that we receive, as well as other possible ways in which we can maximize shareholder value; would likely add to our difficulties in finding suitable replacements if we lose the services of our executives or other key personnel, which in turn might make it more difficult for us to attract and retain qualified personnel at that high level.

### Regulations Issued By Gaming Or Other Governmental Authorities Could Adversely Affect Our Operations

As owners and operators of gaming facilities, we are subject to extensive governmental regulation. The ownership, management and operation of gaming facilities are subject to extensive laws, regulations and ordinances, which are administered by various federal, state and local government entities and agencies. The gaming authorities in the jurisdictions in which we operate have broad authority and discretion to require us and our officers, directors, managers, employees and certain security holders to obtain various licenses, registrations, permits, findings of suitability or other approvals. To enforce applicable gaming regulations, gaming authorities may, among other things, limit, suspend or revoke the licenses of any gaming entity or individual, and may levy fines against us or individuals or may cause us to forfeit our assets for violations of gaming laws or regulations. Any of these actions would have a material adverse effect on us.

Nevada and Colorado state and local government authorities require us to obtain gaming licenses and require our officers and key employees to demonstrate suitability to be involved in gaming operations. Those authorities may limit, condition, suspend or revoke a license for any cause they deem reasonable. Also, if we violate any gaming laws or regulations, those authorities may levy substantial fines against us or the individuals involved in the violations. The occurrence of any of these events could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We can not assure you that any new licenses, registrations, findings of suitability, permits and approvals, including for any proposed expansion of our properties or our entry into new markets, will be given or that our existing ones will be renewed when they expire. Any failure to renew or maintain our

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licenses or receive new licenses when necessary would have a material adverse effect on us.

We are subject to a variety of other laws, rules and regulations, including those pertaining to zoning, environmental matters, construction, land use and the serving of alcoholic beverages. We also pay substantial taxes and fees in connection with our operations as a gaming company, which taxes and fees are subject to increase or other change at any time. Any changes to these laws could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our compliance costs associated with these laws, regulations and licenses are significant. A change in the laws, regulations and licenses applicable to our business or a violation of any of them could require us to make material expenditures or could otherwise materially adversely affect our business, financial condition, results of operations and future prospects.

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In Black Hawk and in other jurisdictions from which we attract customers, gaming is subject to local referendum. If the results of a referendum held in a jurisdiction in which we operate were to restrict gaming in whole or in part or if the results of a referendum in a nearby non-gaming jurisdiction were to permit gaming, especially video lottery terminals or slot machines in racetracks in and around the Denver area, our results of operations could be negatively impacted.

### We Are Subject To Potential Exposure To Environmental Liabilities

Generally, we are subject to various federal, state and local governmental laws and regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. Failure to comply could result in the imposition of severe penalties or restrictions on our operations by governmental agencies or courts. We are not aware of any such exposure at our properties. Riviera Black Hawk is located within a 400-square mile area that in 1983 was designated as the Clear Creek Central/City National Priorities List Site Study Area under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended. Although Riviera Black Hawk is not within any of the specific areas currently identified for investigation or remediation under that statute, environmental problems may subsequently be discovered, including in connection with any future construction on our property. Furthermore, governmental authorities could broaden their investigations and identify areas of concern within the site, we could be identified as a "potentially responsible party" and any related liability could have a material adverse effect on us. We do not have insurance to cover environmental liabilities, if we incur any.

### Energy Price Increases May Adversely Affect Our Costs Of Operations And Our Revenues

Our casino properties use significant amounts of electricity, natural gas and other forms of energy. Recent substantial increases in the cost of electricity in the United States have negatively affected our operating results and are likely to continue to do so. The extent of the impact is subject to the magnitude and duration of energy price increases, but this impact could be material. In addition, energy price increases in cities that constitute a significant source of customers for our properties could result in a decline in disposable income of potential customers and a corresponding decrease in visitation to our properties, which could negatively impact our revenues.

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Our Business, Financial Condition, Results Of Operations And Future Prospects Are Dependent On Many Factors That Are Beyond Our Control

The economic health of our business is generally affected by a number of factors that are beyond our control, including:

- o decline in tourism and travel due to concerns about homeland security, terrorism or other destabilizing events;
- o decline in the Las Vegas convention business;
- o intense competitive conditions in the gaming industry, especially the possibility of the approval of video lottery terminals and/or slot machines at racetracks in and around the Denver area, including the effect of such conditions on the pricing of our games and products;
- o general economic conditions, specifically current credit issues which have recently arisen, and economic conditions specific to our primary markets;
- o changes in the regulatory regimes affecting our business, including changes to applicable gaming, employment, environmental or tax regulations;
- o inaccessibility to our property due to construction on adjoining or nearby properties, streets or walkways;
- o substantial increases in the cost of electricity, natural gas and other forms of energy;
- o local conditions in key gaming markets, including seasonal and weather-related factors;
- o increased transportation costs;
- o levels of disposable income of casino customers;
- o continued increases in health care costs;
- o increases in gaming taxes or fees;
- o the relative popularity of entertainment alternatives to casino gaming that compete for the leisure dollar;
- o an outbreak or suspicion of an outbreak of an infectious communicable disease; and
- o the smoking ban in Colorado on our Riviera Black Hawk property which became effective January 1, 2008 and the possible adoption of additional anti-smoking regulations.

Any of these factors could negatively impact our property or the casino industry generally, and as a result, our business, financial condition and results of operations.

### We May Incur Losses That Are Not Adequately Covered By Insurance

Insurance may not be available in the future or adequate to cover all loss or damage to which our business or our assets might be subjected. Since the

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terrorist attacks of September 11, 2001, insurance coverage for certain types of damages or occurrences has diminished substantially and is no longer available at reasonable commercial rates. The lack of adequate insurance for certain types or levels of risk could expose us to significant losses if a catastrophe or lawsuit occurs for which we do not have insurance coverage. Any losses we incur that are not adequately covered by insurance may decrease our future operating income, require us to pay the costs of replacing or repairing destroyed property and reduce the funds available for payment of our debt obligations.

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We Are Subject To Litigation, Which, If Adversely Determined, Could Cause Us To Incur Substantial Losses

From time to time during the normal course of operating our business, we are subject to various litigation claims and other legal disputes. Some of the litigation claims may not be covered under our insurance policies or our insurance carriers may seek to deny coverage. As a result, we might be required to incur significant legal fees, which may have a material adverse effect on us. In addition, because we cannot predict the outcome of any legal action, it is possible that as a result of litigation, we will be subject to adverse judgments or settlements that could significantly reduce our earnings or result in losses.

Homeland Security, Terrorism And War Concerns, As Well As Other Factors Affecting Discretionary Consumer Spending, May Harm Our Operating Results

The strength and profitability of our business depend on consumer demand for hotel/casino resorts, gaming in general and the types of amenities we offer. A general downturn in economic conditions and changes in consumer preferences or discretionary consumer spending could harm our business. The terrorist attacks of September 11, 2001, ongoing war activities and concerns about terrorism and homeland security have had a negative impact on travel and leisure expenditures, including lodging, gaming (in some jurisdictions) and tourism. We cannot predict the extent to which those events may continue to affect us, directly or indirectly, in the future. An extended period of reduced discretionary spending or disruptions or declines in travel could significantly harm our operations.

In addition to concerns about war, homeland security and terrorism, other factors affecting discretionary consumer spending, including general or regional economic conditions, disposable consumer income, fears of recession and consumer confidence in the economy, may negatively impact our business. Negative changes in factors affecting discretionary spending could reduce customer demand for the products and services we offer, thus imposing practical limits on our pricing and harming our operations.

Risks Relating To Our Common Stock

Our Stock Price Has Been Volatile, Which Could Result In Substantial Losses For Our Shareholders.

Our common stock is traded on the American Stock Exchange ("AMEX"). Our stock's average daily trading volume for the 52-week period ended February 22, 2008 was 59,633 shares. The daily closing sale prices of our stock, as reported by AMEX, have ranged from \$16.76 to \$39.12 for the 52-week period ended February 22, 2008. The volatility of the trading price of our stock could be due to many factors including, but not limited to:

. the relatively low trading volume for our stock;



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- . the effect of our announcement that we had terminated our strategic process to explore alternatives for maximizing shareholder value and the effect that fluctuations in our stock price will have on other parties' willingness to make a proposal to acquire us;
- . requirement in our Articles of Incorporation of an affirmative vote of 60% of all of our shares entitled to vote in order for a merger proposal succeed;
- . ownership of 19.5% of our outstanding shares by a group which previously attempted to acquire us, coupled with our 60% affirmative vote requirement to effectuate a successful merger, may inhibit other parties from engaging in merger negotiations with us;
- . fluctuations in Las Vegas real estate values, particularly as they affect property on the Las Vegas Strip;

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- . the current credit market;
- . quarterly fluctuations in our financial results;
- . changes in analysts' estimates of our financial performance or future prospects;
- . announcements of new services or programs;
- . additions or departures of key personnel;
- . general conditions in our industry and in the financial markets; and
- . a variety of other risk factors including the ones described elsewhere in this report.

### The Volatility Of The Las Vegas Real Estate Market Might Result In A Substantial Decline In Our Stock Price

Over the past three years, the market value of real estate located on or near the Las Vegas Strip has increased substantially. Over that same period, there has been a substantial increase in the trading price of our stock. Our Las Vegas property, which is located near the northern end of the Las Vegas Strip and consists of approximately 26 acres, is valued on our balance sheet at its 1993 historical cost of \$21 million. We believe that the increase in the value of real estate on the Las Vegas Strip has been a significant factor in the increase in our stock price over the past three years. Likewise, we believe that any future downward trend in those real estate values could cause a significant drop in the price of our stock.

### There Are Limitations On Changes In Control Of Our Company That Could Reduce Your Ability To Sell Our Shares In Excess Of Current Market Prices

Our current debt which consists of a seven year \$225 million term loan which matures on June 8, 2014 (the "Term Loan") and a \$20 million five year revolving credit facility (the "Revolving Credit Facility" together with the "Term Loan" the, "New Credit Facility") restricts the ability of anyone to effect a change in control of our company. If anyone acquires 35% or more of our outstanding stock, or if other events occur that constitute a change in control

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according to our New Credit Facility, then we would have to make a prompt offer to repay the New Credit Facility. It is unlikely that we would have the funds to repay the New Credit Facility within the required time frame unless we obtained the necessary funding as part of the change in control transaction, which adds significantly to the funding that a buyer would need to acquire our company. Our New Credit Facility also would require us to obtain the consent of holders of a majority of the outstanding principal amount of the New Credit Facility in order for us to be a party to a merger or to sell all or substantially all of our assets unless, after giving effect to the transaction, we meet certain net worth or financial ratio tests, which might be difficult or impossible for us to meet.

We entered into a swap agreement "Swap Agreement", in conjunction with our New Credit Facility, which could require a substantial payment if the New Credit Facility were to be refinanced and interest rates were below the interest rate in effect at the time we entered into the Swap Agreement.

Besides our New Credit Facility and Swap Agreement, our articles of incorporation and bylaws contain provisions that could reduce the likelihood of a change in control or acquisition of our company. These could limit your ability to sell your shares at a premium or otherwise affect the price of our common stock. These provisions:

- . limit the voting power of persons who acquire more than 10% of our outstanding stock without our prior approval.
- . permit us to issue up to 60 million shares of common stock;
- . permit us to increase the size of our board of directors and fill the resulting vacancies without a vote by shareholders; and

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- . limit the persons who may call special meetings of shareholders.

In addition, Nevada law contains provisions governing the acquisition of a substantial or controlling interest in certain publicly-held Nevada corporations, including our company. Those laws provide generally that any person who acquires more than a specified percentage of our outstanding stock must obtain certain approvals from us before the acquisition or they might be denied voting rights or the ability to engage in various transactions with us, unless our disinterested stockholders vote to restore those rights. The ownership percentage that triggers some of these restrictions is 10%, and further restrictions can be triggered at the 20%, 33-1/3% or 50.1% ownership level.

Also, a person that seeks to acquire control must satisfy the licensing requirements of the Nevada and Colorado gaming authorities. The gaming authorities may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with a person proposing to acquire control to be investigated and licensed as part of the approval process relating to the transaction.

Nevada law also provides that we may resist a change or potential change in control if our board of directors determines that the change is not in the best interest of our company.

We Have Never Paid Dividends, Do Not Intend To Pay Dividends In The Foreseeable Future And Cannot Pay Dividends To Any Unsuitable Person

We have never paid dividends on our stock, nor do we anticipate paying

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dividends in the foreseeable future. We intend to retain our cash flow or earnings, if any, to use in our growth and ongoing operations. Also, due to gaming law considerations, our articles of incorporation prohibit the payment of dividends to anyone who is deemed an "unsuitable person" or is an affiliate of an "unsuitable person."

Certain Owners Of Our Stock May Have To File An Application With, And Be Investigated By, The Nevada And/Or Colorado Gaming Authorities. If That Owner Is Deemed "Unsuitable," It Could Result In That Shareholder Losing Most Of The Attributes Of Being A Stockholder As Well As Detrimental Effects On US.

Any person who acquires beneficial ownership of more than 10% of our voting securities must apply to the Nevada Commission for a finding of suitability within 30 days after the Chairman of the Nevada Board mails a written notice requiring such application. Under certain circumstances, if an "institutional investor" (as defined in Nevada gaming regulations) acquires beneficial ownership of more than 10% but not more than 15% of our voting securities and holds the securities only for investment purposes, it may apply for a waiver of such finding of suitability requirement. In addition, any beneficial owner of our voting securities, regardless of the number of shares owned, may be required, at the discretion of the Nevada Commission, to apply for a finding of suitability. A finding of suitability is comparable to licensing, and the applicant must pay all costs of investigation incurred by the Nevada gaming authorities in conducting the investigation.

Any such person who fails to apply for a finding of suitability within 30 days after being ordered to do so by the Nevada Commission may be found to be unsuitable. Any person who is found by the Nevada Commission to be unsuitable to be a beneficial owner of our voting securities but continues such beneficial ownership beyond the period of time prescribed by the Nevada Commission may be guilty of a criminal offense. We will be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a beneficial owner of our voting securities or to have any other relationship with us, we:

- . pay that person any dividend or interest on our voting securities;
- . allow that person to exercise, directly or indirectly, any voting right conferred through our voting securities held by that person;
- . pay that person any remuneration in any form for services rendered or otherwise; or

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- . fail to pursue all lawful efforts to require that person to relinquish our voting securities for cash at fair market value.

Colorado requires that persons owning, directly or indirectly, 5% or more of our stock be certified as suitable for licensure. Persons found unsuitable by the Colorado Commission may be required immediately to terminate any direct or indirect beneficial interest in our voting securities. A finding of unsuitability with respect to any beneficial owner also may jeopardize our license. The annual renewal of our license may be conditioned upon the termination of any beneficial interest in our voting securities by unsuitable persons.

We May Redeem Shares Due To Gaming Law Considerations, Either As Required By Gaming Authorities Or In Our Discretion

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Our articles of incorporation provide that if a gaming authority determines that any stockholder or its affiliates are unsuitable, or if deemed necessary or advisable by us for gaming law considerations, we may redeem shares of our stock that the stockholder or the stockholder's affiliates own or control. The redemption price will be the amount required by the gaming authority or, if the gaming authority does not determine the price, the price deemed reasonable by us. If we determine the redemption price, that price will be capped at the market price of the shares on the date we give the redemption notice. We may pay the redemption price in cash, by promissory note, or both, as required by the applicable gaming authority and, if not so required, as we elect.

### We Do Not Meet AMEX's Earnings Or Net Worth Listing Standards

Our common stock is listed on AMEX under the symbol RIV. We do not currently meet the earnings or net worth standards of AMEX. We have been informed, however, that according to AMEX policy, AMEX will not normally consider suspending dealings in or delisting the securities of a company which is below the earnings and net worth standards if the total market value of that company's publicly held shares is at least \$15 million. Based on the number of our publicly held shares as of February 21, 2008, our shares must have a per-share market value of at least \$1.50 in order to meet that \$15 million level. However, we cannot be sure that AMEX will continue to follow that policy or that the price of our shares will continue to enable us to stay at that level in the future. If our shares were delisted from AMEX, the marketability and liquidity of our stock could be significantly reduced.

### Item 2. Properties

#### Riviera Las Vegas

Riviera Las Vegas is located on the Las Vegas Strip, at 2901 Las Vegas Boulevard South, Las Vegas, Nevada and occupies approximately 26 acres. The buildings comprise approximately 1.8 million square feet, including 100,000 square feet of casino space, a 160,000 square-foot convention, meeting and banquet facility, 2,075 hotel rooms (including 177 luxury suites) in five towers, three restaurants, a buffet, four showrooms, a lounge and approximately 2,300 parking spaces. In addition, executive and other offices for Riviera Las Vegas are located on the property.

There are approximately 35 food and retail concessions operated under individual leases with third parties. The leases are for periods from one month to, including option periods, up to twenty years.

#### Riviera Black Hawk

Riviera Black Hawk is located on 1.63 acres of land at 400 Main Street, Black Hawk, Colorado. The buildings include approximately 325,000 square feet and comprise 32,000 square feet of gaming space, parking spaces for approximately 520 vehicles (substantially all of which are covered), a 252-seat buffet, one bar, a banquet room with seating for approximately 300 people and three outdoor patio areas where patrons can smoke.

The Riviera Las Vegas and Riviera Black Hawk properties are encumbered by deeds of trust securing our \$225 million Term Loan, which mature in June 2014.

### Item 3. Legal Proceedings

We are party to routine lawsuits, either as plaintiff or as defendant, arising from the normal operations of a hotel or casino. We do not believe that the outcome of such litigation, in the aggregate, will have a material adverse

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effect on our financial position or results of our operations.

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### Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Our common stock is traded on AMEX. As of February 29, 2008, we had approximately 165 shareholders of record and individual participants in security position listings. There are a significantly greater number of shareholders whose shares are held in street name. Based on information we collected as of February 29, 2008, we estimate that we have at least 1,400 beneficial holders in total.

We have never paid dividends on our common stock and do not expect to pay dividends (cash or otherwise) on our common stock for the foreseeable future. Our ability to pay dividends is primarily dependent upon receipt of dividends and distributions from our subsidiaries, which include the operations of Riviera Las Vegas and Riviera Black Hawk.

We do not currently meet the earnings or net worth listing standards of AMEX. We have 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 or net worth standards if the company's publicly held shares have a market value of at least \$15 million. However, we cannot give any assurance that AMEX will continue to follow that policy or that our share price will continue to enable us to stay at that level in the future. Based on the number of our publicly held shares as of February 23, 2008, our share price would have to be at least \$1.50 in order for us to reach the \$15 million level. If our shares were delisted from AMEX, the marketability and liquidity of our common stock could be significantly reduced.

The table below sets forth the high and low sale prices by quarter for the years ended December 31, 2007 and 2006, based on AMEX reported prices by certain brokers who have had transactions in our common stock during the year:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007				
HIGH	\$28.29	\$39.12	\$36.66	\$32.03
LOW	18.99	27.05	22.15	26.66
2006				
HIGH	\$16.85	\$25.11	\$22.52	\$ 24.16
LOW	13.95	17.11	19.25	19.23

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### Equity Compensation Plan Information (as of December 31, 2007)

Plan category	A Number of securities to be issued upon exercise of outstanding options, warrants and rights	B Weighted-average exercise price of outstanding options, warrants and rights	C Number of securities remaining available for future issuance of compensation plan securities (reflecting column A)
Equity			
compensation plans approved by security holders	276,000	\$3.93	1,102,000
Equity compensation plans not approved by security holders (2)	112,500	N/A	167,472 (1)
Total	388,500	\$3.93	1,269,472

(1) Of the 167,472 shares referenced in column C of the above table, 121,452 are from our Restricted Stock Plan and 46,020 are from our Stock Compensation Plan for Directors Serving on the Compensation Committee, which are described in Note 14 of our consolidated financial statements included in this report. We have a Stock Compensation Plan, under which directors who are members of the Compensation Committee have the right to receive all or part of their annual fees in the form of Common Stock having a fair market value equal to the amount of their fees. Of the 50,000 shares that are allocated to this plan, 46,020 remain available for issuance.

(2) Restricted Stock for employees issued in 2005 which was not approved by security holders.

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### Comparison of Five-Year Cumulative Total Returns Performance Graph for Riviera Holdings Corporation

Produced on 02/13/08 including data to 12/31/2007

The following graph compares the annual change in the cumulative total return, assuming reinvestment of dividends, on the Company's Common Stock with the annual change in the cumulative total returns of the NASDAQ Broad Market, the American Stock Exchange Index (the "AMEX Index"), the New York Stock Exchange (the "NYSE") and the NASDAQ Amusement and Recreation Services Index (the "NASDAQ 79xx"), which the Company considers to be its peer industry group. The graph assumes an investment of \$100 on December 31, 2002, in each of the Common Stock, the stocks comprising the NASDAQ Broad Market, the stocks comprising the AMEX Index and the stocks comprising the NASDAQ 79xx.

The graph is a Comparison of Cumulative Total Return Among the Company, NYSE/AMEX/Nasdaq Stock Market (US Companies) and Nasdaq stocks (SIC 7900 - 7999 US Companies amusement and recreation services) (1).

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	Riviera	NYSE/AMEX/Nasdaq U.S. Companies	Nasdaq (SIC 79xx) US Amusement Companies
12/31/02	100.0	100.0	100.0
12/31/03	125.2	131.8	141.0
12/31/04	960.6	148.0	178.1
12/31/05	1138.2	157.1	170.3
12/31/06	1677.8	182.2	229.3
12/31/07	2138.9	191.7	222.4

(1) Comprised of companies whose stock is traded on the Nasdaq National Market and whose standard industrial classification is within 7900-7999. The company does not necessarily believe that this is an indication of the value of the Company's stock.

(b) Not Applicable

(c) Not Applicable

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## Item 6. Selected Financial Data

The following table sets forth a summary of selected financial data for the Company for the years ended December 31 (in thousands, except Net Loss Per Diluted Common Share, and adjusted for three-for-one stock split in 2005):

	2007	2006	2005	2004	2003
Net Revenue	\$205,495	\$200,994	\$202,227	\$201,350	\$190,159
Net Loss	(\$18,258)	(\$335)	(\$3,999)	(\$2,086)	(\$14,453)
Net Loss Per Diluted Common Share	(\$1.48)	(\$0.03)	(\$0.34)	(\$0.20)	(\$1.39)
Total Assets	\$218,462	\$213,682	\$211,769	\$217,536	\$221,538
Total Debt	\$225,514	\$215,004	\$215,431	\$216,467	\$219,625

The net loss for 2007 was mainly impacted by financing costs totaling approximately \$26.1 million or \$2.12 per share, including the loss on the swap fair value of \$13.3 million and the loss on retirement of debt of \$12.8 million. We have entered into an interest rate swap agreement that substantially fixes the interest rate we pay on \$225 million of our Term Loan. We did not meet the requirements for hedge accounting, and as such we record the change fair value of the interest rate swap on our balance sheet. This provides the Company with a stable fixed interest rate of approximately 7.5% for its current debt. However, the loss on the change in fair value of the interest rate swap is a non-cash charge, which reflects the amount of money the Company would have had to pay at December 31, 2007, if the Company was to settle the swap agreements at that time. The continued changes in fair value of this derivative will be recorded

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over the life of our term loan and depending on interest rates will result in significant swings in either non-cash income or non-cash losses for the Company in any given quarter.

The net loss for 2007 was also impacted by costs totaling approximately \$2.1 million or \$0.17 per share, including mergers, acquisitions and development costs of \$600,000, Sarbanes-Oxley related expenses of \$540,000 and equity based compensation expense of \$1.0 million. The net loss for 2006 was impacted by costs totaling approximately \$3.0 million or \$0.25 per share, including mergers, acquisitions and development costs of \$1.3 million, Sarbanes-Oxley related expenses of \$820,000 and equity based compensation expense of \$813,000. The net loss for 2005 was impacted by costs totaling approximately \$3.6 million or \$0.30 per share, including Sarbanes-Oxley Act related expenses of \$1.2 million, equity-based compensation expense of \$1.6 million and asset impairment write-down of \$777,000.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Overall Outlook and Recent Developments

We own and operate Riviera Las Vegas on the Las Vegas Strip in Las Vegas, Nevada, and Riviera Black Hawk in Black Hawk, Colorado.

Our capital expenditures for Riviera Las Vegas are geared to upgrade the hotel rooms, gaming product and amenities in sufficient condition to compete for customers in the convention market and casino market. In November 2007, we began a process of upgrading our rooms in Las Vegas by featuring new Euro beds and flat screen TV's. Room rates and slot revenues are the primary factors driving our operating margins. We use technology to maintain labor costs at a reasonable level, including kiosks for hotel check-in, slot ticket redemption and slot club redemptions. In Black Hawk, the \$5 maximum bet restricts table games to a minimum and the area is basically a "locals" slot customer market. Our capital expenditures in Black Hawk are geared to maintain a competitive casino floor compared to the market and to provide upgraded Food & Beverage amenities.

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Our marketing focus in Las Vegas is on using direct marketing efforts to customers in our database and providing complimentary rooms to our casino customers based on the level of their play, while reducing the number of rooms available for our Tour and Travel customers. We also seek to maximize the number of people who patronize Las Vegas but who are not guests in our hotel by capitalizing on our prime Las Vegas Strip location, convention center proximity and several popular entertainment productions. We are well situated on the Las Vegas Strip near Circus Circus, Las Vegas Hilton, the Las Vegas Convention Center, Wynn Las Vegas, the planned estimated \$5.0 billion Echelon project on the site of the former Stardust and the estimated \$2.9 billion Fontainebleau project just to our north, as well as numerous non-gaming condominium and time-share projects which are either planned or under construction within walking distance of our casino. However, the recent closures of the Stardust, Frontier and Westward Ho as well as construction in our immediate area, has caused a significant reduction in walk-in traffic and may continue to do so for the foreseeable future.

Our marketing focus in Black Hawk is on using direct marketing efforts to customers in our database and providing exciting events and give-aways to our loyalty program members.

We completed our formal strategic review process, which we commenced in May 2007 when we retained Jefferies & Company, Inc. as financial advisor to assist



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us in exploring a range of potential strategic and financial alternatives in order to enhance shareholder value. In the course of this process, our financial advisor thoroughly explored a sale of the entire Company, contacting over thirty-five potential bidders over several months, including Riv Acquisition Holdings and its affiliates.

In deciding to terminate the strategic alternative process, we took into account the uncertainty that would be faced by a potential buyer in attempting to complete a potential transaction, the deterioration in the credit markets, the potential costs of terminating the Company's swap agreement due to the unpredictable drop in interest rates, the ability to obtain shareholder and regulatory approval of a transaction, the possibility of increased competition from slot machines at Colorado racetracks and the impact of weak economic conditions on the Company's business. While the strategic review process did not result in entering into a transaction to sell the entire Company at the present time, we have and we will continue to review all opportunities and consider all proposals that it receives, as well as other possible ways in which the Company can maximize shareholder value.

We continue to have discussions with the Riv Acquisition Holdings group regarding a possible sale of the Company, although no agreements have been entered into related to such a transaction, nor can any assurance be given that an agreement will be ultimately entered into, or if entered into, on what terms or price.

### Results of Operations

#### 2007 Compared to 2006

The following table sets forth, for the periods indicated, certain operating data for Riviera Las Vegas and Riviera Black Hawk. Net revenues displayed in this table and discussed in this section are net of cash rebates and promotional allowances. EBITDA from properties is presented on the following schedule:

(Dollars in thousands)	2007	2006	Incr/(Dec)	Incr %
Net Revenues:				
Riviera Las Vegas	\$151,505	\$149,202	\$2,303	1.5%
Riviera Black Hawk	53,990	51,742	2,248	4.3%
	-----	-----	-----	
Total Net Revenues	\$205,495	\$200,944	\$4,551	2.3%
	=====	=====	=====	
Property EBITDA				
Riviera Las Vegas	\$30,166	\$28,075	\$2,091	7.4%
Riviera Black Hawk	19,133	16,825	2,308	13.7%
	-----	-----	-----	
Property EBITDA	\$49,299	\$44,900	\$4,399	9.8%
	-----	-----	-----	

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#### Other costs and expenses:

Corporate expenses				
Share-based compensation	966	813	153	18.8%
Other corporate expense	4,745	4,644	101	2.2%

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Depreciation and amortization	13,116	12,691	425	3.3%
Mergers, acquisitions and development costs, net	611	1,318	(707)	-53.6%
Asset Impairments	72	18	54	300.0%
Loss on retirement of bonds	12,878	-	12,878	NM
Decrease in value of derivative instruments	13,272	-	13,272	NM
Interest expense, net	21,897	25,751	(3,854)	-15.0%
	-----	-----	-----	
	67,557	45,235	22,322	49.3%
	-----	-----	-----	
Net loss	\$ (18,258)	\$ (335)	\$ (17,923)	-50.5%
	=====	=====	=====	
Property EBITDA Margins (1)				
Riviera Las Vegas	19.9%	18.8%	1.1%	
Riviera Black Hawk	35.4%	32.5%	2.9%	

(1) Property EBITDA consists of earnings before interest, income taxes, depreciation and amortization. EBITDA is presented solely as a supplemental disclosure because we believe that it is a widely used measure of operating performance in the gaming industry and a principal basis for valuation of gaming companies by certain investors. We use property-level EBITDA (EBITDA before corporate expenses) as the primary measure of operating performance of our properties, including the evaluation of operating personnel. EBITDA should not be construed as an alternative to operating income, as an indicator of operating performance, as an alternative to cash flow from operating activities, as a measure of liquidity, or as any other measure determined in accordance with accounting principles generally accepted in the United States of America. We have significant uses of cash flows, including capital expenditures, interest payments and debt principal repayments that are not reflected in EBITDA. Also, other gaming companies that report EBITDA information may calculate EBITDA in a different manner than we do. (See footnote 18 for reconciliation to net income).

### Riviera Las Vegas

#### Revenues

Net revenues for Riviera Las Vegas increased by approximately \$2.3 million, or 1.5%, from \$149.2 million in 2006 to \$151.5 million in 2007 primarily due to increased room revenue of \$3.2 million and casino revenue of \$475,000 offset by decreased entertainment revenue of \$1.0 million. Room revenues increased \$3.2 million, as the average room rate increased \$4.40 or 5.6% from \$78.47 in 2006 to \$82.87 in 2007 and hotel occupancy increased slightly from 92.2% in 2006 to 92.9% in 2007. Revenue per available room (Rev Par) increased \$4.68 from \$72.37 to \$77.05 or 6.5%. Casino revenue increased as a result of an increase in our table game drop of \$3 million and higher poker revenues.

#### Property EBITDA

Property EBITDA in Las Vegas increased \$2.1 million or 7.4% from \$28.1 million in 2006 to \$30.2 million in 2007 due to increased hotel and gaming revenues as described above and effects of decreased casino marketing costs of \$272,000 in our gaming departments.

### Riviera Black Hawk

#### Revenues

Net revenues for Riviera Black Hawk, which are primarily gaming revenues, increased \$2.2 million, or 4.3% from \$51.7 million in 2006 to \$54.0 million in

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2007. The increase is primarily due to an increase in slot revenues as a result of the increase in hold percentage. The increase is a result of the entire market's increase in hold percentage primarily from the popularity of lower denomination slot machines in the market place, which were installed throughout 2006.

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### Property EBITDA

Property EBITDA at Riviera Black Hawk increased \$2.3 million or 13.7% from \$16.8 million in 2006 to \$19.1 million in 2007 due to increased slot revenues as described above and holding costs constant for the year.

### Consolidated Operations

Net loss increased \$18.0 million in 2007 from a loss of \$335,000 in 2006 to a net loss of \$18.3 million in 2007 due to an increase in other expenses as a result of a loss on retirement of debt of \$12.9 million and a loss on swap fair value of \$13.3 million (as discussed in item 6) offset by an increase in operating income and a reduction in cash interest expense of \$4.2 million as a result of our debt refinancing in 2007.

### Results of Operations

#### 2006 Compared to 2005

The following table sets forth, for the periods indicated, certain operating data for Riviera Las Vegas and Riviera Black Hawk. Net revenues displayed in this table and discussed in this section are net of cash rebates and promotional allowances. EBITDA from properties is presented on the following schedule:

(Dollars in thousands)	2006	2005	Incr/(Dec)	Incr %
Net Revenues:				
Riviera Las Vegas	\$149,202	\$150.688	\$ (1,486)	-1.0%
Riviera Black Hawk	51,742	51,539	203	0.4%
	-----	-----	-----	
Total Net Revenues	\$200,944	\$202,227	\$ (1,283)	-0.6%
	=====	=====	=====	
Property EBITDA				
Riviera Las Vegas	\$28,075	\$26,789	\$1,286	4.8%
Riviera Black Hawk	16,825	17,282	(457)	-2.6%
Property EBITDA	\$44,900	\$44,071	\$ 829	1.9%
Other costs and expenses:				
Corporate expenses				
Share-based compensation	813	1,627	(814)	-50.0%
Other corporate expense	4,644	5,278	(634)	-12.0%
Depreciation and amortization	12,691	14,065	(1,374)	-9.8%
Mergers, acquisitions and development costs, net	1,318	(65)	1,253	
Asset Impairments	18	777	(759)	
Interest expense, net	25,751	26,388	(637)	-2.4%
	-----	-----	-----	
	45,235	48,070	(2,835)	-5.9%
	-----	-----	-----	
Net loss	\$ (335)	\$ (3,999)	\$ 3,664	91.6%

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	=====	=====	=====
Property EBITDA Margins (1)			
Riviera Las Vegas	18.8%	17.8%	1.0%
Riviera Black Hawk	32.5%	33.5%	-1.0%

(1) Property EBITDA margins represent property EBITDA as a percentage of net revenues by property.

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### Riviera Las Vegas

#### Revenues

Net revenues for Riviera Las Vegas decreased by approximately \$1.5 million, or 1.0%, from \$150.7 million in 2005 to \$149.2 million in 2006 primarily due to decreased entertainment and other revenue. Poker was reestablished in 2005 and continued to show growth in 2006. Entertainment revenues decreased by approximately \$3.7 million, or 21.2%, from \$17.4 million during 2005 to \$13.7 million during 2006 due to the closure of our Splash show in the main showroom in September 2006 and reduced covers in our other shows. We are in negotiation for a replacement show and the showroom should reopen sometime in mid 2007. Other revenues decreased \$1.8 million as a result of the outsourcing of our gift shops to ABC Stores in February 2006. Slot revenues increased \$2.4 million from \$45.0 million in 2005 to \$47.4 million in 2006 as a result of increased volume and the increase in hold percentage. Poker revenues increased from \$652,000 in 2005 to \$1.2 million in 2006 and offset the decrease in table games revenue, resulting from lower volume and a lower hold percentage in 2006. Room revenues increased \$4.7 million, as the average room rate increased \$6.63 or 9.2% from \$71.87 to \$78.47 and hotel occupancy decreased slightly from 92.6% in 2005 to 92.2% in 2006. Revenue per available room (Rev Par) increased \$5.86 from \$66.51 to \$72.37 or 8.8%. The increase was due to a 11.1% increase in convention room revenue, which made up 41.4% of total room revenue.

#### Property EBITDA

Property EBITDA in Las Vegas increased \$1.3 million or 4.9% from \$26.8 million in 2005 to \$28.1 million in 2007 due to increased hotel and gaming revenues as described above and effects of increased spending of casino marketing and other expenses in the gaming departments due to increased promotional costs for our 50th anniversary celebration and the free slot play program in 2005, which were not profitable when compared to current promotions.

### Riviera Black Hawk

#### Revenues

Net revenues for Riviera Black Hawk, which are primarily gaming revenues, increased \$203,000, or 0.4% from \$51.5 million in 2005 to \$51.7 million in 2006. Revenues in 2005 were negatively impacted by a rockslide that closed a major access road to the market for three months and by other road projects throughout the year. Revenues in 2006 were negatively impacted by weather conditions in December 2006, including a large snowfall which caused the major roads to be closed for approximately five days and by increased competition in the region with expansions and new property openings during 2006.

#### Property EBITDA

Property EBITDA at Riviera Black Hawk decreased \$457,000 from \$17.3 million

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in 2006 to \$16.8 million in 2007 due mainly to higher payroll and benefits cost in G&A expenses.

### Consolidated Operations

Net loss was \$335,000 in 2006 down \$3.6 million from a net loss of \$3.9 million in 2005 due to an increase in operating income and reduced interest expense.

### Liquidity and Capital Resources

Cash and cash equivalents at December 31, 2007 increased \$3.5 million from December 31, 2006 to \$28.8 million. Cash balances include amounts that may be required to fund our CEO's pension obligation with five days notice (See Notes 8 and 13 to the financial statements). Although we are aware of no current intention of our CEO to require this funding, under certain circumstances we would have to disburse approximately \$2.0 million in a short period, subject to the provisions of our agreement with him. In addition we have cash of \$2.8 million held as a certificate of deposit for the benefit of the State of Nevada Workers Compensation Division as a requirement of our being self-insured for Workers Compensation. The cash is held in a one-year certificate of deposit, which matures in 2008. We do not believe this investment will be required after it matures in 2008 and as such the investment is held as a current asset.

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For 2007, our net cash provided by operating activities increased to \$19.1 million compared to \$14.4 million in 2006 due primarily to an increase in operating income. Cash flows used in investing activities were \$14.9 million in 2007 compared to \$9.1 million in 2006 due to an increase in capital expenditures. Net cash used in financing activities was \$675,000 in 2007 compared to \$587,000 in 2006. We believe that cash flow from operations, combined with our \$28.8 million of cash on hand and the \$20 million available on our term loan discussed below, will be sufficient to cover our annual debt service and enable our investment in budgeted capital expenditures of \$20.0 million for 2008 which we will use primarily for the room renovation program at Rivera Las Vegas, the purchase of slot machines in Las Vegas and Black Hawk and for other contingencies.

On June 8, 2007, we and our Subsidiaries entered into a New Credit Facility. This New Credit Facility (the "New Credit Facility") includes a \$225 million seven-year term loan (the "Term Loan"), and has no amortization for the first three years, and a one percent amortization for years four through six, and a full payoff in year seven, in addition to an annual mandatory pay down during the term of 50% of excess cash flows, as defined. The New Credit Facility also includes a \$20 million five-year revolving credit facility (the "Revolving Credit Facility") under which we can obtain extensions of credit in the form of cash loans or standby letters of credit (the "Standby L/Cs"). We are permitted to prepay the New Credit Facility without premium or penalties except for payment of any funding losses resulting from prepayment of LIBOR rate loans. The rate for the Term Loan and Revolving Credit Facility is LIBOR plus 2.0%. Pursuant to a floating rate to fixed rate Swap Agreement that became effective June 29, 2007 that we entered into under the New Credit Facility, substantially the entire Term Loan portion of the New Credit facility, with quarterly step-downs, bears interest at an effective fixed rate of 7.485% per annum (2.0% above the LIBOR Rate in effect on the lock-in date of the swap agreement). The New Credit Facility is guaranteed by the Subsidiaries and is secured by a first priority lien on substantially all of our assets.

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

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obligations under the Indenture, dated June 26, 2002 (the "Indenture"), with The Bank of New York as trustee (the "Trustee"), governing the 11% Notes. On June 8, 2007 we deposited these funds with the Trustee and issued to the Trustee a notice of redemption of the 11% Notes, which was finalized on July 9, 2007.

We utilize derivative instruments for a substantial portion of our Term Loan to manage certain interest rate risk.

The interest rate on loans under the Revolving Credit Facility will depend on whether they are in the form of revolving loans or swingline loans. For each revolving loan, the interest rate will depend on whether we elect to treat the loan as an "Alternate Base Rate" loan ("ABR Loan") or a LIBOR Rate loan.

Swing line loans will bear interest at a per annum rate equal to the Alternative Base Rate plus the Applicable Percentage for revolving loans that are ABR Loans.

We will also pay fees under the Revolving Credit Facility as follows: (i) a commitment fee in an amount equal to either .50% or 0.375% (depending on the Consolidated Leverage Ratio) per annum on the average daily unused amount of the Revolving Credit Facility; (ii) Standby L/C fees equal to between 2.00% and 1.50% (depending on the Consolidated Leverage Ratio) per annum on the average daily maximum amount available to be drawn under each Standby L/C issued and outstanding from the date of issuance to the date of expiration; and (iii) a Standby L/C facing fee in the amount of 0.25% per annum on the average daily maximum amount available to be drawn under each Standby L/C. In addition to the Revolving Credit Facility fees, we will pay an annual administrative fee of \$35,000.

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

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

### Contractual Obligations

The table under "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" summarizes our contractual obligations and commitments as of December 31, 2007.

### Critical Accounting Policies and Estimates

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The preparation of our consolidated financial statements requires us to adopt accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and provision for income taxes. We periodically evaluate our policies, and our estimates and assumptions related to these policies. We operate in a highly regulated industry. For Riviera Las Vegas and Riviera Black Hawk we are subject to regulations governing operating and internal control procedures. The majority of our casino revenue is in the form of cash, personal checks or gaming chips, which by their nature do not require complex estimations. We estimate certain liabilities with payment periods that extend for longer than several months. Such estimates include customer loyalty liabilities, self-insured medical and workers compensation costs and litigation costs. We believe that these estimates are reasonable based upon our past experience with the business and based upon our assumptions related to possible outcomes in the future. Future actual results might differ materially from these estimates.

We have determined that the following accounting policies and related estimates are critical to the preparation of our consolidated financial statements because such estimates are highly uncertain or susceptible to change so as to present a significant risk of a material impact on our financial condition or operating performance, and such policies and estimates were selected from among available alternatives, or require the exercise of significant management judgment to apply.

### Long-lived Assets

We have a significant investment in long-lived property and equipment. We estimate that the non-discounted future cash flows expected to result from the use of these assets exceed the current carrying value of these assets. Any adverse change to the estimate of these non-discounted future cash flows could necessitate an impairment charge that would adversely affect our operating results. We estimate useful lives for our assets based on historical experience, estimates of such classes of assets' commercial lives generally, and the likelihood of technological obsolescence. Should the actual useful life of a class of assets differ from the estimated useful life, we would record an impairment charge or adjust the period over which this asset is depreciated. We review useful lives, and obsolescence, and we assess commercial viability of these assets periodically.

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### Deferred Tax Assets

We utilize estimates related to estimated future taxable income in the application of Statement of Financial Accounting Standards ("SFAS") No. 109 to the realization of deferred tax assets. Our estimates are based upon operating results and, to a lesser extent, our budgets for future operating results. The valuation allowance has been recorded for our net operating loss carry forwards, excluding our AMT credits, which have indefinite lives.

### Allowance for Credit Losses

We maintain an allowance for estimated credit losses based on historical experience and specific customer collection issues. Any unforeseen change in customer liquidity or financial condition could adversely affect the collectibility of that account and our operating results.

### Fair Value of Interest Rate Swap Liability

The fair value of long-term liabilities includes the approximate cost to

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settle our interest rate swap instrument at the respective valuation dates, and is reflected in fair value of interest rate swap liabilities on the balance sheet. The fair value of the interest rate swap instrument is estimated based upon current and predictions of future interest rate levels along a yield curve, the remaining duration of the instrument and other market conditions and therefore, is subject to significant estimation and a high degree of variability of fluctuation between periods.

### Litigation Cost

We assess our exposures to loss contingencies including legal matters, and we provide for an exposure if it is judged to be probable and estimable. However, any accruals made in relation thereto do not include the estimated costs of defense for any legal services that we have not yet received. If the actual loss from a contingency exceeds our estimate, our operating results could be adversely impacted.

### Self-insurance Provisions

We are self-insured for various levels of general liability, workers' compensation, and, through 2007 we were also self-insured for non-union employee medical insurance coverage. Effective January 1, 2008, we are no longer self-insured for non-union medical insurance coverage. We maintain reinsurance coverage for our 2007 self-insurance claims until those claims are resolved. Insurance claims and provisions include accruals of estimated settlements for known claims, as well as accrued estimates of incurred but not reported claims. In estimating these costs, we consider our historical claims experience and make judgments about the expected levels of costs per claim. Changes in health care costs, accident frequency and severity and other factors can materially affect the estimate for these liabilities.

### Loyalty Club Program

We offer to our guests the opportunity to earn points redeemable for cash and complimentary rooms and food and beverage based on their level of gaming activities while at our properties and an accrual is recorded as points are earned based upon expected redemption rates.

### Recently Issued Accounting Standards

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by SFAS No. 159 permits all companies to choose to measure eligible items at fair value at specified election dates. At each subsequent reporting date, a company shall report in earnings any unrealized gains and losses on items for which the fair value option has been elected. SFAS No. 159 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the company also elects to apply the provisions of SFAS No. 157, "Fair Value Measurements" (see below). We are currently evaluating if we should adopt and what the impact that the adoption of SFAS No. 159 would have on our consolidated financial statements.



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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating whether to adopt the fair value option under SFAS No. 157 and evaluating what impact such adoption would have on our consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and applies to all tax positions accounted for in accordance with SFAS No. 109. See Note 15, "Income Taxes," to the accompanying consolidated financial statements for disclosure regarding the effect of FIN 48 on our consolidated financial statements.

### Forward-Looking Statements

Throughout this report we make "forward-looking statements," as that term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Forward-looking statements include the words "may," "would," "could," "likely," "estimate," "intend," "plan," "continue," "believe," "expect," "projections" or "anticipate" and similar words and include all discussions about our ongoing or future plans, objectives or expectations. We do not guarantee that any of the transactions or events described in this report will happen as described or that any positive trends referred to in this report will continue. These forward-looking statements generally relate to our plans, objectives and expectations for future operations and results and are based upon what we consider to be reasonable estimates. Although we believe that our forward-looking statements are reasonable at the present time, we may not achieve or we may modify our plans, objectives and expectations. You should read this report completely and with the understanding that actual future results may be materially different from what we expect. We do not plan to update forward-looking statements even though our situation or plans may change in the future, unless applicable law requires us to do so.

Specific factors that might cause our actual results to differ from our expectations, might cause us to modify our plans or objectives, or might affect our ability to meet our expectations include, but are not limited to:

- o the effect of the termination of our previously announced strategic process to explore alternatives for maximizing shareholder value and the possible resulting fluctuations in our stock price that will affect other parties' willingness to make a proposal to acquire us;
- o fluctuations in the value of our real estate, particularly in Las Vegas;
- o the availability and adequacy of our cash flow to meet our requirements, including payment of amounts due under our debt instruments;

- o our substantial indebtedness, debt service requirements and liquidity constraints;
- o the availability of additional capital to support capital improvements and development;
- o the smoking ban in Colorado on our Riviera Black Hawk property which became effective on January 1, 2008;
- o competition in the gaming industry, including the availability and success of alternative gaming venues, and other entertainment attractions, and the approval of an initiative that would allow slot machines in Colorado race tracks;
- o retirement or other loss of our senior officers;
- o economic, competitive, demographic, business and other conditions in our local and regional markets;
- o changes or developments in laws, regulations or taxes in the gaming industry, specifically in Nevada where initiatives have been proposed to raise the gaming tax;
- o actions taken or not taken by third parties, such as our customers, suppliers and competitors, as well as legislative, regulatory, judicial and other governmental authorities;
- o changes in personnel or compensation, including federal minimum wage requirements;
- o our failure to obtain, delays in obtaining, or the loss of, any licenses, permits or approvals, including gaming and liquor licenses, or the limitation, conditioning, suspension or revocation of any such licenses, permits or approvals, or our failure to obtain an unconditional renewal of any of our licenses, permits or approvals on a timely basis;
- o the loss of any of our casino facilities due to terrorist acts, casualty, weather, mechanical failure or any extended or extraordinary maintenance or inspection that may be required;
- o other adverse conditions, such as economic downturns, changes in general customer confidence or spending, increased transportation costs, travel concerns or weather-related factors, that may adversely affect the economy in general or the casino industry in particular;
- o changes in our business strategy, capital improvements or development plans;
- o the consequences of the war in Iraq and other military conflicts in the Middle East, concerns about homeland security and any future security alerts or terrorist attacks such as the attacks that occurred on September 11, 2001;
- o other risk factors discussed elsewhere in this report; and
- o a decline in the public acceptance of gaming.

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All future written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. In light of these and other risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

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### Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risks relating to our operations result primarily from changes in interest rates. We invest our cash and cash equivalents in U.S. Treasury Bills with maturities of 30 days or less. Such investments are generally not affected by changes in interest rates.

As of December 31, 2007, we had \$225.5 million in borrowings. The borrowings include \$225 million credit facility maturing in 2014, SID Bonds (as defined below), and capital leases maturing at various dates through 2012. The equipment lease has fixed interest rate of 5.5%. The \$283,000 in a special improvement district bond offering ("SID Bonds") with the City of Black Hawk represents our share of the debt on the SID Bonds of \$1.2 million is payable over a ten-year period ending 2010. The SID Bonds bear interest at 5.5%. We are not susceptible to interest rate risk because our outstanding debt is substantially at fixed rates. We have one interest rate swap arrangement to hedge the underlying interest rate risk on a total of \$225 million of borrowings under the Term Loan, which bears interest at LIBOR plus 2.0%. Under this interest rate swap arrangement, we receive payments at a variable rate of LIBOR and pay a fixed rate of 5.485% on the \$225 million notional amount, which expires on June 8, 2014. As of December 31, 2007, we had no borrowings outstanding under our Revolving Credit Facility. As of December 31, 2007, we have one interest rate swap arrangement with periodic step downs beginning in 2008 which expires on June 8, 2014. Although this interest swap agreement is highly effective economically in fixing the interest rate on this borrowing under the Term Loan at approximately 7.485%, changes in fair value of our interest rate swap for each reporting period are, and will continue to be, recorded as an increase/(decrease) in swap fair value as the swap does not qualify for hedge accounting.

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#### Interest Rate Sensitivity

Principal (Notational Amount by Expected Maturity)

Average Interest Rate

(Dollars in Thousands)

	2008	2009	2010	2011	2012	Thereafter
Long -Term Debt						
Including Current Portions						
Equipment loans and						
capital leases-Las Vegas	\$89	\$76	\$23	\$24	\$19	
Average interest rate	5.5%	5.5%	5.5%	5.5%	5.5%	
\$225 million Term Loan			\$1,125	\$2,250	\$2,250	\$219,37
Average interest rate			7.5%	7.5%	7.5%	7.5

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SID Bonds-Black Hawk,						
Colorado casino project	\$137	\$146				
Average interest rate	5.5%	5.5%				
Total of all Long-Term Debt,						
Including Current Portions	\$226	\$222	\$1,148	\$2,274	\$2,269	\$219,37
Other Long - Term Liabilities Including Current Portion						
CEO pension plan obligation	\$1,000	\$1,000	\$63			
Average interest rate	9.0%	7.5%	7.5%			
Interest rate derivatives						
Derivative instrument						
Pay fixed						\$222,50
Average receivable rate						4.8
Average payable rate						5.4
Expected Interest payments						
	\$16,920	\$16,980	\$16,940	\$16,800	\$16,630	

A hypothetical one percent change in interest rate would not have a material effect on our financial statements, as the interest rate swap we currently have effectively locks our debt at 7.485%, which is in excess of a one percent increase of the corresponding amount we would receive under the swap agreement.

Fin 48 requires us to record future unrealized tax payments however, due to uncertainties surrounding future taxable earnings and future audits related to our income taxes and the potential utilization of our net operating losses, we cannot establish a reasonably reliable estimate of the period of future cash settlements, if any; therefore, we have excluded this amount from the contractual obligations table above.

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### Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements, including the notes to all such statements and other supplementary data are included in this report beginning on page F-1.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. Controls and Procedures

#### Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)) that are designed to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods

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specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2007 we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our CEO and CFO concluded that our disclosure controls and procedures are effective.

### Internal Control Over Financial Reporting

Internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) refers to the process designed by, or under the supervision of, our CEO and CFO, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management is responsible for establishing and maintaining adequate internal control over our financial reporting.

We have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2007. This evaluation was performed using the internal control evaluation framework developed by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, our management has concluded that, as of such date, our internal control over financial reporting was effective.

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
Riviera Holdings Corporation  
Las Vegas, NV

We have audited the internal control over financial reporting of Riviera Holdings Corporation and subsidiaries (the "Company") as of December 31, 2007, based on criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public

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Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007, of the Company, and our report dated March 10, 2008, expressed an unqualified opinion on those financial statements and includes explanatory paragraphs regarding the Company's adoption of Financial Accounting Standards Board No. 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109, and Financial Accounting Standards Board No. 123(R), Share-Based Payment.

/s/ Deloitte & Touche LLP

Las Vegas, NV  
March 12, 2008

Item 9B. Other Information

Executive Officer Compensation

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On March 4, 2008, we amended our employment agreement with Mr. Westerman. This Third Amendment to Employment Agreement ("Third Amendment") provides, among other things, that effective January 1, 2008, Mr. Westerman is eligible to participate in our incentive compensation plan. The Third Amendment also provides for the payment to Mr. Westerman of a discretionary bonus in the amount of \$300,000 prior to March 15, 2008, for Mr. Westerman's contribution to our performance in 2007.

On March 4, we also awarded bonuses to our other Executive Officers, payable prior to March 15, 2008, as follows: (i) Robert Vannucci was awarded a 2007 incentive bonus in the amount of \$203,434; and (ii) Mark Lefever and Tullio Marchionne were each awarded a 2007 incentive bonus in the amount of \$114,761 and a discretionary bonus in the amount of \$35,239.

In addition to the named Executive Officers, Incentive Bonuses totaling approximately \$900,000 were awarded to 113 Riviera Las Vegas and Riviera Black Hawk participants.

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

##### Directors

The following table presents information as of February 23, 2008 regarding our directors and the directors of Riviera Operating Corporation ("ROC"), our wholly-owned subsidiary:

Name	Age	Position
William L. Westerman	76	Our Chairman of the Board, CEO and President; Chairman of the Board and Chief Executive Officer of ROC
Jeffrey A. Silver	62	Our and ROC's Director
Paul A. Harvey	70	Our and ROC's Director
Vincent L. DiVito	48	Our and ROC's Director
James N. Land, Jr.	78	Our and ROC's Director

William L. Westerman has been our Chairman of the Board and CEO since February 1993. Mr. Westerman was a consultant to Riviera, Inc. (our predecessor 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.

Jeffrey A. Silver has been one of our and ROC's Directors since February

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26, 2001. Mr. Silver is a shareholder with the law firm of Gordon & Silver, Ltd., in Las Vegas, Nevada. He has also been a member of the Audit and Compliance Committees of Tropicana Resorts, Inc. since June, 2007. Mr. Silver served as a Chief Deputy District Attorney, Clark County, Nevada from 1972 to 1975 and was a Board Member with the Nevada Gaming Control Board from 1975 through 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 ("COO") and General Counsel of the Landmark Hotel & Casino from 1981 to 1983, CEO of the Riviera, Inc. from 1983 to 1984 and Senior Vice President at Caesars Palace in 1984. Mr. Silver served on the Board of the LVCVA 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. Mr. Silver has been selected as a Gaming and Administrative Law Practitioner by numerous legal publications, including: "Best Lawyers in the United States," "Superlawyers," and "Chambers USA - Americas Leading Lawyers for Business." He has also received the highest "AV" rating issued by Martindale-Hubbell," a prominent legal rating service.

Major General Paul A. Harvey USAF (Ret) has been one of our and ROC's Directors since May 18, 2001. General Harvey is President and Chief Executive Officer of Pearl River Resort, which is the largest gaming and resort property in the State of Mississippi. He also acts as 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., 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. From 1996 through 2002, General Harvey served on the board of directors of the National Center for Responsible Gaming. He also serves on the board of directors of Elixir Gaming Technologies, Inc., 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 was a Commissioner on the Mississippi Band of Choctaw Indians Athletic and Boxing Commission from 2002 through 2007.

Vincent L. DiVito was appointed as one of our and ROC's Directors effective June 14, 2002. Mr. DiVito is President and Chief Financial Officer ("CFO") of Lonza America, Inc., a global life sciences chemical business headquartered in Allendale, New Jersey. Lonza America, 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 Elixir Gaming Technology, Inc., 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.



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James N. Land, Jr., is a corporate consultant and was appointed as one of our and ROC's Directors on April 12, 2004. Mr. Land was first elected a Director of the Company and ROC on January 21, 1999 and served in that position until 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 Director of various companies, including Kaiser Industries Corporation, Marathon Oil Company, Castle & Cooke, Inc., Manville Corporation, NWA, Inc., Northwest Airlines, and Raytheon Company.

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### Executive Officers

The following table presents information as of February 23, 2008 regarding our and ROC's executive officers:

Name	Age	Position
----- William L. Westerman	76	Our and ROC's Chairman of the Board and CEO, and our President
Mark B. Lefever	43	Our and ROC's Treasurer and CFO, Executive Vice President of Finance of ROC and President of RBH
Tullio J. Marchionne	53	Our Secretary and General Counsel, and Secretary and Executive Vice President of ROC
Robert A. Vannucci	60	President and Chief Operating Officer of ROC

For a description of the business experience of William L. Westerman, see "Directors" above.

Mark Lefever became our and ROC's CFO and Treasurer and ROC's Executive Vice President of Finance on May 22, 2006 and Riviera Black Hawk's President on May 15, 2007. From May of 2004 to April 2006, Mr. Lefever was Senior Vice President and CFO of Resorts International Hotel & Casino, Inc., located in Atlantic City, New Jersey. From March of 2001 until December 2003, Mr. Lefever was General Manager and Vice President of 29 Palms Enterprises & Operating Company for Trump 29 Casino, a California Native American casino located in the greater Palm Springs area. Prior to that, Mr. Lefever served initially as Vice President and CFO and later as COO of the Desert Inn Resort & Casino from 1997 through 2000. Mr. Lefever's gaming career began in Tunica, Mississippi as the Vice President and CFO of Sheraton Casino from 1996 through May of 1997. Prior to his gaming positions, Mr. Lefever spent 10 years in the audit and business advisory practice with Arthur Andersen LLC. He is a member of the New Jersey Society of Certified Public Accountants, and holds a BS degree in Accounting from Villanova University.

Tullio J. Marchionne became our General Counsel on January 10, 2000, was appointed as our and ROC's Secretary on February 17, 2000 and was elected Vice President of ROC on February 26, 2001 and Executive Vice President in June of 2005. Mr. Marchionne was initially employed by Riviera, Inc., in June 1986 as a casino 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 the management agreement our subsidiary had with the Four Queens. He served in that position until May 1997. Mr. Marchionne served as the General

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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.

Robert A. 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 casino/hotel) from 1988 to January 1991.

Our and ROC's officers serve at the discretion of our and ROC's respective Boards of Directors, and they are also subject to the licensing requirements of the Nevada Gaming Commission and Colorado Gaming Commission.

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### Audit Committee; Audit Committee Financial Expert

We have a separately-designated standing Audit Committee, established in accordance with section 3(a)(58)(A) of the Exchange Act. The members of our Audit Committee are Vincent L. DiVito, Paul A. Harvey and James N. Land, Jr.

We have determined that the Chairman of our Audit Committee, Vincent L. DiVito, who meets the AMEX audit committee independence requirements, is an "audit committee financial expert", as defined in Item 407(d)(5)(ii) of SEC Regulation S-K. Mr. DiVito is a certified public accountant and certified management accountant, spent two years on the audit team at Ernst & Whinney (now Ernst & Young) and is currently the President, CFO and treasurer of a global specialties chemical business.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act (Section 16(a)) requires our directors and executive officers and persons who own more than 10% of our common stock to file with the SEC certain reports regarding ownership of our common stock. Such persons are required to furnish us with copies of all Section 16(a) reports they file. Based solely on our review of such reports that were furnished to us and written representations made to us by those reporting persons in connection with certain of those reporting requirements, we believe that all the reporting persons met their Section 16(a) reporting obligations on a timely basis during 2007.

### Code of Ethics

We have adopted certain ethical policies that apply to all of our employees at the level of Supervisor or higher, including our principal executive officer, principal financial officer and principal accounting officer. Those policies, together with certain rules adopted by our Disclosure Committee, comprise what we consider to be our code of ethics. Those policies and rules are posted on our Internet web site at [www.theriviera.com](http://www.theriviera.com).

### Audit Committee

We have a separately-designated standing Audit committee, established in accordance with section 3(a)(58)(A) of the Exchange Act. Our Audit Committee is composed of Messrs. DiVito, Harvey and Land. Our Audit Committee recommends to

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our Board of Directors the selection of an auditor, reviews the plan and scope of our audits, reviews the auditors' critique of management and internal controls and management's response to such critique and reviews the results of our audit. In 2006 our Audit Committee met eight times. We have determined that the three members of our Audit Committee to be independent, based on AMEX's standards that apply to us. Our Board of Directors has determined that Mr. DiVito, Chairman of the Audit Committee, is an "audit committee financial expert" as defined by the rules and regulations of the SEC.

### Item 11. Executive Compensation

Information regarding this item is incorporated herein by reference to our proxy statement to be filed on or about April 4, 2008, relating to the annual meeting of our stockholders to be held on May 13, 2008.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding this item is incorporated herein by reference to our proxy statement to be filed on or about April 4, 2008, relating to our annual meeting of stockholders to be held on May 13, 2008.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding this item is incorporated herein by reference to our proxy statement to be filed on or about April 4, 2008, relating to our annual meeting of stockholders to be held on May 13, 2008.

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### Item 14. Principal Accountant Fees and Services

Information regarding this item is incorporated herein by reference to our proxy statement to be filed on or about April 4, 2008, relating to our annual meeting of stockholders of the Company to be held on May 13, 2008.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

#### (a)(1) List of Financial Statements

The following is the list of Registered Public Accounting Firm Reports and the consolidated Financial Statements of the Company:

- . Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting
- . Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements
- . Consolidated Balance Sheets as of December 31, 2007 and 2006
- . Consolidated Statements of Operations for the Years Ended December 31, 2007, 2006 and 2005
- . Consolidated Statements of Stockholders' Deficiency for the Years Ended December 31, 2007, 2006, and 2005

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- . Consolidated Statements of Cash Flows for the Years Ended December 31, 2007, 2006 and 2005
- . Notes to Consolidated Financial Statements

(a)(2) List of Financial Statement Schedules

No financial statement schedules have been filed herewith since they are either not required, are not applicable, or the required information is shown in the consolidated financial statements or related notes.

(a)(3) List of Exhibits

Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index herein, which information is incorporated herein by reference, and such exhibits are filed herewith.

- (b) The exhibits required by Item 601 of Regulation S-K are filed as exhibits to this Form 10-K.
- (c) Not applicable.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

#### RIVIERA HOLDINGS CORPORATION

By: /s/ WILLIAM L. WESTERMAN  
William L. Westerman  
Chief Executive Officer and President  
(Principal Executive Officer)

March 10, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ WILLIAM L. WESTERMAN William L. Westerman	Chairman of the Board, Chief Executive Officer and President	March 10, 2008
/s/ MARK B. LEFEVER Mark B. Lefever	Treasurer (Principal Financial and Accounting Officer)	March 10, 2008
/s/ JEFFREY A. SILVER Jeffrey A. Silver	Director	March 10, 2008

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/s/ PAUL A. HARVEY Paul A. Harvey	Director	March 10, 2008
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/s/ VINCENT L. DIVITO Vincent L. DiVito	Director	March 10, 2008
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/s/ JAMES N. LAND, JR. James N. Land, Jr.	Director	March 10, 2008
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### EXHIBIT INDEX

Exhibit Number	Description
3.1*	Articles of Incorporation of the Company (see Exhibit 3 to Quarterly Report on Form 10-Q filed on November 10, 2003, Commission File No. 0-21430)
3.2*	Bylaws of the Company (see Exhibit 3.2 to Registration Statement on Form S-4 filed on September 10, 1997, Commission File No. 0-21430)
3.3*	Amendment to the Company Bylaws (see Exhibit 3.1 to Form 8-K filed on August 10, 2007, Commission File No. 0-21430)
3.4*	Bylaws of the Company (see Exhibit 3.1 to Form 10-Q filed on November 9, 2007, Commission File No. 0-21430)
3.5*	Articles of Incorporation of Riviera Operating Corporation (see Exhibit 3.3 to Registration Statement on Form S-4 filed on September 10, 1997, Commission File No. 0-21430)
3.6*	Bylaws of Riviera Operating Corporation (see Exhibit 3.4 to Registration Statement on Form S-4 filed on September 10, 1997, Commission File No. 0-21430)
3.7*	Articles of Incorporation of Riviera Gaming Management, Inc. (see Exhibit 3.5 to Registration Statement on Form S-4 filed on September 10, 1997, Commission File No. 0-21430)
3.8*	Bylaws of Riviera Gaming Management, Inc. (see Exhibit 3.6 to Registration Statement on Form S-4 filed on September 10, 1997, Commission File No. 0-21430)
3.9*	Articles of Incorporation of Riviera Black Hawk, Inc. (see Exhibits 3.01 and 3.02 to Amendment No. 1 to Registration Statement on Form S-4 filed by Riviera Black Hawk, Inc. on August 31, 1999, Commission File No. 333-81613)
3.10*	Bylaws of Riviera Black Hawk, Inc. (see Exhibit 3.03 to Amendment No. 1 to Registration Statement on Form S-4 filed by Riviera Black Hawk, Inc. on August 31, 1999, Commission File No. 333-81613)

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333-81613).

- 10.1\* Indemnity Agreement, dated June 30, 1993, from Riviera, Inc. and Meshulam Riklis in favor of the Company and Riviera Operating Corporation (see Exhibit 10.7 to Registration Statement on Form S-1 filed on August 11, 1993, Commission File No. 33-67206)
- 10.2\* Equity Registration Rights Agreement dated June 30, 1993, among the Company and the Holders of Registerable Shares (see Exhibit 10.9 to Registration Statement on Form S-1 filed on August 11, 1993, Commission File No. 33-67206)
- 10.3\* Operating Agreement dated June 30, 1993, between the Company and Riviera Operating Corporation (see Exhibit 10.15 to Registration Statement on Form S-1 filed on August 11, 1993, Commission File No. 33-67206)
- 10.4\* Adoption Agreement regarding Profit Sharing and 401(k) Plans of the Company (see Exhibit 10.16 to Registration Statement on Form S-1 filed on August 11, 1993, Commission File No. 33-67206)
- 10.5\* Tax Sharing Agreement between the Company and Riviera Operating Corporation dated June 30, 1993 (see Exhibit 10.24 to Amendment No. 1 to Registration Statement on Form S-1 filed on August 19, 1993, Commission File No. 33-67206)
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- 10.6\* Tax Sharing Agreement between the Company and Riviera Black Hawk, Inc. dated March 31, 1999 (see Exhibit 10.12 to Registration Statement on Form S-4 filed on August 9, 2002, Commission File No. 333-97907)
- 10.7\*(A) 1993 Stock Option Plan (see Exhibit 4.4 to Registration Statement on Form S-8 filed on May 13, 1996, Commission File No. 333-03631)
- 10.8\*(A) Stock Compensation Plan for Directors Serving on the Compensation Committee (see Exhibit 10.14 to Registration Statement on Form S-4 filed on August 9, 2002, Commission File No. 333-97907)
- 10.9\*(A) Employment Agreement dated as of November 21, 1996 among the Company, Riviera Operating Corporation and William L. Westerman (see Exhibit 10.31 to Form 10-K for the fiscal year ended December 31, 1996, Commission File No. 0-21430)
- 10.10\*(A) Amendment to Employment Agreement between the Company and William L. Westerman effective January 1, 2001 (see Exhibit 10.40 to Form 10-K filed March 23, 2001, Commission File No. 0-21430)
- 10.11\*(A) Deferred Compensation Plan dated November 1, 2000 (see Exhibit 10.19 to Form 10-K filed March 25, 2005, Commission File No. 0-21430)
- 10.12\*(A) Restricted Stock Plan (see Exhibit 10.20 to Form 10-K filed March 25, 2005, Commission File No. 0-21430)

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- 10.13\*(A) Non-Qualified Stock Option Plan for Non-Employee Directors (see Exhibit 4.6 to Registration Statement on Form S-8 filed on May 13, 1996, Commission File No. 333-03631)
- 10.14\*(A) Second Amendment to Employment Agreement between the Company and William L. Westerman effective July 15, 2003 (see Exhibit 10.46 to Form 10-K filed on March 16, 2004, Commission File No. 0-21430)
- 10.15\*(A) Amendment of 1993 Stock Option Plan (see Exhibit 10.47 to Form 10-K filed on March 25, 2005, Commission File No. 0-21430)
- 10.16\* Purchase and License Agreement, dated September 25, 2003, between Bally Gaming, Inc. and Riviera Operating Corporation (see Exhibit 10.49 filed on March 25, 2005, Commission File No. 0-21430)
- 10.17\*(A) 2005 Incentive Stock Option Plan (see Exhibit A To Schedule 14A filed on April 22, 2005, Commission File No. 0-21430)
- 10.18\*(A) 2005 Non-Qualified Stock Option Plan for Non-Employee Directors (see Exhibit B to Schedule 14A filed on April 22, 2005, Commission File No. 0-21430)
- 10.19\*(A) Incentive Compensation Program as amended August 3, 1995 (see Exhibit 10.51 to Form 10-K filed on March 15, 2006, Commission File No. 0-21430).
- 10.20\* (A) Form of Restricted Stock Agreement under the Company's Restricted Stock Plan (see Exhibit 10.52 to Form 10-K filed on March 15, 2006, Commission File No. 0-21430)
- 10.21\* Agreement and Plan of Merger, dated April 5, 2006, among Riv Acquisition Holdings Inc., Riv Acquisition Inc. and the Company (see Appendix A to revised definitive proxy materials on Schedule 14A filed on July 3, 2006, Commission File No. 0-21430)
- 10.22\* (A) Employment Agreement between the Company and Mark B. Lefever (see Exhibit 10.3 to Form 10-Q filed on August 9, 2006, Commission File No. 0-21430)
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- 10.23\* (A) Employment Agreement among Riviera Holdings Corporation, Riviera Operating Corporation and Robert A. Vannucci (see Exhibit 10.1 to Form 10-Q filed on November 6, 2006, Commission File No. 0-21430)
- 10.24\* (A) Forms of Salary Continuation Agreements with Riviera Operating Corporation and Riviera Black Hawk, Inc. dated May 15, 2007 (see Exhibit 10.1 to Form 10-Q filed on August 3, 2007, Commission File No. 0-21430)
- 10.25\* Credit Agreement, dated June 8, 2007, among the Company, the Company's restricted subsidiaries, Wachovia Bank, National Association and the Lenders that are parties thereto (see Exhibit 10.2 to Form 10-Q filed on August 3, 2007, Commission File No. 0-21430)

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- 10.26\* Commitment letter agreement dated April 27, 2007 between the Company and Wachovia Bank, National Association and Wachovia Capital Markets, LLC. (see Exhibit 10.3 to Form 10-Q filed on August 3, 2007, Commission File No. 0-21430)
- 10.27\* Deed of Trust, Assignment of Leases, Rents, Security Agreement, and Fixture Filing dated June 8, 2007, executed by the Company in favor of First American Title Insurance Company as Trustee (see Exhibit 10.4 to Form 10-Q filed on August 3, 2007, Commission File No. 0-21430)
- 10.28\* Deed of Trust, Assignment of Leases, Rents, Security Agreement, and Fixture Filing dated June 8, 2007, executed by Riviera Black Hawk, Inc. in favor of The Public Trustee For Gilpin County, Colorado and Wachovia Bank, National Association (see Exhibit 10.5 to Form 10-Q filed on August 3, 2007, Commission File No. 0-21430)
- 10.29\* Environmental Indemnity dated as of June 8, 2007 between the Company and Wachovia Bank, National Association (see Exhibit 10.6 to Form 10-Q filed on August 3, 2007, Commission File No. 0-21430)
- 10.30\* Environmental Indemnity dated as of June 8, 2007, among the Company, Riviera Black Hawk, Inc. and Wachovia Bank, National Association (see Exhibit 10.7 to Form 10-Q filed on August 3, 2007, Commission File No. 0-21430)
- 10.31\* Credit Party Pledge Agreement, dated June 8, 2007, among the Company, the Company's restricted subsidiaries, Riviera Gaming Management, Inc. and Wachovia Bank, National Association (see Exhibit 10.8 to Form 10-Q filed on August 3, 2007, Commission File No. 0-21430)
- 10.32\* Gaming Pledge Agreement dated June 8, 2007, between the Company and Wachovia Bank, National Association (see Exhibit 10.9 to Form 10-Q filed on August 3, 2007, Commission File No. 0-21430)
- 10.33\* Security Agreement, dated June 8, 2007, among the Company, the Company's restricted subsidiaries, Wachovia Bank, National Association and the Lenders that are parties thereto (see Exhibit 10.10 to Form 10-Q filed on August 3, 2007, Commission File No. 0-21430)
- 10.34 Third Amendment to Employment Agreement between the Company and William L. Westerman effective March 4, 2008
- 21.1\* Subsidiaries of the Company (see Exhibit 21.1 to Registration Statement on Form S-4 filed with the Commission on August 9, 2002, Commission File No. 333-97907)
- 23.1 Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm
- 31.1 Certification of the Principal Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a)



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

\* These are incorporated herein by reference as exhibits hereto. Following the description of each such exhibit is a reference to it as it appeared in a specified document previously filed with the Securities and Exchange Commission, to which there have been no amendments or changes, unless otherwise indicated.

(A) Management contract or compensatory plan or arrangement

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Exhibit 31.1

Certification of the Principal Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, William L. Westerman, certify that:

1. I have reviewed this annual report on Form 10-K of Riviera Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting,

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or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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Date: March 10, 2008

William L. Westerman  
William L. Westerman  
Chief Executive Officer

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Exhibit 31.2

Certification of the Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark Lefever, certify that:

- 1. I have reviewed this annual report on Form 10-K of Riviera Holdings Corporation;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material

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fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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Date: March 10, 2008

Mark Lefever  
Mark Lefever  
Chief Financial Officer

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Exhibit 32.1

Certification Pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002

In connection with the annual report of Riviera Holdings Corporation (the "Company") on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission (the "Report"), I, William L. Westerman, hereby certify as of the date hereof, solely for the purposes of Title 18, Chapter 63, section 1350 of the United States Code, that to the best of my knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: March 10, 2008

/s/ William L. Westerman

-----  
Chief Executive Officer

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Exhibit 32.2

Certification Pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002

In connection with the annual report of Riviera Holdings Corporation (the "Company") on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission (the "Report"), I, Mark Lefever, hereby

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certify as of the date hereof, solely for the purposes of Title 18, Chapter 63, section 1350 of the United States Code, that to the best of my knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: March 10, 2008

/s/ Mark Lefever

-----  
Treasurer and Chief Financial Officer

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RIVIERA HOLDINGS CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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Board of Directors  
Riviera Holdings Corporation  
Las Vegas, NV

We have audited the accompanying consolidated balance sheets of Riviera Holdings Corporation and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' deficiency, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Riviera Holdings Corporation and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the consolidated financial statements, in 2007, the Company changed its method of accounting for income taxes to conform to Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109.

As discussed in Note 14 to the consolidated financial statements, in 2006, the Company changed its method of accounting for share-based compensation to conform to Statement of Financial Accounting Standards No. 123(R), Share-Based Payment.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2008, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Las Vegas, NV  
March 12, 2008

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RIVIERA HOLDINGS CORPORATION  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2007 AND 2006

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(Dollars In Thousands)

ASSETS	2007	2006
	----	----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,819	\$ 25,285
Restricted cash and investments	2,772	-
Accounts receivable net of allowance of \$436 and \$163	3,563	3,063
Inventories	1,455	1,792
Prepaid expenses	3,602	4,002
	-----	-----
Total current assets	40,211	34,142
PROPERTY AND EQUIPMENT net	172,865	171,320
OTHER ASSETS	2,940	5,774
DEFERRED INCOME TAXES-net	2,446	2,446
	-----	-----
Total assets	\$ 218,462	\$ 213,682
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 226	\$ 879
Current portion of obligation to officers	1,000	1,000
Accounts payable	10,972	9,126
Accrued interest	188	1,063
Accrued expenses	14,279	13,167
	-----	-----
Total current liabilities	26,665	25,235
LONG-TERM DEBT - Net of current portion	225,288	214,124
FAIR VALUE OF INTEREST RATE SWAP LIABILITIES	13,272	-
OTHER LONG-TERM DEBT	-	2,763
OBLIGATION TO OFFICERS - Net of current portion	1,063	2,094
	-----	-----
Total liabilities	266,288	244,216
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS' DEFICIENCY:		
Common stock, \$.001 par value 60,000,000 shares authorized; 17,124,624 and 17,131,824 shares issued at December 31, 2007 and 2006, respectively, 12,456,555 and 12,369,431 shares outstanding	17	17
Additional paid-in capital	18,925	18,165
Treasury stock, 4,668,069 and 4,762,393 shares at December 31, 2007 and 2006, respectively	(9,635)	(9,841)
Acumulated Deficit	(57,133)	(38,875)
	-----	-----
Total stockholders' deficiency	(47,826)	(30,534)
	-----	-----
Total liabilities and stockholders' deficiency	\$ 218,462	\$ 213,682
	=====	=====

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See notes to consolidated financial statements.

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## RIVIERA HOLDINGS CORPORATION

### CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (In Thousands, Except Per Share Amounts)

	2007	2006	2005
	-----	-----	-----
REVENUES			
Casino	\$ 114,340	\$ 111,459	\$ 108,130
Rooms	59,890	56,700	52,021
Food and beverage	32,353	33,125	34,132
Entertainment	13,498	13,672	17,371
Other	6,632	6,431	8,312
	-----	-----	-----
Total revenues	226,713	221,387	219,966
Less - promotional allowances	(21,218)	(20,443)	(17,739)
	-----	-----	-----
Net revenues	205,495	200,944	202,227
	-----	-----	-----
COSTS AND EXPENSES			
Direct costs and expenses of operating departments:			
Casino	56,197	57,311	56,092
Rooms	28,121	27,100	27,133
Food and beverage	23,848	24,144	24,645
Entertainment	8,687	9,377	13,214
Other	1,360	1,437	2,906
Other operating expenses			
General and administrative			
Stock-based compensation	966	813	1,627
Other general and administrative	42,728	41,318	39,444
Mergers, acquisitions and development costs, net of \$1,000 unrefundable deposit in 2005	611	1,318	(65)
Asset impairments	72	19	777
Depreciation and amortization	13,116	12,691	14,065
	-----	-----	-----
Total costs and expenses	175,706	175,528	179,838
	-----	-----	-----
INCOME FROM OPERATIONS	29,789	25,416	22,389
	-----	-----	-----
Loss on early retirement of bonds	(12,878)	-	-
Decrease in value of derivative instruments	(13,272)	-	-
Interest expense, net, including related party interest of \$281 \$400 and \$518 in 2007, 2006 and 2005, respectively	(21,897)	(25,751)	(26,388)
	-----	-----	-----
Total interest expense, net	(48,047)	(25,751)	(26,388)
	-----	-----	-----
NET LOSS	\$ (18,258)	\$ (335)	\$ (3,999)
	=====	=====	=====
EARNINGS PER SHARE DATA Loss per share,			



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basic and diluted	\$ (1.48)	\$ (0.03)	\$ (0.34)
	=====	=====	=====
Weighted-average common and common equivalent shares	12,309	12,134	11,833
	=====	=====	=====

See notes to consolidated financial statements.

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## RIVIERA HOLDINGS CORPORATION CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (Dollars In Thousands)

	Common Stock		Additional	Retained	
	Shares	Amount	Paid-In Capital	Deficit	Shares
BALANCE January 1, 2005	16,548,324	\$ 16	\$ 15,692	\$ (34,541)	(5,047,074)
Stock issued under executive option plan	166,500	1	395	-	-
Stock-based compensation - stock options	-	-	60	-	-
Distribution of treasury stock deferred compensation trust	-	-	(412)	-	187,983
Stock-based compensation - restricted stock	-	-	1,566	-	-
Issuance of deferred compensation -restricted stock	367,500	-	-	-	-
Net loss	-	-	-	(3,999)	-
BALANCE December 31, 2005	17,082,324	17	17,301	(38,540)	(4,859,091)
Stock-based compensation - stock options	-	-	72	-	-
Stock issued under executive option plan	97,500	-	257	-	-
Restricted stock - Forfeited	(48,000)	-	-	-	-
Stock-based compensation - restricted stock	-	-	741	-	-
Distribution of treasury stock - deferred compensation	-	-	(206)	-	96,698
Net loss	-	-	-	(335)	-
BALANCE December 31, 2006	17,131,824	17	18,165	(38,875)	(4,762,393)
Stock-based compensation - stock options	-	-	223	-	-
Restricted stock - forfeited	(7,200)	-	-	-	-
Stock-based compensation - restricted stock	-	-	743	-	-
Distribution of treasury stock - deferred compensation	-	-	(206)	-	94,324
Net loss	-	-	-	(18,258)	-

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BALANCE December 31, 2007	17,124,624	\$ 17	\$ 18,925	\$ (57,133)	(4,668,069)
---------------------------	------------	-------	-----------	-------------	-------------

See notes to consolidated financial statements.

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RIVIERA HOLDINGS CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005  
(In Thousands)

	2007	2006	2005
OPERATING ACTIVITIES:			
Net loss	\$ (18,258)	\$ (335)	\$ (3,999)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	13,116	12,691	14,065
Stock-based compensation - restricted stock	743	741	1,566
Stock-based compensation - stock options	223	72	60
Provision for bad debts	377	146	243
Asset impairment	72	18	-
Loss on early retirement of debt	12,878	-	-
Amortization of deferred loan fees	956	1,999	2,000
Decrease in value of derivative instruments	13,272	-	-
Change in operating assets and liabilities:			
Accounts receivable net	(877)	335	111
Inventories	337	693	(438)
Prepaid expenses	400	195	(96)
Accounts payable	(794)	(1,979)	1,261
Accrued expenses	(2,526)	906	(2,936)
Other assets	185	(3)	219
Deferred compensation plan obligation	(31)	(32)	(48)
Obligation to officers	(1,000)	(1,000)	(1,000)
Net cash provided by operating activities	19,073	14,447	11,008
INVESTING ACTIVITIES:			
Capital expenditures for property and equipment Las Vegas	(8,993)	(5,651)	(5,240)
Capital expenditures for property and equipment Black Hawk	(3,099)	(3,495)	(3,038)
Restricted cash and investments	(2,772)	-	-
Net cash used in investing activities	(14,864)	(9,146)	(8,278)

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RIVIERA HOLDINGS CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

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(In Thousands)

	2007	2006	2005
FINANCING ACTIVITIES:			
Proceeds from long-term borrowings	225,112	-	-
Repayments on long-term borrowings	(223,885)	(844)	(1,440)
Cash paid for deferred loan fees	(1,902)	-	-
Exercise of employee stock options	-	257	395
	-----	-----	-----
Net cash used in financing activities	(675)	(587)	(1,045)
	-----	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	3,534	4,714	1,685
CASH AND CASH EQUIVALENTS Beginning of year	25,285	20,571	18,886
	-----	-----	-----
CASH AND CASH EQUIVALENTS End of year	\$ 28,819	\$ 25,285	\$ 20,571
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING AND INVESTING ACTIVITIES:			
Property acquired with accounts payable Las Vegas, Nevada	\$ 1,800	\$ 812	\$ 406
	=====	=====	=====
Property acquired with accounts payable Black Hawk, Colorado	\$ 841	\$ 619	\$ 53
	=====	=====	=====
Non-cash item Main Street expansion Black Hawk	-	\$ 2,763	-
	=====	=====	=====
Cash interest paid	\$ 22,494	\$ 24,329	\$ 24,608
	=====	=====	=====
Distribution of deferred compensation treasury shares	\$ 206	\$ 206	\$ 412
	=====	=====	=====

See notes to consolidated financial statements.

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RIVIERA HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations -- Riviera Holdings Corporation ("RHC") and its wholly-owned subsidiaries (together, the "Company") own and operate the Riviera Hotel & Casino ("Riviera Las Vegas") on the Strip in Las Vegas, Nevada and the Riviera Black Hawk Casino ("Riviera Black Hawk") in Black Hawk, Colorado.

The Company's operations are subject to extensive regulation in the states of Nevada and Colorado by the respective Gaming Control Boards and various other state and local regulatory agencies. Management believes that the Company's procedures comply, in all material respects, with the applicable regulations for

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supervising casino operations, recording casino and other revenues, and granting credit.

Principles of Consolidation -- The consolidated financial statements include the accounts of Riviera Holdings Corporation and its wholly-owned subsidiaries. All material inter-company accounts and transactions have been eliminated.

Cash Equivalents -- All highly liquid investment securities with maturity of three months or less when acquired are considered to be cash equivalents.

Amounts classified as cash equivalents consist of cash held in our concentration account and money market accounts (all with original maturities of 90 days or less) and had a value of \$15,724,000 and \$10,809,000 at December 31, 2007 and 2006, respectively.

Restricted Cash -- This cash is held as a certificate of deposit for the benefit of the State of Nevada Workers Compensation Division as a requirement of our being self-insured for Workers Compensation. The cash is held in a one-year certificate of deposit, which matures in 2008. We do not believe this investment will be required after it matures in 2008 and as such the investment is held as a current asset.

Inventories -- Inventories consist primarily of food, beverage, and promotional items and are stated at the lower of cost (determined on a first-in, first-out basis) or market.

Property and Equipment -- Property and equipment are stated at cost, and capitalized lease assets are stated at the present value of future minimum lease payments at the date of lease inception. Depreciation is computed by the straight-line method over the shorter of the estimated useful lives or lease terms, if applicable, of the related assets, which lives range from:

Buildings and improvements	7 to 40 years
Land improvements	15 to 20 years
Furniture, fixtures and equipment	3 to 7 years

The Company periodically assesses the recoverability of property and equipment and evaluates such assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Asset impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. Included in income from operations in the fourth quarter of 2007 was \$72,000 in asset impairment costs compared to \$3,000 in 2006. The 2007 impairment costs related to the write down and subsequent disposal of costs associated with certain slot machines in Black Hawk, which are no longer compliant with local gaming laws.

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Other Assets -- Other assets include deferred loan offering costs, which are amortized over the life of the debt. Such amortized costs are included in interest expense.

Stock-Based Compensation -- As of December 31, 2007, the Company has five active stock-based compensation plans and two expired stock-based compensation

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plans. Under the Company's active stock compensation plans, the Company shall at the discretion of the Company's Compensation Committee, issue option grants of Company common stock to those directors in lieu of cash compensation. The option grants issued under this plan are valued at the market value of the shares at the date of issuance on each regularly scheduled date for paying directors' fees.

Had compensation cost for the Company's stock option plans been determined based on the fair value at the date of grant for awards consistent with the provisions of SFAS No.123 (using the grant date fair value method value method), the Company's net loss and pro-forma net loss per common share and common share equivalent would have been increased to the pro-forma amounts indicated below at December 31 (in thousands, except per share amounts):

	2005 -----
Net loss-as reported	\$ (3,999)
Stock -based employee compenstion expense	60
Deduct: Total stock-based employee compensation expense determined under fair value-based methods for awards net of related tax effects	(44)
Net loss-pro forma	\$ (3,983)
Basic loss per common share-as reported	\$ (0.34)
Basic loss per common share-pro forma	\$ (0.34)
Diluted loss per common and common share equivalent-as reported	\$ (0.34)
Diluted loss per common and common share equivalent-pro forma	\$ (0.34)

### Fair Value Disclosures

Cash and Cash Equivalents, Accounts Receivable, Accounts Payable, and Accrued Expenses--The carrying value of these items is a reasonable estimate of their fair value due to their short term nature.

Long-Term Debt -- The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. Based on the borrowing rates currently available to the Company for debt with similar terms and average maturities, the estimated fair value of long-term debt outstanding at December 31, 2007 and 2006 is approximately \$225,514,000 and \$227,105,000, respectively. In addition we have interest rate swap instrument, which has an approximate liability value of \$13,300,000 as of December 31, 2007. The fair value of the interest rate swap instrument is estimated based upon current interest rate levels along a yield curve, the remaining duration of the instrument and other market conditions and therefore, is subject to significant estimation and a high degree of variability of fluctuation between periods. Under our interest rate swap agreement, which has a fixed rate of 5.48% compared to the three month LIBOR rate 4.85% as of December 31, 2007, whcih we would receive.

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### Treasury Stock

Treasury shares are stated at cost. The Company's Deferred Compensation Plan distributed the remaining shares to plan participants in 2007 and at

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December 31, 2007 no shares were remaining in the Plan. The Plan distributed to participants, 94,324, 96,698 and 187,983 shares under the Deferred Compensation Plan during the years ended December 31, 2007, 2006 and 2005.

### Revenue Recognition

Casino Revenue -- Casino revenue is the net win from gaming activities, which is the difference between gaming wins and losses less slot club cash points, cash vouchers, free play and other related customer cash incentives.

Room Revenue, Food and Beverage Revenue, Entertainment Revenue, and Other Revenue -- The Company recognizes room, food and beverage, entertainment revenue, and other revenue at the time that goods or services are provided.

Promotional Allowances -- Revenues include the estimated retail value of rooms, food and beverage, and entertainment provided to customers on a complimentary basis. Such amounts are then deducted as promotional allowance. The estimated cost of providing these promotional allowances is charged to the casino department in the following amounts in thousands:

	Year Ended December 31		
	2007	2006	2005
Food and beverage	\$ 8,882	\$ 9,147	\$ 8,510
Rooms	2,763	2,693	1,333
Entertainment	918	629	632
	-----	-----	-----
Total costs allocated to casino departments	\$12,563	\$12,469	\$10,475
	=====	=====	=====

Estimates and Assumptions -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates used by the Company include recoverability of and estimated useful lives for depreciable and amortizable assets, certain accrued liabilities (including self-insurance reserves and customer loyalty programs), realizability of deferred tax assets, fair value of interest rate swap liabilities, valuation of stock based compensation and collection allowances for receivables. Actual results may differ materially from estimates.

Self-Insurance Reserves -- The Company is self-insured for various levels of general liability, workers' compensation, and non-union employee medical insurance coverage. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accrued estimates of incurred but not reported claims. In estimating these costs, the Company considers its historical claims experience and makes judgments about the expected levels of costs per claim. Changes in health care costs, accident frequency and severity and other factors can materially affect the estimate for these liabilities. As of January 1, 2008 we are no longer self-insured for non-union medical insurance coverage however, 2007 claims will continue to be paid during the first quarter of 2008.

Loyalty Club Program -- We offer to our guests the opportunity to earn points redeemable for cash based on their level of gaming and non-gaming activities while at our properties. An accrual is recorded as points are earned based upon expected redemption rates.

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Advertising -- The costs of advertising are expensed as incurred and are allocated to each revenue department based upon content. Advertising expense was \$2,782,000, \$2,814,000 and \$2,472,000 in 2007, 2006, and 2005, respectively.

Recently Issued Accounting Standards -- In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by SFAS No. 159 permits all companies to choose to measure eligible items at fair value at specified election dates. At each subsequent reporting date, a company shall report in earnings any unrealized gains and losses on items for which the fair value option has been elected. SFAS No. 159 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the company also elects to apply the provisions of SFAS No. 157, "Fair Value Measurements". We are currently evaluating if we will adopt and the impact of that the adoption of SFAS No. 159 will have on our consolidated financial statements and will adopt SFAS 159 as of January 1, 2008.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating whether to adopt the fair value option under SFAS No. 157 and evaluating what impact such adoption would have on our consolidated financial statements.

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In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and applies to all tax positions accounted for in accordance with SFAS No. 109. See Note 15, "Income Taxes," to the accompanying consolidated financial statements for disclosure regarding the effect of FIN 48 on our consolidated financial statements.

## 2. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at December 31 (in thousands):

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	2007	2006
	----	-----
Casino	\$ 353	\$ 335
Hotel	3,646	2,891
	-----	-----
Total	3,999	3,226
Less - Collection allowances	(436)	(163)
	-----	-----
Accounts receivable - net	\$3,563	\$3,063
	=====	=====

Changes in the collection allowances consist of the following for the years ended December 31 (in thousands):

	2007	2006
	----	----
Beginning balance	\$ 163	\$1,244
Write-offs	(114)	(1,257)
Recoveries	10	30
Provision for doubtful collection	377	146
	-----	-----
Ending balance	\$ 436	\$ 163
	=====	=====

The Company manages its credit risk by evaluating customers' credit worthiness before extending credit. The maximum credit losses that might be sustained are limited to the recorded receivables less any amounts reserved.

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## 3. PREPAID EXPENSES

Prepaid expenses consist of the following at December 31 (in thousands):

	2007	2006
Prepaid gaming taxes	\$ 1,110	\$ 1,527
Prepaid insurance	806	891
Vendor deposits	542	268
Prepaid equipment maintenance	254	242
Other	890	1,074
	-----	-----
Total	\$ 3,602	\$ 4,002
	=====	=====

## 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31 (in thousands):

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	2007	2006
	-----	-----
Land and improvements	\$ 40,752	\$ 40,904
Buildings and improvements	144,795	143,417
Equipment, furniture, and fixtures	155,818	150,576
Construction in progress	280	-
	-----	-----
Total cost	341,645	334,897
Less - Accumulated depreciation and amortization	(168,780)	(163,577)
	-----	-----
Property and equipment-net	\$ 172,865	\$ 171,320
	=====	=====

Substantially all of the Company's property and equipment are pledged as collateral to secure debt (see Note 9).

## 5. OTHER ASSETS

Other assets consist of the following at December 31 (in thousands):

	2007	2006
Deposits	\$ 69	\$ 58
Bond offering costs, net of accumulated amortization of \$194 and \$7,149	1,708	4,559
Base Stock	1,163	1,157
	-----	-----
Total	\$ 2,940	\$ 5,774
	=====	=====

## 6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable consist of the following at December 31 (in thousands):

	2007	2006
	-----	-----
Accounts payable vendors	\$ 6,898	\$ 5,015
Customer deposits, non-gaming	1,289	1,544
Other	500	446
	-----	-----
Sub total	8,687	7,005
Outstanding chip and token liability	517	569
Customer loyalty liabilities	677	742
Progressive jackpot liabilities	745	515
Customer deposits and other	346	295
	-----	-----
Total gaming customer-related payables	2,285	2,121

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	-----	-----
Total	\$ 10,972	\$ 9,126
	=====	=====

Accrued expenses consist of the following at December 31 (in thousands):

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	2007	2006
	-----	----
Payroll and related taxes and benefits	\$ 7,805	\$ 8,227
Property and gaming taxes	2,948	3,036
Incentive and ESOP	2,166	659
Professional fees	574	340
Deferred revenues and deposits	786	905
	-----	-----
Total	\$14,279	\$13,167
	=====	=====

## 7. FAIR VALUE OF INTEREST RATE SWAP LIABILITIES

We utilize derivative instruments for a substantial portion of our Term Loan to manage certain interest rate risk. Our interest rate swap agreement has a rate of 5.48% compared to the three month LIBOR rate of 4.85% as of December 31, 2007. The Fair Value of our interest rate swap was \$13.3 million as of December 31, 2007, and is recorded as a long-term liability which represents the amount we would be required to pay to settle the swap agreement.

## 8. OBLIGATION TO OFFICERS

Obligation to officers consists of the nonqualified pension plan obligation to our Chief Executive Officer ("CEO"), including accrued interest and deferred compensation plan liabilities, payable upon expiration of his employment contract or a change of control of the Company. See Note 13 for a description of this plan. Obligation to officers consists of the following at December 31 (in thousands).

	2007	2006
	-----	-----
Accrued interest on pension CEO, unfunded	\$ 2,063	\$ 3,093
Deferred compensation funded	-	1
	-----	-----
	2,063	3,094
	-----	-----
Less-current portion	(1,000)	(1,000)
	-----	-----
Obligation to officers - net of current portion	\$ 1,063	\$ 2,094
	=====	=====

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## 9. LONG-TERM DEBT

Long-term debt consists of the following at December 31 (in thousands):

	2007	2006
\$225 million Term Loan maturing on June 8, 2014	\$ 225,000	-
11% Senior Secured Notes maturing on June 15, 2010, net	-	\$ 213,601
5.5% to 5.9% notes collateralized by equipment, payable monthly, including interest	-	802
Capitalized lease obligations (Note 10)	231	189
5.5% Special Improvement District Bonds - issued by the City of Black Hawk, Colorado, interest and principal payable monthly over 10 years beginning in 2000	283	411
	-----	-----
Total long-term debt	225,514	215,003
Less-Current maturities by terms of debt	(226)	(879)
	-----	-----
Total	\$ 225,288	\$ 214,124
	=====	=====

Maturities of long-term debt for the years ending December 31 are as follows (in thousands):

2008	\$ 226
2009	222
2010	1,148
2011	2,274
2012	2,269
Thereafter	219,375
	-----
Total	\$ 225,514
	=====

On June 8, 2007, we and our Subsidiaries entered into the New Credit Facility.

The New Credit Facility includes a \$225 million seven-year term loan ("Term Loan"), and has no amortization for the first three years, and a one percent amortization for years four through six, and a full payoff in year seven, in addition to an annual mandatory pay down during the term of 50% of excess cash flows, as defined. The New Credit Facility also includes a \$20 million five-year revolving credit facility ("Revolving Credit Facility") under which we can obtain extensions of credit in the form of cash loans or standby letters of credit ("Standby L/Cs"). We are permitted to prepay the New Credit Facility without premium or penalties except for payment of any funding losses resulting from prepayment of LIBOR rate loans. The rate for the Term Loan and revolving Credit Facility is LIBOR plus 2.0%. Pursuant to a floating rate to fixed rate

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swap agreement that became effective June 29, 2007 that we entered into under the New Credit Facility, substantially the entire Term Loan portion of the New Credit facility, with quarterly step-downs, bears interest at an effective fixed rate of 7.485% per annum (2.0% above the LIBOR Rate in effect on the lock-in date of the swap agreement). The New Credit Facility is guaranteed by the Subsidiaries and is secured by a first priority lien on substantially all of our assets.

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

We utilize derivative instruments for a substantial portion of our Term Loan to manage certain interest rate risk. Our interest rate swap agreement has a rate of 5.48% compared to the three month LIBOR rate of 4.85% as of December 31, 2007.

The interest rate on loans under the Revolving Credit Facility will depend on whether they are in the form of revolving loans or swingline loans. For each revolving loan, the interest rate will depend on whether we elect to treat the loan as an "Alternate Base Rate" loan ("ABR Loan") or a LIBOR Rate loan.

Swing line loans will bear interest at a per annum rate equal to the Alternative Base Rate plus the Applicable Percentage for revolving loans that are ABR Loans.

We will also pay fees under the Revolving Credit Facility as follows: (i) a commitment fee in an amount equal to either .50% or 0.375% (depending on the Consolidated Leverage Ratio) per annum on the average daily unused amount of the Revolving Credit Facility; (ii) Standby L/C fees equal to between 2.00% and 1.50% (depending on the Consolidated Leverage Ratio) per annum on the average daily maximum amount available to be drawn under each Standby L/C issued and outstanding from the date of issuance to the date of expiration; and (iii) a Standby L/C facing fee in the amount of 0.25% per annum on the average daily maximum amount available to be drawn under each Standby L/C. In addition to the Revolving Credit Facility fees, we will pay an annual administrative fee of \$35,000.

The New Credit Facility contains non-financial affirmative and negative covenants customary for financings of this nature including, but not limited to, restrictions on our incurrence of other indebtedness.

We believe we are in compliance with all covenants as of December 31, 2007.

The New Credit Facility contains events of default customary for financings of this nature including, but not limited to, nonpayment of principal, interest, fees or other amounts when due; violation of covenants; failure of any representation or warranty to be true in all material respects; cross-default and cross-acceleration under our other indebtedness or certain other material obligations; certain events under federal law governing employee benefit plans; a "change of control"; dissolution; insolvency; bankruptcy events; material judgments; uninsured losses; actual or asserted invalidity of the guarantees or the security documents; and loss of any gaming licenses. Some of these events of default provide for grace periods and materiality thresholds. For purposes of these default provisions, a "change in control" includes: a person's acquisition of beneficial ownership of 35% or more of our stock coupled with a gaming

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license and/or approval to direct any of our gaming operations, a change in a majority of the members of our board of directors other than as a result of changes supported by our current board members or by successors who did not stand for election in opposition to our current board, or our failure to maintain 100% ownership of the Subsidiaries.

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

The 5.5% Special Improvement District Bonds were issued by the City of Black Hawk, Colorado. The proceeds were used for road improvements and other infrastructure projects benefiting Riviera Black Hawk and a nearby casino. Our share of the debt was \$1.2 million payable over a ten-year period that began in 2000.

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### 10. LEASING ACTIVITIES

The Company leases certain office equipment under capital leases. These agreements have been capitalized at the present value of the future minimum lease payments at lease inception and are included with property and equipment. The interest rate on the equipment leases is 5.5%. We estimate that the fair market value of the property and equipment subject to the leases approximates the net present value of the leases.

The following is a schedule by year of the minimum rental payments due under capital leases as of December 31, 2007 (in thousands):

2008	\$ 111
2009	90
2010	29
2011	29
2012	21
Thereafter	-
	----
Total minimum lease payments	280
Less-Taxes, maintenance, and insurance	(28)
Less-Interest portion of payments	(21)
	----
Present value of net minimum lease payments	\$ 231
	=====

Property and equipment under capital lease as of December 31, 2007 and 2006 were \$437,000 and \$325,000 with accumulated amortization of \$207,000 and \$135,000, respectively.

Rental expense for equipment under operating leases for the years ended December 31, 2007, 2006 and 2005 was approximately \$1,230,000, \$503,000 and \$1,096,000, respectively. All are cancelable within a year. In addition, the Company leases retail space to third parties (primarily retail shops and fast food vendors) under terms of noncancelable operating leases that expire in various years through 2011, and have options to extent at the tenant's option.

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Rental income, which is included in other revenue, for the years ended December 31, 2007, 2006 and 2005 was approximately \$2,448,000, \$2,069,000 and \$2,205,000 respectively.

At December 31, 2007, the Company had future minimum annual rental income due under noncancelable operating leases as follows (in thousands):

2008	\$ 2,599
2009	2,280
2010	2,034
2011	1,064
2012	48
	-----
Total	\$ 8,025
	=====

Certain lease arrangements at the Riviera Las Vegas contain a buyout/liquidated damages provision. This provision provides that in the event of a major renovation or certain other events, the Company has the right, according to an agreed-upon formula, to buy out any remaining term of the lease by providing the tenant twelve months written notice.

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### 11. INCOME TAXES

The effective income tax rate of zero differs from the statutory Federal income tax rates for the years ended December 31 as follows (dollars in thousands):

	2007		2006		2005	
	Amount	Rate	Amount	Rate	Amount	Rate
Income taxes benefit						
at Federal statutory rate	\$ (6,390)	(35.0)%	\$ (117)	(35.0)%	\$ (1,400)	(35.0)%
Income taxes benefit						
at State statutory rate	\$ (119)	(0.6)%				
Employee benefits	639	3.5 %	633	189.0 %	695	17.4 %
FICA credit	(217)	(0.2)%	(222)	(66.3)%	(239)	(6.0)%
Other	132	0.7 %	-	-	(232)	(5.8)%
Rate change impact	84	0.5 %	-	-	-	-
Valuation allowance	5,871	31.1 %	(294)	(87.7)%	1,176	29.4 %
Benefit for income taxes	\$ -	0.0 %	\$ -	0.0 %	\$ -	0.0 %

Comparative analysis of the provision for income taxes is as follows:

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	2007	2006	2005
	-----	-----	----
Current	\$ -	\$ -	\$ -
Deferred	-	-	-
	-----	-----	----
Total	\$ -	\$ -	\$ -
	=====	=====	=====

The tax effects of the items composing the Company's net deferred tax asset consist of the following at December 31 (in thousands):

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	2007	2006
	=====	=====
Deferred tax liabilities		
Reserve differential for hospitality and gaming activities	\$ 1,309	\$ 1,582
Difference between book and tax-depreciable property	5,852	5,955
	-----	-----
Total Deferred Tax Liabilities	7,161	7,537
	-----	-----
Deferred tax assets		
Net operating loss carryforwards	\$23,116	\$ 21,985
Reserves not currently deductible	7,030	2,480
Bad debt reserves	155	57
AMT and other credits	3,531	3,315
	-----	-----
Total Deferred Tax Assets	33,832	27,837
	-----	-----
Less - Valuation allowance	(24,225)	(17,854)
	-----	-----
Net deferred tax asset	\$ 2,446	\$ 2,446
	=====	=====

The Company has \$3,531,000 of alternative minimum tax ("AMT") credit and general business credit available to offset future income tax liabilities. The AMT credits have no expiration date. The general business credit will not begin to expire until 2010. The Company has approximately \$65,000,000 in federal gross net operating loss carryforwards and \$11,000,000 in state gross net operating loss carryforwards. The net operating loss carryforwards will expire between 2013 and 2028. Currently, the Company does not believe that it is more likely than not that it can utilize the deferred tax assets and accordingly, a valuation allowance has been provided for substantially all deferred tax assets.

The realizability of the net deferred tax asset related to Rivera Las Vegas is dependent upon future earnings. The Company's net deferred tax asset approximates its AMT credit carryforwards, which do not expire. For this reason there is no valuation allowance against the AMT Credit.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes -- an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48

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seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company is subject to the provisions of FIN 48 as of January 1, 2007. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48.

### 12. COMMITMENTS AND CONTINGENCIES

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

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### 13. EMPLOYMENT AGREEMENTS AND EMPLOYEE BENEFIT PLANS

William L. Westerman serves as our Chairman of the Board, President and CEO, and as Chairman of the Board and CEO of our wholly-owned subsidiary, Riviera Operating Corporation ("ROC"), and CEO of Riviera Black Hawk Inc.

Under Mr. Westerman's employment agreement, which was last amended by the Third Amendment to the employment agreement on March 4, 2008, he is employed for one-year (calendar year) terms, which automatically renew for successive one-year terms unless written notice is provided by Mr. Westerman at least 180 days, or by us at least 90 days, prior to termination of the current term. Mr. Westerman's base annual compensation is \$1,000,000. The Third Amendment provides that, effective January 1, 2008, Mr. Westerman is eligible to participate in our senior management incentive compensation plan. The Third Amendment also provides for the payment to Mr. Westerman of a discretionary bonus in the amount of \$300,000 prior to March 15, 2008, for Mr. Westerman's contribution to our performance in 2007.

On February 5, 1998, Stockholders approved a merger agreement that constituted a change of control under Mr. Westerman's employment agreement. (That merger agreement was terminated without consummation of the merger.) On March 5, 1998, Mr. Westerman exercised his right to require us to establish and fund a Rabbi Trust for his benefit. On March 20, 1998, Mr. Westerman waived his right to have us fund the Rabbi Trust in exchange for our agreement to fund it within five business days after notice from him.

Mr. Westerman's employment agreement required us to fund a retirement account for him. We no longer make principal contributions to the retirement account, but the account continues to accrue interest. The retirement account had a balance, including accrued interest, of \$2,063,000 as of December 31, 2007.

We credit Mr. Westerman's retirement account quarterly with interest on the first day of each succeeding calendar quarter in an amount equal to the product of (i) our average borrowing rate for the immediately preceding fiscal year, as determined by the our Chief Financial Officer, and (ii) the average outstanding balance in the retirement account during the preceding calendar quarter. At the recommendation of the Committee, in order to reduce the amount that would be payable immediately upon Mr. Westerman's separation from employment with us, Mr. Westerman and we agreed that commencing April 1, 2003, and continuing the first day of each quarter thereafter, he be paid the following in cash: (i) a



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distribution of \$250,000 from the principal balance of his retirement account; and (ii) the quarterly interest credited to his retirement account one quarter in arrears.

We retain beneficial ownership of Mr. Westerman's retirement account, which is earmarked to pay his retirement benefits. However, upon (1) the vote of a majority of the outstanding shares of common stock approving a "change of control" (as discussed in the next paragraph), (2) the occurrence of a change of control without Mr. Westerman's consent, (3) a breach by us of a material term of the employment agreement or (4) the expiration or earlier termination of the employment agreement for any reason other than cause, Mr. Westerman has the right to require us to establish a "Rabbi Trust" for his benefit and to require us to fund it with cash equal to the amount then credited to his retirement account, including any amount to be credited to his retirement account upon a change of control.

In the event that Mr. Westerman ceases to be employed by us (except for termination for cause, in which case Mr. Westerman would forfeit all rights to monies in the retirement account), he will be entitled to receive the amount in the retirement account (principal and interest) in 20 equal quarterly installments commencing as of the date he ceases to be employed. In the event that Mr. Westerman's Rabbi Trust has not yet been funded, the balance of principal and interest of the retirement account shall be paid directly to Mr. Westerman upon his retirement or termination (except for cause) or upon a change of control.

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Mr. Westerman's agreement also provides that for a period of 24 months following termination for any reason except cause, he shall not engage in any activity, which is in competition with us within a 75-mile radius from the location of any hotel or casino then operated by us. As consideration for not competing, we will pay to Mr. Westerman a total of \$500,000 in two equal annual installments of \$250,000. The first installment is payable within five business days of termination of employment with the second installment payable on the first anniversary of termination.

In addition to Mr. Westerman, one other executive, Robert Vannucci, has an employment agreement with us.

Mr. Vannucci serves as President and COO of ROC. We entered into an employment agreement with Mr. Vannucci effective September 1, 2006. The agreement is for a one-year term and automatically renews for successive one-year terms. Mr. Vannucci's base compensation is \$400,000. His employment agreement also provides for an annual base award of \$200,000 and plus an amount for a stretch bonus under our Incentive Compensation Program if we fully achieve our financial targets at Riviera Las Vegas in 2008 (or a prorated award, if we partially achieve those targets). For 2007 Mr. Vannucci received an Incentive Compensation Program award of \$203,458. For 2006, Mr. Vannucci received an Incentive Compensation Program award of \$92,500. Mr. Vannucci did not receive an Incentive Compensation Program award for 2005. Mr. Vannucci or we may terminate the employment agreement at any time upon 30 days prior written notice, but if we terminate it without cause, then Mr. Vannucci will be entitled to one year's salary, a prorated award under our Incentive Compensation Program, two years of health insurance benefits and a one-year automobile allowance of \$6,000, plus reimbursement of all reasonable automobile expenses (excluding lease or loan payments).

Incentive Compensation Program -- We have an Incentive Compensation Program covering employees who, in the opinion of our Chairman of the Board, either

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serve in key executive, administrative, professional, or technical capacities with us, or who have made a significant contribution to the successful and profitable operation of the Company. The amount of each bonus is based upon a sliding targeted scale of earnings established annually. During the years ended December 31, 2007, 2006 and 2005, the Company recorded accrued bonuses of \$1,716,000, \$581,000 and \$555,000 respectively, under this program.

Pension Plan Contributions -- We contribute to multi-employer pension plans under various union agreements in Las Vegas to which we are a party. Contributions, based on wages paid to covered employees, were approximately \$1,989,000, \$1,952,000 and \$1,760,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Our share of any unfunded liability related to multi-employer plans, if any, is not determinable.

Profit Sharing and 401(k) Plans -- We have profit sharing and 401(k) plans (the "Profit Sharing and 401(k) Plans") for employees of Riviera Las Vegas and Riviera Black Hawk who are at least 21 years of age and who are not covered by a collective bargaining agreement and are eligible after ninety days of service.

Effective January 1, 2008 we amended our 401(k) Plans to an amount not to exceed 50% of the first 6% of each participant's compensation. Prior to January 1, 2008 the Company match was 25% of the first 8%. We made contributions of \$279,000, \$276,000 and \$290,000 for the years ended December 31, 2007, 2006 and 2005. We also pay administrative costs of the Profit Sharing and 401(k) Plans, which are not significant.

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Prior to 2003, we suspended contributions to the profit sharing component of the Profit Sharing and 401(k) Plans and we have substituted contributions to an Employee Stock Ownership Plan ("ESOP"), (see "Employee Stock Ownership Plan," directly below).

Employee Stock Ownership Plan -- The ESOP was established prior to 2003 to replace the profit sharing contribution component of the Profit Sharing and 401(k) Plans. The 401(k) component remains unchanged. The ESOP provides that all employees of Riviera Las Vegas and Riviera Black Hawk who were employed on and completed a minimum of 1,000 hours of service by, December 31 of that plan year, were at least 21 years of age, and were not covered by a collective bargaining agreement are eligible to participate in the ESOP. The ESOP provides that we will make a contribution to the ESOP's participants at Riviera Las Vegas and Riviera Black Hawk relative to the economic performance of each property and for the corporate participants relative to the economic performance of the entire Company. We will make a contribution equal to 1% of each eligible employee's annual compensation if a prescribed annual operating earnings target is attained and an additional 1% thereof for each \$2 million by which operating earnings are exceeded, up to a maximum of 4% for 2007. Under the ESOP, our contributions are made in cash, which may be used to buy our common stock and pay participants upon separation of service. We contributed \$316,000 in 2007, \$0 in 2006 and \$126,000 in 2005, respectively to the ESOP.

Deferred Compensation Plan -- Prior to 2003, we adopted a Deferred Compensation Plan (the "DCP"). The purpose of the DCP is to provide eligible employees with the opportunity to defer the receipt of cash compensation. Participation in the DCP is limited to employees who receive annual compensation of at least \$100,000. The deferred funds other than the common stock component, are maintained on the Company books as funded liabilities under Rabbi Trusts for the benefit of the participants. All elections to defer the receipt of compensation must be made no later than December 1st preceding the plan year to which the election relates and are irrevocable for the duration of that plan year. No deferrals have been made since 2004. The plan distributed the remaining

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common stock to participants during 2007 and as of December 31, 2007 the plan does not have any participants.

Restricted Stock Plan -- Prior to 2003, we adopted a Restricted Stock Plan to provide incentives, to attract and retain highly competent persons as officers and key employees. Participants consist of such officers and key employees as our Compensation Committee determines to be significantly responsible for our success and future growth and profitability. Awards of restricted stock are subject to such terms and conditions as we determine to be appropriate at the time of the grant, including restrictions on the sale or other disposition of such shares and provisions for the forfeiture of unvested shares for no consideration upon termination of the participant's employment within specified periods or under certain conditions. Please see Note 13.

Salary Continuation Agreements -- Approximately 60 executive officers and certain other employees (excluding Mr. Westerman and Mr. Vannucci) of ROC and RBH have salary continuation agreements effective through December 2008, pursuant to which they will be entitled to receive (1) six months salary if their employment with the Company is terminated, without cause, within 12 months of a change of control of the Company; and (2) group health insurance for a period of 6 months. The base salary payments are payable in biweekly installments, subject to the employee's duty to mitigate by using his or her best efforts to find employment. In addition, two officers and three significant employees have salary continuation agreements effective through December 31, 2008, pursuant to which each of them will be entitled to receive one year's base salary and certain benefits for two years, if their employment is terminated without cause within 24 months of a change of control of the Company. These five salary continuation agreements are not subject to a duty to mitigate. The estimated total amount payable under all such agreements was approximately \$3.5 million, which includes \$690,000 in benefits, as of December 31, 2007.

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### 14. STOCK OPTION PLANS

Stock Compensation Plans -- On January 1, 2006, we adopted SFAS No. 123(R), using the modified prospective application. Accordingly, prior amounts have not been restated. In the first quarter of 2006 our adoption of SFAS No. 123(R) resulted in no incremental stock-based compensation expense, as we had no non-vested options outstanding at January 1, 2006. At December 31, 2007, we had two active stock option plans and two expired stock option plans, which are described below. Under the 1993 Employee Stock Option Plan (the "1993 Option Plan"), we were authorized to grant options to employees for up to one million shares of our common stock. Under the Non-Qualified Stock Option Plan for Non-Employee Directors (the "1996 Option Plan"), we were authorized to grant options to non-employee directors for up to 150,000 shares of common stock. Under these plans, the exercise price of each option equaled the market price of our stock on the date of grant. All options have become vested under the 1996 Option Plan. Although the 1993 Option Plan and 1996 Option Plan have expired, some options granted under these plans are still outstanding.

Effective May 17, 2005, we implemented two new stock option plans and reserved a total of 1,150,000 shares for options issuable under the plans. We allocated 150,000 shares to a new option plan for non-employee directors. We will grant options for 6,000 shares to each non-employee director on each anniversary of the effective date of the plan. Also, we will grant options for 6,000 shares to each person who becomes a non-employee director after May 17, 2005. The option exercise price will be the closing market price of our stock on the date of the option grant. The options will vest over five years at 20% per year, commencing on the first anniversary of the grant.

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In 2005, we allocated one million shares to a new incentive stock option plan for our officers and key employees. Our Stock Option Committee will have discretion as to whom those options will be granted and the number of shares to be allocated to each option grant. The option exercise price will be the closing market price of our stock on the date of the option grant. The options will vest over four years, with 20% vesting on the date of grant, and an additional 20% on each anniversary of the grant.

In March of 2005 we granted 385,500 restricted shares to 21 executives under our Restricted Stock Plan. On December 31, 2007, 137,700 restricted shares remained outstanding. As of December 31, 2007, \$1,370,000 remained to be realized as expense related to these shares. This amount will be recognized straight line over the remaining 3 years. On the 2007 anniversary of the grant, 48,300 shares vested and the restrictions were lifted.

One executive left the company in 2007 and forfeited 7,200 restricted shares. Except for accelerated vesting in the event of an executive's death or disability, retirement at or after age 62, termination of employment by us other than for cause, or certain events of hardship, or in the event of a change in control of the Company, the vesting schedule for the shares is as follows.

March 10, 2006.....	20%
March 10, 2007.....	40%
March 10, 2008.....	60%
March 10, 2009.....	80%
March 10, 2010.....	100%

On May 27, 2005, we granted a total of 30,000 shares of stock to our non-employee directors. Those shares are subject to restrictions on resales, assignments, pledges, encumbrances or other transfers prior to vesting. The shares vest at the rate of 20% per year on each anniversary of the grant date. However, accelerated vesting will occur upon death, disability, a change of control of the Company or under any other termination of directorship status, except resignation prior to reaching age 62 or declining to stand for reelection prior to reaching age 62 (which would result in forfeiture of the non-vested shares).

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The activity of the 1993 Option Plan and the two director option plans (the 1996 Option Plan and the 2005 Stock Option Plan for Non-employee Directors) is as follows:

Stock Options	Shares	Weighted-Average Per Share Exercise Price
Outstanding, January 1, 2005	477,000	\$ 2.42
Exercised	(166,500)	\$ 2.38
	-----	
Outstanding, December 31, 2005	310,500	\$ 2.45
Automatic grant to directors	24,000	\$ 21.60

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Exercised	(97,500)	\$ 2.63
Forfeited	(3,000)	\$ 2.45
	-----	
Outstanding, December 31, 2006	234,000	\$ 4.33
Automatic grant to directors	24,000	\$ 36.56
	-----	
Outstanding, December 31, 2007	258,000	\$ 7.33
	=====	

Range of Exercise Prices	Outstanding at December 31, 2007	Average Remaining Contractual Life	Weighted- Average Exercise Price
-----	-----	-----	-----
\$1.33 to \$2.00	36,000	4.88 years	\$ 1.91
\$2.18 to \$20.00	174,000	3.28 years	\$ 2.45
\$20.00 to \$36.56	48,000	8.92 years	\$ 29.08

	Shares	Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
Shares exercisable 12/31/07	224,800	\$3.59	4.58 years	\$6,106,000

The total intrinsic value of options exercised during 2006 and 2005 was \$1,614,000 and \$2,053,000 respectively. No options were exercised in 2007.

Option expense recorded in 2007, 2006 and 2005 was \$223,000, \$72,000 and \$60,000, respectively. Restricted stock expense recorded in 2007, 2006 and 2005 was \$744,000, \$741,000 and \$1,600,000, respectively. As of December 31, 2007, \$177,000 remains to be recorded as expense for outstanding options.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2007, respectively: dividend yield of 0%; average expected volatility 41% based on the history of the stock price; risk-free interest rates of 5.01%; and average expected life of 2.7 years. The average weighted fair value of options granted in 2007 and 2006 was \$11.06 and \$14.30 per share, respectively. No options were granted in 2005.

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## 15. GUARANTOR INFORMATION

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

## 16. LOSS PER SHARE

Basic loss per share is computed by dividing net loss per share by the

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weighted-average number of common shares outstanding for the period. Diluted loss per share is computed by dividing net income by the weighted number of common and common-equivalent shares outstanding for the period. Options to purchase common stock, whose exercise price was greater than the average market price for the period, have been excluded from the computation of diluted loss per share as their effect would have been anti-dilutive. Such antidilutive options excluded from the calculation of diluted loss per share for the years ended December 31, 2007, 2006 and 2005 were 265,486; 171,353; and 276,196, respectively based on the treasury method.

### 17. RELATED PARTY TRANSACTIONS

Jeffrey A. Silver, a member of our board of directors, is a shareholder in the law firm of Gordon & Silver, Ltd. ("Gordon & Silver"). We have engaged Gordon & Silver for various securities issues and other legal matters since 1993. We continue to utilize the services of Gordon & Silver and we believe that the fee arrangement is substantially equivalent to the arrangements that would have been made with a comparable law firm where a relationship of this nature did not exist. We incurred legal expenses to the firm which are included in mergers, acquisitions and development cost of \$174,000, \$495,000 and \$137,000 in 2007, 2006 and 2005, respectively. We incurred legal expenses to the firm which are included in other general and administrative costs of \$67,000, \$56,000 and \$297,000 in 2007, 2006 and 2005, respectively.

We incurred legal expenses to the firm, which are included in our refinancing costs of \$124,000 for 2007.

### 18. SEGMENT DISCLOSURES

We review our operations by our geographic gaming market segments: Riviera Las Vegas and Riviera Black Hawk. All inter-segment revenues have been eliminated.

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(in thousands)	2007	2006	2005
Net revenues:			
Riviera Las Vegas	\$151,505	\$ 149,202	\$ 150,688
Riviera Black Hawk	53,990	51,742	51,539
	-----	-----	-----
Total net revenues	\$205,495	\$ 200,944	\$ 202,227
	=====	=====	=====
Property EBITDA(1)			
Riviera Las Vegas	30,166	28,075	26,789
Riviera Black Hawk	19,133	16,825	17,282
Other costs and expenses:			
Corporate expense			
Share-based compensation	966	813	1,627
Other corporate expenses	4,745	4,644	5,278
Depreciation and amortization	13,116	12,691	14,065
Mergers, acquisitions and development costs, net	611	1,318	(65)
Asset impairments	72	18	777
Loss on retirement of bonds	12,878		
Decrease in value of derivative instruments	1	3,272	

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Interest expense	23,756	26,366	26,608
Interest income	(1,859)	(615)	(220)
	-----	-----	-----
	67,557	45,235	48,070
	-----	-----	-----
Net loss	\$ (18,258)	\$ (335)	\$ (3,999)
	=====	=====	=====
Interest expense:			
Riviera Las Vegas	\$ 16,851	\$ 18,643	\$ 18,857
Riviera Black Hawk	6,905	7,723	7,751
	-----	-----	-----
	\$ 23,756	\$ 26,366	\$ 26,608
	=====	=====	=====
Depreciation Expense			
Riviera Las Vegas	\$ 9,143	\$ 9,032	\$ 9,712
Riviera Black Hawk	3,973	3,659	4,353
	-----	-----	-----
	\$ 13,116	\$ 12,691	\$ 14,065
	=====	=====	=====
Asset Impairment:			
Riviera Las Vegas	\$ -	\$ 18	\$ 310
Riviera Black Hawk	72	-	467
	-----	-----	-----
	\$ 72	\$ 18	\$ 777
	=====	=====	=====
	December 31		
Property and equipment (2):	2007	2006	
	-----	-----	
Riviera Las Vegas	\$109,885	\$ 108,234	
Riviera Black Hawk	62,980	63,086	
	-----	-----	
	\$172,865	\$ 171,320	
	=====	=====	

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(1) Property EBITDA consists of earnings before interest, income taxes, depreciation and amortization. EBITDA is presented solely as a supplemental disclosure because we believe that it is a widely used measure of operating performance in the gaming industry and a principal basis for valuation of gaming companies by certain investors. We use property-level EBITDA (EBITDA before corporate expenses) as the primary measure of operating performance of our properties, including the evaluation of operating personnel. EBITDA should not be construed as an alternative to operating income, as an indicator of operating performance, as an alternative to cash flow from operating activities, as a measure of liquidity, or as any other measure determined in accordance with accounting principles generally accepted in the United States of America. We have significant uses of cash flows, including capital expenditures, interest payments and debt principal repayments that are not reflected in EBITDA. Also, other gaming companies that report EBITDA information may calculate EBITDA in a different manner than we do.

(2) Property and equipment represent property and equipment net of accumulated depreciation and amortization.

## 19. UNAUDITED QUARTERLY FINANCIAL DATA

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RIVIERA HOLDINGS CORPORATION  
UNAUDITED QUARTERLY FINANCIAL DATA  
(Amounts in Thousands, Except per Share Data)

	March 31	June 30	September 30	December 31
Year ended December 31, 2007				
Net revenues	\$ 52,027	\$ 53,665	\$ 52,380	\$ 47,423
Operating income	8,961	9,439	6,664	4,725
Income (loss) before tax benefit	2,562	3,574	(18,254)	(6,140)
Net Income (loss)	2,562	3,574	(18,254)	(6,140)
Income (loss) per share basic	\$ 0.21	\$ 0.29	\$ (1.48)	\$ (0.50)
Income (loss) per share diluted	\$ 0.20	\$ 0.28	\$ (1.47)	\$ (0.49)
Year ended December 31, 2006				
Net revenues	\$ 51,689	\$ 52,437	\$ 50,349	\$ 46,469
Operating income	7,789	6,895	5,988	4,744
Income (loss) before tax benefit	1,280	418	(432)	(1,601)
Net Income (loss)	1,280	418	(432)	(1,601)
Income (loss) per share basic & diluted	\$ 0.11	\$ 0.03	\$ (0.04)	\$ (0.13)

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