

Edgar Filing: BRASIL TELECOM SA - Form 425

BRASIL TELECOM SA  
Form 425  
May 05, 2008

Filed by Telemar Norte Leste S.A.

Pursuant to Rule 425 of the Securities Act of 1933

Subject Company: Brasil Telecom S.A

Commission File No.: 001-15256

This presentation is for informational purposes only and is not an offer to purchase or a solicitation of an offer to sell any shares of Brasil Telecom Participações S.A. ( B RTP ) or Brasil Telecom S.A. ( BR TO ). The proposed tender offers for the outstanding common shares and a portion of the preferred shares of B RTP and BR TO described in this presentation have not commenced.

Any offer to purchase or the solicitation of an offer to sell (1) any preferred shares of B RTP, including the preferred shares underlying B RTP 's American Depositary Receipts, (2) any preferred shares of BR TO, including the preferred shares underlying BR TO 's American Depositary Receipts, or (3) common shares of B RTP or BR TO will be made only pursuant to offers to purchase and related materials that Telemar Norte Leste S.A. ( Telemar ) intends to file with the U.S. Securities and Exchange Commission (the Commission ) upon commencement of these offers. **Telemar urges shareholders who are eligible to participate in any of these tender offers to carefully read the offers to purchase and related materials relating to the offer or offers in which they are eligible to participate when they become available and prior to making any decisions with respect to that tender offer as these documents will contain important information about that tender offer.**

Following the filing with the Commission of (1) the offers to purchase and related materials relating to the offers for the common shares and/or the preferred shares of B RTP and/or BR TO, or (2) any other tender offer materials related to the offers for the common shares and/or the preferred shares of B RTP and/or BR TO, shareholders of B RTP and BR TO will be able to obtain the filed documents free of charge on the Commission 's website at [www.sec.gov](http://www.sec.gov) or from Telemar.

This presentation is also being made in respect of (1) the proposed merger (incorporação) of B RTP with and into BR TO, and (2) the proposed merger (incorporação) of BR TO with and into Telemar. In connection with the proposed merger of B RTP with and into BR TO, Telemar plans to cause BR TO to file with the Commission (1) a registration statement on Form F-4, containing a prospectus which will be mailed to the shareholders of B RTP, and (2) other documents regarding this proposed merger. In connection with the proposed merger of BR TO with and into Telemar, Telemar plans to file with the Commission (1) a registration statement on Form F-4, containing a prospectus which will be mailed to the shareholders of BR TO, and (2) other documents regarding the proposed merger. **Telemar urges investors and security holders to carefully read the relevant prospectus and other relevant materials when they become available as they will contain important information about the proposed mergers.** Investors and security holders will be able to obtain the documents filed with the Commission regarding the proposed mergers, when available, free of charge on the Commission 's website at [www.sec.gov](http://www.sec.gov) or from Telemar.

This presentation contains certain forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. The words anticipates , believes , estimates , expects , plans and similar expressions, as they relate to Telemar, B RTP and BR TO, are intended to identify forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations. Undue reliance should not be placed on such statements. Forward-looking statements speak only for the date they are made, and we undertake no obligation to publicly update any of them in the light of new information or future events.

**Transcript of International Conference Call**

**Oi Acquisition of Brasil Telecom by Telemar Norte Leste**

**April 28<sup>th</sup>, 2008**

**Operator:** Good morning ladies and gentlemen, and welcome to the audio conference call of Oi. Thank you for standing by. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions to participate will be given at that time. If you should require assistance during the call, please press the star key followed by zero (\*0). As a reminder, this conference is being recorded.

I would now like to turn the conference over to Mr. Luiz Eduardo Falco. Please sir, go ahead.

**Mr. Luiz Eduardo Falco:** Good morning everyone and thank you for joining us on this conference call for the presentation and discussion regarding the agreement that we entered into for the acquisition of a controlling stake in Brasil Telecom.

Late last Friday afternoon we filed a material fact with the CVM and the SEC and disclosed the material fact on our website and on several wire services and published it today in the Brazilian press with all the relevant details of these transactions, which we intend to discuss now. A presentation is also available in our website.

With me today is José Luís Salazar, our CFO; Roberto Terziani with our Investor Relations team. Initially I would like to mention that this conference call will be divided in four parts: in the first part I will comment about the corporate restructuring of the controlling shareholders of our company, Telemar Participações, TmarPart; then I will speak about the main rationale behind our entry into the agreement for the acquisition of outstanding shares of Brasil Telecom Participações, Brt Part, held directly or indirectly by the controlling group of Brasil Telecom; in the third part I will talk about the transaction itself, providing details about the structure and the various steps that we intend to undertake; and in the last part I will have a Q&A session with my colleagues.

The first item of this agenda is merely an informal purpose, since it deals with the corporate restructuring that will take place at the Telemar Participações, a company that owns the majority of the voting shares of Tele Norte Leste Participações and indirectly of all of its subsidiaries.

On Friday TmarPart also disclosed a material fact to the market with details about its corporate restructuring, which is also available in our investor relations website. This transaction is very simple to understand, since it basically consists of repositioning the controlling shareholders of TmarPart. As showed on the left side of slide 3, the current corporate structure of TmarPart is integrated by eight shareholders, which jointly own 100% of its capital.

After several different private transactions between themselves, the control group of TNL will be integrated by seven shareholders, as follows: La Fonte Telecom with 19.3%; Andrade Gutierrez Telecom with 19.3%; Fundação Atlântico with 11.5%. The total participation of these three shareholders will be 50.01% and in addition we will have the following: Previ with 12.9%; Petros with 10%; Funcef with 10%; and Bndespar with 16.9%.

Now addressing the second point of this agenda I want to talk about the rationale behind our proposal of acquisition of a controlling of Brasil Telecom and then speak about the structure of the transaction and how things are proposed to move forward in the short term. Initially, however, I would like to note that this is not a conventional acquisition, given that there are existing regulatory restrictions both in General Plan of Concessions, PGO; and in the General Universalization Goals Plan, PGMO; that limit Oi's ability to acquire another fixed line telephone concessionary.

However, certain legal provisions in article 19 of the general telecommunications law, LDT, also recommend that the authorities periodically review and possibly lift these restrictions on the part of Brazil's Telecommunications Agency, Anatel, in order to update them in light of technological advancements and changes in the competitive standards in the market. It should be noted that the PGMO has been revised twice over the past 10 years: first in 2003 and more recently to change the universalization goals established on the concession agreement.

The PGO established the general framework from competition among the fixed-line telephone concessionaries, indirectly affecting services that are undertaken by non-regulated entities and no change has been made to the PGO up to date. In this sense we believe the PGO should be updated with the current dynamics of the telecommunication market by removing restrictions on offer of multiple and convergent services. With the evolution of the telecom sector over the past decade both in Brazil and worldwide, it is certainly time to analyze whether what was established in the past should remain unchanged, or whether changes are necessary to meet the sector's new dynamics.

Going back to the presentation, slide 5 shows that we intend to create with this acquisition a large company to operate initially through Brazil. In the near future we want to expand this operation abroad, transforming this company in a true multinational telecommunications company. This new company will have the size, national coverage and operational and financial strength to compete on equal terms with international players that currently operate in Brazil, resulting in greater market balance in this sector. Our goal is to reach 110 million customers on the next five years considering the various services we will offer on the market. Oi and Brasil Telecom together currently have approximately 46 million customers.

It is important to emphasize that the acquisition of Brasil Telecom by Oi will not result in any harmful effects on the market concentration, either in local fixed-line telephone services or in long distance, broadband or mobile telephone

services as you can see in slide 6. The regions in which the two companies operate do not overlap, in fact the absolute majority of the services that they offer are complementary. In the data transmission services sector, where there is slight competition between both companies, the combination of Oi and Brasil Telecom will not even be close to the market leader. The combination of the two companies will actually foster more competition on this market segment.

Slide 7 shows that the company resulting from the integration of both companies will have a size that is close to the international competition that operates in Brazil, resulting in great market balance. The telecommunications sector is characterized worldwide as a capital and technologically intensive industry, thus requiring large operational scale to dilute fixed costs and to increase return over the investments made. The world has changed, Brazil has changed, the customer market has changed; technological advancements have made possible network convergence increasing competition and services offered to the customer in packages.

In slide 8 we see that as soon as it will be possible to integrate the platforms and operations of the two companies, Oi and Brasil Telecom will instantly create the second-largest backbone in Brazil, with national coverage, significantly increasing competition. In the corporative market, in which the geographic extension of the network's coverage is absolutely crucial to operate in a competitive manner, there would finally be a new player with a national backbone comparable to that of our main competition. This national backbone will be present in at least 23 state capitals and 29 of the 30 largest cities in Brazil.

Slide 9 shows that in the mobile market the combination of Oi and Brasil Telecom will result in the creation of the fourth operator in Brazil with effective national coverage, or the third if we consider Vivo and Tim as part of the same corporative group. The two companies combined initially would have almost 18% of the Brazilian market, but we have great growth opportunities on this market segment, whether a result of the increased market share of the combined companies in Brasil Telecom's region and also as a result of the commencement of operations in the state of Sao Paulo late this year. In fact, the existence of another national player gives a new dynamics to the competitive environment of the sector in all of Brazil, with direct benefits to users of the service - mainly corporate customers and those that move or travel frequently.

Going straight ahead to slide 15 with our presentation we believe that our request to the Brazilian federal authorities to allow the acquisition of Brasil Telecom is not only legitimate, but it is also justified by the arguments summarized on this slide because first, we will have no impact on market concentration, since the companies complement one each other; two, will result in the creation of another competitor with national coverage directly benefiting the consumer market; three, we will create significant operational efficiency in the value chain. The base for the arguments that in 1998 supported the imposition of legal restrictions on the combination of two concessionaries are no longer valid today and should be lifted by the authorities for the benefit of the market evolution.

Next, in the third part of the agenda I will speak about the proposed structure of the acquisition of Brasil Telecom Participações. As previously mentioned, this transaction is currently subject to regulatory restrictions. The proposal will be initially implemented by a comissionary agent, Banco Credit Suisse, which on behalf of Telemar is entering into an agreement to acquire all the common shares of Brasil Telecom Participações held directly or indirectly by its current controlling shareholder and which are subject to a certain R\$ 5.9 billion, equivalent to R\$ 72.3 per common share of Brasil Telecom Participações; however, only after Anatel's approval we will complete this acquisition on a definitive basis.

As soon as we have obtained this approval, we will proceed as to complete the rest of these transactions, which is summarized on slide 17. Even before approval by Anatel of the acquisition, TMAR will make a voluntary tender offer for acquisition of up to one-third of the outstanding preferred shares of both companies, BRTP and BRTO at prices that were already disclosed on the material fact, which are R\$ 13.47 per preferred shares of BRTP4 and R\$ 23.42 for preferred shares of BRTO4; then, and only after the required approvals from Anatel, the agent will assign a right to acquire all the Invitel shares to TMAR, which will complete the acquisition of control of BRTP and making the payment. Invitel is the holding company, which indirectly owns the majority of common shares of BRTP.

The transaction to acquire the control of BRTP obviously will also be submitted to appropriate time for approval by Cade, the Brazilian Antitrust Authority. After completing the acquisition of control of BRTP we will proceed with the mandatory tender offer for the minority shareholders of common shares of BRTP and of BRTO for R\$ 57.85 and R\$ 54.31 per share respectively.

After completing the mandatory tender offer, certain merger transactions will be proposed with the objective to simplify the corporate structure and unite the shareholders of BRTP and of BRTO as shareholders of the single company, TMAR. In the first step, Invitel will be merged into BRTP and BRTP will be merged into the operating company, BRTO. The swap ratios announced are based on the average market price of all the shares involved during the 90 days preceding and including April 23<sup>rd</sup>, 2008. After these mergers, the final stage will be the exchange of shares of Brasil Telecom by TMAR, so that all of the shareholders that retained their shares of BRTP and BRTO will become shareholders of TMAR.

As well as in previous stage, the exchange ratios were established based on average market price set for in slide 18. This slide shows the exchange ratios between Brasil Telecom Participações and Brasil Telecom operating company shares and the final exchange rate to TMAR shares. Before these mergers transactions, TMAR will pay an extraordinary dividend as described in the material fact of R\$ 3.9 billion and all of the exchange ratios take payment of this amount into account due to will be paid before all of the mergers.

The price to be paid for the shares of BRTP shares are R\$ 72.31 per share based on average market price with a premium of between 14.5% and 19%, as you can see in slide 19. If we consider, for example, the closing price of April 23<sup>rd</sup>, 2008 of R\$ 50.50 per share for example, the implicit market value for the control of Brasil Telecom Participações is 16.30. Based on this example, the premium paid to the controlling shareholders of Brasil Telecom is 14.5%, which is extremely reasonable if we consider the strategic appeal of this acquisition.

Following the same rationale but considering the average price of the common shares of Brasil Telecom Participações, BRTP3, over the 90 days preceding April 23<sup>rd</sup>, 2008 this premium would be 19%. We believe that these premiums are reasonable for a transaction that has such strategic relevance, magnitude and complexity vis-a-vis the company that will result from the joint operations of both companies.

Following all of these transactions, the corporate structure will be very similar to what we have today, as shown on slide 20, such that TmarPart will hold the majority common shares issued by TNLP, which in turn will continue to control TMAR with all the original shareholders of BRTP and BRTO. The existing shareholders of BRTP and BRTO will own shares of Tmar and for a certain period of time BRTO will remain as a whole owned subsidiary of TMAR.

Now I would like to proceed to the Q&A session.

### Q&A Session

**Operator:** Thank you. Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press the star (\*) key, followed by the one (1) key on your touch-tone phone. If at any time you would like to remove yourself from the questioning queue, press star (\*) two (2). Excuse me; our first question comes from Mr. Peter Lyons with Oscar Gruss.

**Mr. Peter Lyons:** Hi, good morning everyone. I have two questions actually, my first is regarding this 8 million pay TV subscribers you forecast in five years; I was wondering if you can give us just a general breakdown on what percentage of those you see, what percentage of the 8 million you see in Brazil and what percentage you might see abroad, internationally? That is the first question.

The second question is regarding the approval of Cade and Anatel. I was wondering if these will be taken into consideration in parallel, or if there will be the approval from Anatel before Cade and I know in the Portuguese call you mentioned three months for one and three months for the other, so if you can give us some more color and that I would appreciate it. Thank you.

**Mr. Falco:** Ok Peter. First, the 8 million is just an average calculation coming from the broadband of 12. We, in our numbers here we see that 60% the

penetration of pay TV will be around 60% of the broadband and we are talking about all the technologies, including DTH DTH and that means only in Brazil, these 8 million.

The second question that we are talking is yes, we are seeing in three months - we cannot push the authorities, of course - but we can see that three months is a reasonable time to have the approval from Anatel, which will come later than the change in PGO and then after these three months we will have the operation approved.

We expect to see Cade going parallel to the operation; normally Cade makes their analysis ex-post and never ex-ante, which means that in general terms we see three months as a good time to approve this operation. We will need another three months after approval to make all the offers that we are putting here on our proposal.

**Mr. Lyons:** So looking at about six months total for this transaction?

**Mr. Falco:** We are looking three months from Anatel approval and then parallel another three months from Cade and from the bid that we are putting here, all the tender offers and things like this.

**Mr. Lyons:** Ok and you mentioned a change in PGO; when do you expect that to happen in this scenario?

**Mr. Falco:** We have some news coming from Anatel that they will put in a public consult next week, but it goes normally one month, means that they will be able to have this PGO change, let us say, in two months from now and another month to make their analysis and see if they give the *anuência prévia*, which is the approval for the operation. That is why we are facing three months from now.

**Mr. Lyons:** Ok, thank you.

**Operator:** Excuse me; our next question comes from Mr. Gustavo Caldas with DA Capital.

**Mr. Caetano:** Hello, here is Piraju Caetano, I work with Gustavo. I tried to pose the question in the Portuguese call and I could not, so I am asking here. First of all you say on the press release that you reserve the right to buy part of the free float of the PNs BRTO4 and BRTP4 in the market before the OPA; so if you buy those in the market - there is no material news - would you still add to the one-third or this would be part of the one-third you are tendering?

**Mr. Salazar:** It is complementary; it is one-third only, so the total is going to be one-third whatever the company

**Mr. Caetano:** You say that you can buy in the market before the tender, right? You reserve the right to buy in the market, Telemar reserves the right to buy in the



market; so if you buy and the stock is going down now if you go in the market and you buy now that means that you are going to buy less on the price that you

**Mr. Salazar:** Exactly.

**Mr. Caetano:** Exactly?

**Mr. Salazar:** Exactly, that means that we are going to buy less on the tender offer.

**Mr. Caetano:** Ok and the second question is the swap ratios that you are saying; do you think that the PNs, you said on the Portuguese call the PNs would not have to approve it, because just they are just the one votes and also but do you think they could block, they could block the operation from to swap the Tmar PNs from the BRTO4 and BRTP4?

Because my understanding is like CVM on theirs; when they can public with their resolution they said that if it is at market price on an organized market, then it should be approved and the big question is if those shares in the last 90 days have been trading like on rumors, on facts, like it was not a very organized market and so the prices could be distorted?

And also the second part of this distortion in the market is that Tmar5 has been trading on some assumptions of a cheap company with almost no debt; but - that is what we hear about until now - but the shares are going to be given is a company that is acquiring a control group very for like 9x Ebitda or 10x Ebitda and with a lot of debt. So the 90 days history that you had in the past is not the same, is not for the same company that you are giving the shares. So do you think that there could be some conflict on this?

**Mr. Salazar:** Well, we do not think because in the last six months this transaction has been pretty much discussed, either through material facts or through the press, where all the prices pretty much were disclosed in a sense through the material fact where we stated that we would be paying between 4.5 and 5.2 billion.

So the transaction has been discussed in the market place for a while now and also when you do the exchange ratio between the two companies they have pretty much the same multiples, so we are exchanging companies that are in terms of multiples similar to each other. So we think exactly for the fact that this has been a very much discussed transaction in the last six months the market place is just a reflection of this discussion, so we do not see why this is not a normal market for both shares.

**Mr. Caetano:** Yes, it has been discussed on rumors like one day you say something, the other day you say something else; and a prove that the market was not expecting this is that to the shares are all dropping today; so it is not like the market was expecting the outcome that came.

And the second part is the companies are trading almost the same multiple; it should seem that TMAR did not acquire the control for Brasil Telecom yet. Once you take just the control that they are buying like for 9x Ebitda or 10x Ebitda for the control group and then a tag along will be lower, then the multiple for Tmar5 is a little bit higher than the PNs for Brasil Telecom.

So what I mean is you are getting 90 days history for something that was cheap about the same multiple; but what you are delivering is not the same company, you are delivering a company that is buying something very expensive on a higher multiple, so you could have some minorities saying that this is not right. Don't you think this could be reasonable?

**Mr. Salazar:** Again, we think the market has been following this discussion for the last six months in terms of delivering a new company. In our view we think we are delivering a much better company, a company that everybody in a sense said that did not use the best capital structure, so now we are leveraging a little bit more the company so it has a better capital structure.

The prices for the control they have been pretty much discussed all over in the last months not based on rumors, but also in material facts from the company itself, so people cannot say that 4.5 or 4.7, 4.8, 4.9 is not a rumor - it was a fact about in January actually and they are a kind of like the same companies.

Besides that, we have the dividend that has been adjusted to the extraordinary dividend that has been adjusted to the swap ratios. So we think at the end of the day there will be a much better company for everybody and since they were done based on market price we think the swap ratios are fair.

**Mr. Caetano:** Ok. Probably the market does not agree, because of all talks are following. And just one more question before I leave. On the Portuguese call you were saying that you did not buy more than one-third on the PNs because it would compromise the cash flow on the company, you are already raising some cash. But you also said that you are paying a dividend because you had enough cash to pay the dividend; so instead of paying a dividend from Tmar5 to the controllers upstream why did not you buy more Tmar more BRTP4 and more BRTO4 if you think they are so cheap?

**Mr. Salazar:** Because we thought the best distribution for the use of the cash would be part to repurchase shares from the market on BRP and part to pay dividends, it is just something that we thought was better.

**Mr. Caetano:** Ok then. Thank you.

**Operator:** Excuse me; our next question comes from Mr. Dan Kwiatkowski with Schroeders.

**Mr. Dan Kwiatkowski:** Hi, I have got a couple of questions. The first question, can you just clarify on the dividend; that is being paid pre the deal on the existing share structure or is that being paid pre the deal on the new share structure? That is the first question.

Second question is on synergies. What do you expect on synergies from the merger? And the third question is in the calculations you do not seem to be including the direct participation of about 30 million preferred shares issued by Telemar and held by Telemar Participações; can you say what is actually happening to those shares? Thank you.

**Mr. Salazar:** Well, first of all the dividend is on the existing structure, ok? Synergies, we have some studies here that we are analyzing, but it is much more market synergies than, for instance, personnel synergies for instance, ok?

We are talking about a company that will have national coverage on the mobile, so it is going to be able to compete better; is a company that is going to have a national broadband for the corporate market, but we still are analyzing it.

And the third question was the share of Telemar Participações consider on the free float of TMAR, they are part of the free float of TMAR. We consider on the free float of TMAR.

**Mr. Kwiatkowski:** Ok, on the free float.

**Mr. Salazar:** Yes.

**Mr. Kwiatkowski:** Ok great and just to clarify once more and the dividend is paid on the existing structure of today in TMAR?

**Mr. Salazar:** Yes, yes, that means that the dividend will be paid prior to the restructuring, prior to incorporation.

**Mr. Kwiatkowski:** Great, thank you.

**Operator:** Excuse me; our next question comes from Mr. Ricardo Araújo with Itaú Bank.

**Mr. Ricardo Araújo:** Hi. I just have one question in relation to the extraordinary dividend that will be paid by Tmar. It is obviously clearly written in the press release that Tmar will pay this extraordinary dividend of R\$ 3.9 billion, but a part of it will go obviously to TNLP, right? Do you intend to pay this dividend as an extraordinary dividend at TNLP level or not?

**Mr. Salazar:** I think - like I mentioned before on the call in the morning - we finalized, what we think we finalized the whole transaction for Tmar and we are still we are going to start to think about TNE. TNE probably, as you are aware, has a debt of around R\$ 800 million and then we are starting to make studies for TNE. Of course, whenever we came to any conclusions about how is going to be the situation in TNE, which we are still studying, we are going to advise the market and we are going to release to the market some material fact stating what is going to be done with TNE.

**Mr. Araújo:** Ok, so the matter, the fact that you have not mentioned here at this press release does not automatically imply that you are not going to pay, simply you have not finished the study yet?

**Mr. Salazar:** Yes, exactly. It does not automatically imply that we are not going to pay on TNE, it s does matter that we are studying it right now.

**Mr. Araújo:** Ok thank you very much and sorry for posing the question twice.

**Operator:** Excuse me; our next question comes from Ms. Vera Roth with Morgan Stanley.

**Ms. Vera Roth:** Thank you. I have two questions. How many shares you are going to be listed after all these steps are done and if you plan to list ADRs as well at the TMAR level?

**Mr. Roberto Terziani:** Vera, this is Terziani, good morning. After this restructuring we should have two companies listed in the New York Stock Exchange: TNE and TMAR. In TMAR we are analyzing to list PN shares firstly and then probably we will list also the ON shares.

**Ms. Roth:** You mean to have ADRs on both?

**Mr. Terziani:** Yes, yes.

**Ms. Roth:** Ok and TMAR today has like three classes of shares: PNA, PNB and also the ONs. This company is going to have the three classes of shares after?

**Mr. Terziani:** No, no. Actually TMAR has really three classes of shares, but one of them - which is PNB, or Tmar6 - does not have any liquidity in the market, because there are very few shares issued. We cannot cancel this share because they are owned by thousand shareholders, so this share will exist in the future, but will not list in the New York Stock Exchange.

**Ms. Roth:** Ok, thank you.

**Operator:** Our next question comes from Mr. Henry Cobb with Nevsky Capital.

**Mr. Henry Cobb:** Hi there, thanks very much for the call. I have got a few questions. Firstly, there seems to be some confusion amongst analysts about the calculation of the swap ratios; I have seen one report saying that the swap ratio is going to factor in the dividends that you are paying out on the TMAR shares and so that is effectively BRP shareholders lose out, because 3.9 billion is removed from the balance sheet before they get the ownership of the shares; and on your presentation you confirm that the share swap ratio are using 90 days reap adjusted for dividends. So could you just make a firm confirmation of that to clear up any confusion in the market that the swap ratios do not include dividends? Could you just clarify that?

Secondly, what is the record date for the TMAR level dividends, the special dividends? Has that been established yet?

And lastly, following upon the TNLP level you said a lot of times in the last couple of years restructuring options and I understand you could recall the one, one of the options involved paying out a setting a dividend policy based on free cash flow and starting off a restructuring process with the special dividends, so is that still on the table at TNLP level?

**Mr. Salazar:** Number one, the question number one. The dividend, the extraordinary dividend is already discounted on the price of the TMAR share that is contemplated on the swap ratio, ok?

**Mr. Cobb:** Thank you, yes.

**Mr. Salazar:** Ok? So I do not know if I can be more clear than that, but

**Mr. Cobb:** No, it is not my problem; it is just some other people I am reading.

**Mr. Salazar:** Ok, ok, it is already discounted, ok? The second question, the record date for the extraordinary dividends we do not have it yet, we expect it to be between 90 and 120 days from the signature of the acquisition, which was last Friday, ok?

And the third question regarding TNE we are still analyzing it. We have solved, we think we have solved the TMAR level, the acquisition of BRP and the next steps and for TNE we are going to start working on it to clarify and to make any kind of proposal regarding dividends and everything else. Like a colleague of yours made a question a moment ago, the fact that we did not mention any dividends on TNE at this time does not mean that there will not be any dividends; we are just starting to work on TNE right now.

**Mr. Cobb:** Ok and a very final question. The one level which I do not have any clarity is on the TmarPart level, because obviously it is not a public company. Could you just disclose what the level of debt will be first deal? And how this debt will be serviced?

**Mr. Falco:** Sorry, we do not have how to disclose these numbers and it is a very private company; that is above our level here on the company.

**Mr. Salazar:** The best way maybe is to get in touch with the IR Officer of TmarPart and ask them this question, because they will be more they will have more information than us to give you this answer.

**Mr. Cobb:** Ok. Is there a way I can that contact details?

**Mr. Salazar:** We can provide you. Get in touch with our IR team, with Terziani and his team, and then we can get to you the phone number and the contact for the IR Officer for TmarPart.

**Mr. Cobb:** Ok. Well, thank you very much indeed for your time.

**Operator:** Our next question comes from Mr. Fernando Faria with Pyramid Research.

**Mr. Fernando Faria:** Hi, good morning everybody. I just wanted to have a better clarification about the 30 million subscribers forecasted within five years on foreign operations, if you could enlighten on which markets would you be aiming at that if you have any specific targets of consolidation, joint ventures, acquisitions? I would appreciate. Thank you very much.

**Mr. Falco:** Ok, obviously it is a forecast. The targets are Portuguese language countries - the world has 250 million Portuguese speakers; this country, Brazil, has 180 million. This company is starting with 46 million customers which speak Portuguese and of course all the Portuguese speakers country is a target.

The other target is our neighbors here in South America - where and when we have opportunity to go to this market, since the proximity will allow us to get more synergy. We have two kinds of synergy, the language and the proximity of the market and it is a five-year plan; what we are being very clear is that we are moving out of our region inside Brazil.

The first movement of course is inside Brazil other regions, but we are giving the market the information that this is the first move, but is not the last one. We will keep moving for international areas to keep getting some extra customer, as you know it is a scale business.

**Mr. Faria:** Ok, so you are talking about Latin America and Africa probably?

**Mr. Falco:** Yes, in principle yes.

**Mr. Faria:** Ok, thank you very much.

**Operator:** Excuse me; our next question comes from Mr. Carlos Siqueira with UBS Pactual.

**Mr. Carlos Siqueira:** Hi guys. One question on the goodwill that is being generated with this transaction. What type of tax yield you expect this goodwill to generate? Maybe putting it another way, what is the net present value of this goodwill for the new company, if I may?

And I have also another one on the Invitel. I guess there was some confusion in the Portuguese call on whether we should remove from the tag along price the Invitel debt or not; to me it seems we do not have to, the price is the price announced minus the dividends paid by Brasil Telecom, but I think it is good to have a clarification on that front to. Thanks.

**Mr. Salazar:** On the goodwill - like I think we said on the Portuguese call, Carlos - we think we are going to try to get the best that we can get or the most effective transaction as possible, of course taking in consideration all the aspects of the law. So we are going to do everything that we can to optimize the transaction - and if that is the case of course from a tax point of view as well. We still this is a very complex transaction, we are still working on it to try to optimize it and of course any news on that front also you will be advised about it.

And the second question is that the price on Invitel it will be deducted, the price that we will pay for Invitel will be the R\$ 72 whatever minus the dividend minus the debt that is in the Invitel at Invitel - and the debt should be around 900 to R\$ 1 billion.

**Mr. Siqueira:** Ok, so just confirming, so you are saying that it will be R\$ 72 minus R\$ 1.56 minus R\$ 1 billion debt and then we will get to the so it is much less than

**Mr. Salazar:** No, no, hold on. Are you talking about the tag along?

**Mr. Siqueira:** Tag along, yes.

**Mr. Salazar:** Tag along the basis is R\$ 72 minus the dividends.

**Mr. Siqueira:** Ok, that is yes, ok, great. That is

**Mr. Salazar:** The disbursement value to purchase the control of Invitel

**Mr. Siqueira:** No, I understand that. Fine.

**Mr. Salazar:** Ok, thanks.

**Mr. Siqueira:** Ok thank you Salazar, thanks.

**Operator:** Excuse me; our next question comes from Mr. Marcello Mollica with Paineiras Investments.

**Mr. Marcello Mollica:** Hello? Hi, just to make sure the tag along, the deduction of the dividends. I just want to make sure that you deduct R\$ 1.56 as the deduction in the control price or 80% of that amount? Thanks.

**Mr. Salazar:** The tag along is R\$ 72, around 72 minus the 1.6 of dividends and then for the tagalong 80% of this amount, 72 minus one point something.

**Mr. Mollica:** Ok, thanks.

**Operator:** Our next question comes from Mr. Valder Nogueira with Santander Bank.

**Mr. Valder Nogueira:** Good morning guys. Two follow up questions. Daniel asked a question at the beginning of the call about the voluntary tender offer. If you are to buy shares of BRP and BRP operating company in the market, do you have to file with Bovespa the voluntary tender offer, am I right?

**Mr. Salazar:** One thing is the voluntary tender offer; the other thing is the company going to the market to buy shares in the market. Whenever we go to the market to buy shares we do not need to do anything, we can buy it. If we go, then it is not a tender offer, it is just somebody buying a share.

**Mr. Nogueira:** Ok, but that will not impact the amount of shares that you are willing to buy in the voluntary tender offer, right?

**Mr. Salazar:** It will a little bit, because at the end of the day if I can only buy up to one-third of the shares, the tender offer will be one-third minus whatever we had bought from the market.

**Mr. Nogueira:** Ok, but that was not clear in the press release, ok. The second question is: you have an open buyback for TMAR shares; does any of the transactions released on Friday impact that open buyback?

**Mr. Salazar:** No.

**Mr. Nogueira:** Ok, thanks.

**Operator:** Our next question comes from Mr. Luigi Minerva from HSBC.

**Mr. Luigi Minerva:** Yes, good morning everyone. I just wanted to ask you what is your view on the Brazilian market going forward; after this deal do you expect more consolidation in the market?

**Mr. Falco:** Yes, we can see this market being consolidated with other players and probably will be at the end mostly with three platforms: it will be the Spanish guys, the Mexican guys and now the Brazilian guys are going to the game with this operation. Of course, some minor assets, which are on the market, they can be niche players or probably they will be merged into one of these three platforms which will result at least in short-term on the market.

**Mr. Minerva:** Ok, thank you.

**Operator:** Our next question comes from Mr. Alexandre Constantini from Deutsche Bank.

**Mr. Alexandre Constantini:** Ok hi, good morning everybody, just a follow-up question on TMAR and the different shares. In the bylaws of TMAR there is an article that empowers the company to buy back or to buy its preferred shares at



any time. I would like to know if this condition will still be in place with the creation of this new Tmar and also when is possible to apply this situation and if eventually we should see this happening, some constraints about that? Can you elaborate please?

**Mr. Terziani:** Constantini, this is Terziani again. Look, what was established in our bylaw is exactly what was established on the corporate law. We maintain this article in our bylaw just to be more transparent to the market, because actually we do not need to keep this article in our bylaw; just following the corporate law, all of the companies in Brazil could maintain our could redeem shares under the corporate law. So all of the shares, all the PN shares of TMAR, theoretically speaking, they have they can be redeemed in any time.

Of course there are some restrictions for that: for example, to redeem shares we have to have reserves; so if the company does not have reserves we cannot redeem shares. But this is the case not only for TMAR, but for all of the Brazilian companies - because this is established on the corporate law, as I said.

**Mr. Constantini:** So nothing that investors should be concerned coming from this front?

**Mr. Constantini:** No, no.

**Mr. Constantini:** Ok, thank you.

**Operator:** Excuse me; our next question comes from Mr. Peter Lyons from Oscar Gruss.

**Mr. Peter Lyons:** Hi, I had a question on the total number of headcount. I know it was spoken about in the media reports that the total number headcount for Oi and Brasil Telecom would not actually decrease and I was wondering if this is net, if this includes the additions of potential headcount in Sao Paulo or are we just talking about maybe an increase in Sao Paulo and maybe reductions in other places? Are we saying that it is frozen as it is now for the next three years? Thank you.

**Mr. Falco:** Ok. It is not frozen, ok? We are talking about all the groups involved that we will maintain the number of the employees and not the jobs, only the number of employees. As you can see, the companies complementary one each other, which means that there is no synergy in headcount and now we have a big expansion coming in place; Sao Paulo, as you mentioned, is a big expansion, we need some headcount in Sao Paulo and there are other services that we are expanding, which means on the net base we will not have less headcount that the two groups, the two economical groups have today, ok?

**Mr. Lyons:** Ok, thank you very much.

**Operator:** Our next question comes from Mr. Omar Zeolla from UBS.

**Mr. Omar Zeolla:** Hi, good morning. My question was about what are your plans for funding the transaction? Will it be a syndicated loan, will it be in reais, in dollars and what is your expectation for your leverage after the transaction?

**Mr. Salazar:** Ok. We expect the combined entity to have a leverage of 2x Ebitda moving from the TMAR level nowadays and BRP level individually: 1.4, 1.5, something like that, the combined entities to have 2x that Ebitda and regarding the funding for the transaction, we are working with banks probably due to the size of the transaction; we are going to need local debentures, we are going to need a loan syndication, we are going to need capital market abroad, so probably it is going to be a basket of those different instruments. ok?

**Mr. Zeolla:** Ok, thank you.

**Operator:** Excuse me; ladies and gentlemen, this concludes today's question and answer session. I would like to invite Mr. Falco to proceed with his closing statements. Please sir, go ahead.

**Mr. Falco:** Ok. Before wrapping these things up I would like to emphasize management's commitment to value creation by seeking greater operational efficiency and offering customized products to best meet our customers' demand. We, as Oi executives, will work to comply with the requirements of regulating bodies Anatel, the SEC, the CVM and Cade and others so that the acquisition of control of Brasil Telecom may be complete as soon as possible. We would like to once again thank you all for your interest and this participation on this conference call and have a nice day.

**Operator:** That does conclude the Oi audio conference for today. Thank you very much for your participation, have a good day and thank you for using Chorus Call Brasil.

17

ize:10pt;">

\$  
82,750

Accounts payable  
6,248

5,184

Deferred tax liabilities  
103

103

Accrued interest  
4,278

2,998

Accrued expenses  
6,684

7,614

Total current liabilities

105,287

98,649

LONG-TERM DEFERRED TAX LIABILITIES

22,331

22,331

Total liabilities

127,618

120,980

COMMITMENTS and CONTINGENCIES (Note 4)

STOCKHOLDERS' EQUITY:

PREFERRED STOCK - 500,000 shares authorized, none issued and outstanding at September 30, 2014 and December 31, 2013

—

—

COMMON STOCK - Class A Voting (\$0.001 par value; 10 shares authorized, issued and outstanding at September 30, 2014 and December 31, 2013) and Class B Non-Voting (\$0.001 par value; 10,000,001 authorized, issued and outstanding 9,305,541 and 9,039,035 shares at September 30, 2014 and December 31, 2013, respectively)

9

9

WARRANTS ISSUED

3,230

7,657

ADDITIONAL PAID-IN CAPITAL

153,597

149,170

ACCUMULATED DEFICIT

(84,320

)

(71,258

)

Total stockholders' equity

72,516

85,578

TOTAL

\$

200,134

\$

206,558

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

2

---

Index

RIVIERA HOLDINGS CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE LOSS (Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
<b>REVENUES:</b>				
Casino	\$8,215	\$7,616	\$24,379	\$20,547
Rooms	9,373	8,617	30,565	22,711
Food and beverage	3,440	3,211	9,418	8,023
Entertainment	242	204	629	579
Other	771	738	2,325	2,388
Total revenues	22,041	20,386	67,316	54,248
Less-promotional allowances	(1,394)	(1,584)	(4,110)	(4,849)
Net revenues	20,647	18,802	63,206	49,399
<b>COSTS AND EXPENSES:</b>				
Direct costs and expenses of operating departments:				
Casino	3,871	4,173	11,271	13,330
Rooms	6,452	5,409	18,198	13,910
Food and beverage	2,963	2,693	7,756	7,115
Entertainment	491	185	1,255	577
Other	222	242	649	735
Other operating expenses:				
Other general and administrative	7,835	7,353	22,653	20,968
Depreciation and amortization	1,841	1,532	5,112	5,039
Total costs and expenses	23,675	21,587	66,894	61,674
LOSS FROM OPERATIONS	(3,028)	(2,785)	(3,688)	(12,275)
<b>OTHER (EXPENSE) INCOME:</b>				
Gain on sale of asset	—	3	—	3
Interest income and expense, net	(3,253)	(2,882)	(9,374)	(8,319)
Total other (expense) income	(3,253)	(2,879)	(9,374)	(8,316)
LOSS FROM OPERATIONS BEFORE INCOME TAX EXPENSE	(6,281)	(5,664)	(13,062)	(20,591)
Income tax expense	—	—	—	—
NET LOSS	(6,281)	(5,664)	(13,062)	(20,591)
Other comprehensive (loss) income	—	—	—	—
TOTAL OTHER COMPREHENSIVE LOSS	\$(6,281)	\$(5,664)	\$(13,062)	\$(20,591)
<b>NET LOSS PER SHARE DATA:</b>				
Basic	\$(0.68)	\$(0.63)	\$(1.43)	\$(2.28)
Diluted	\$(0.68)	\$(0.63)	\$(1.43)	\$(2.28)
Basic-weighted average common shares outstanding	9,213	9,039	9,111	9,039

Diluted-weighted average common and common equivalent shares	9,213	9,039	9,111	9,039
---	-------	-------	-------	-------

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

3

---

IndexRIVIERA HOLDINGS CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$(13,062	) \$(20,591
Adjustments to reconcile net loss to net cash provided by operating activities:		)
Depreciation and amortization	5,112	5,039
Provision for bad debts	(300	) (1,611
Gain on sale of assets	—	(3
Loan cost amortization	159	135
Interest expense – payment in kind	5,224	4,285
Decrease (increase) in restricted cash	38,885	23,500
Changes in operating assets and liabilities:		
Accounts receivable	1,058	1,146
Inventories	(116	) 23
Prepaid expenses and other assets	5	(74
Accounts payable	1,064	(512
Accrued interest	1,280	1,187
Accrued expenses	(930	) (881
Net cash provided by operating activities	38,379	11,643
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(2,533	) (1,875
Net proceeds from the sale of assets	—	3
Net cash (used in) investing activities	(2,533	) (1,872
<b>FINANCING ACTIVITIES:</b>		
Net cash (used in) provided by financing activities	—	—
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>35,846</b>	<b>9,771</b>
<b>CASH AND CASH EQUIVALENTS-BEGINNING OF PERIOD</b>	<b>20,738</b>	<b>13,914</b>
<b>CASH AND CASH EQUIVALENTS-END OF PERIOD</b>	<b>\$56,584</b>	<b>\$23,685</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Property acquired with debt and accounts payable	\$—	\$169
Cash paid for interest	\$2,711	\$2,711

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

Index

RIVIERA HOLDINGS CORPORATION  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

Riviera Holdings Corporation (“RHC”) and its wholly-owned subsidiary, Riviera Operating Corporation (“ROC”) (RHC and ROC, together with ROC’s wholly-owned subsidiaries, the “Company”), were incorporated on January 27, 1993, in order to acquire all assets and liabilities of Riviera, Inc. Casino-Hotel Division on June 30, 1993, pursuant to a plan of reorganization. The Company operates the Riviera Hotel & Casino on the Strip in Las Vegas, Nevada.

The accompanying consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the results for the interim periods have been made. The interim results reflected in these consolidated financial statements are not necessarily indicative of results to be expected for the full fiscal year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K for the year ended December 31, 2013.

Casino operations are subject to extensive regulation in the state of Nevada by agencies with jurisdiction over gaming activities and various other state and local regulatory agencies. Our management believes that the Company’s procedures comply, in all material respects, with the applicable regulations for supervising casino operations, recording casino and other revenues, and granting credit.

Principles of Consolidation

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

In preparing the accompanying consolidated financial statements, the Company’s management reviewed events that occurred from September 30, 2014 until the issuance of the financial statements.

Liquidity

The Company had \$56.6 million in cash and cash equivalents and \$0.4 million in restricted cash as of September 30, 2014. Additionally, effective April 1, 2011, the Company had the ability to draw up to \$10 million against its Working Capital Facility (as defined in Note 5). However, due to the default under the Series A Credit Agreement (as defined in Note 5) and the Series B Credit Agreement (as defined in Note 5), we do not currently have the ability to draw any additional funds under the Working Capital Facility until such time as the default is cured or waived. The lenders under our Series A Credit Agreement and our Series B Credit Agreement also hold 100% of our Class B Non-Voting Common Stock (as defined in Note 6). As a result of the default, the Required Lenders (as defined in the Series A Credit Agreement and the Series B Credit Agreement, respectively) have the ability to increase the interest accruing on amounts owed under the Series A Credit Agreement and the Series B Credit Agreement, respectively. An increase in the interest rate would negatively affect our available cash and results from operations. Further, the Required Lenders and administrative agent under the Series A Credit Agreement and the Series B Credit Agreement, respectively, have the right to accelerate repayment of all amounts owed under each of the agreements and require us to repay such amounts immediately. We do not currently have sufficient funds to repay the Series A and Series B



debt. Repaying these amounts and covering our operating losses will require additional cash, which may include the issuance of additional equity, debt financing and/or capital contributions from stockholders, if available to us. There can be no assurance that we will be successful in obtaining additional capital resources. The inability to obtain additional capital will restrict our ability to grow and inhibit our ability to continue to conduct business operations. Any additional equity financing may result in substantial dilution to our then existing stockholders. We do not provide any guarantees or assurances that the Company will have ample liquidity and capital resources to meet future financial obligations. If repayment of the indebtedness under our Series A Credit Agreement and Series B Credit Agreement were accelerated, we do not believe the Company has sufficient liquidity and capital resources to meet both debt service and normal operating expenditures. Pursuant to the terms of the Forbearance Agreement (as defined in Note 5), the Required Lenders have agreed to forbear from exercising their remedies under the Series A Credit Agreement and the Series B Credit Agreement arising out of the default for a period up to and including November 30, 2014.

Going Concern

5

---

Index

The accompanying consolidated financial statements are prepared assuming that the Company will continue as a going concern and contemplates the realization of assets and satisfaction of liabilities in the ordinary course of business.

Subsequent to emergence from bankruptcy, the Company has generated net losses from continuing operations before income tax benefits of \$13.1 million, \$26.8 million, \$56.6 million and \$19.3 million for the nine months ended September 30, 2014, and the years ended December 31, 2013 and 2012 and for the period April 1, 2011 through December 31, 2011, respectively, and has an accumulated deficit of \$84.3 million at September 30, 2014. The Company has cash and cash equivalents of \$56.6 million and a net working-capital deficit of \$44.0 million at September 30, 2014. The net working-capital deficit includes \$50.0 million of the Company's Series A Credit Agreement and \$38.0 million of the Company's Series B Credit Agreement (collectively, the "Credit Agreements"), both of which are classified as currently payable due to the defaults discussed below.

In connection with the Credit Agreements, we agreed to several affirmative and negative covenants. Beginning on June 30, 2012 and as of each subsequent quarter, including as of September 30, 2014, the Company was not in compliance with the financial covenants in, and in default under, the Credit Agreements (see Note 5). Pursuant to the terms of the Forbearance Agreement, the Required Lenders have agreed to forbear from exercising their remedies under the Series A Credit Agreement and the Series B Credit Agreement arising out of the default for a period up to and including November 30, 2014.

The Company is currently in negotiations with its lenders, who are also stockholders, under the Credit Agreements concerning new financial covenants and other amendments to the Credit Agreements to resolve the existing default. There can be no assurance that the Company will be successful in doing so or that such amendments will be on favorable terms to the Company. The conditions and events described above raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Estimates and Assumptions

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

### Restricted Cash

As of September 30, 2014, a security deposit in the amount of \$0.4 million remains held for the benefit of the State of Nevada Workers' Compensation Division as a requirement of our being self-insured for workers' compensation.

On April 28, 2014, the Company requested and received approval from the Required Lenders, as defined in each of the Series A Credit Agreement and the Series B Credit Agreement, to withdraw the full amount, \$38.9 million, held in the Company's segregated cash account for working capital purposes.

#### Fair Value Measurement

The carrying values of our cash and cash equivalents, restricted cash, receivables and accounts payable approximate fair value because of the short term maturities of these instruments. The estimated fair value of the Company's debt is based on quoted market prices from various banks for similar instruments, which is considered a Level 2 input under the fair value measurement hierarchy, as discussed further in Note 3.

#### Income Taxes

The Company is subject to income taxes in the United States. Authoritative guidance for accounting for income taxes requires that we account for income taxes by recognizing deferred tax assets, net of applicable reserves, and deferred tax liabilities for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating losses and tax credit carry-forwards. Deferred tax assets and liabilities are

## Index

measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on the income tax provision and deferred tax assets and liabilities is recognized in the results of operations in the period that includes the enactment date. Authoritative guidance for accounting for income taxes also requires that we perform an assessment of positive and negative evidence regarding the realization of the deferred tax assets. This assessment includes the evaluation of the future reversal of temporary tax differences, the nature and frequency of current and cumulative losses, forecasts of future taxable income and implementation of tax planning strategies.

We have concluded that it is more-likely-than-not that the net deferred tax assets, excluding the deferred tax liability related to the step-up in land recorded in connection with the adoption of fresh-start reporting on the Substantial Consummation Date (as discussed in the Company's Form 10-K for the year ended December 31, 2013), will not be realized, and accordingly, we recorded a valuation allowance against our net deferred tax asset balance. Deferred tax liabilities related to indefinite lived assets are not available to be considered as a future source of income for purposes of evaluating the recognition of deferred tax assets. Accordingly, a deferred tax liability related to the step-up in land was recognized on the Company's balance sheet.

Our effective tax rate for the three and nine months ended September 30, 2013 and September 30, 2014 was 0%. The Company believes it is reasonable to apply a full valuation allowance, offsetting the tax benefit that would otherwise be generated from a net operating loss for the three and nine months ended September 30, 2014. The deferred tax balances remain unchanged from December 31, 2013.

Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes. Authoritative guidance regarding uncertainty in income taxes provides a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more-likely-than-not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely, based solely on the technical merits, of being sustained on examinations. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. Based on authoritative guidance, the Company has not recorded a reserve for uncertain tax positions and does not anticipate that this will change over the next twelve months.

Our income tax returns are subject to examination by the Internal Revenue Service and other tax authorities in the locations where we operate. The statute of limitations varies by jurisdiction. Generally, because the Company has losses from prior years, the statute of limitations remains open until the statute of limitations for the tax year in which the losses are utilized expires.

### Recently Issued Accounting Standards

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

### 3. FAIR VALUE MEASUREMENT

The fair values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate carrying values due to the short maturity of these items. The estimated fair value of the Company's long-term debt is

based on quoted market prices from various banks for similar instruments, which is considered a Level 2 input under the fair value measurement hierarchy, as discussed below.

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

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Index

## Fair Value of Long-term Debt

The following table presents information about the estimated fair value of the Company's debt compared with its carrying value (amounts in thousands):

	September 30, 2014 (unaudited)	December 31, 2013
Aggregate carrying amount, Series A Term Loan	\$50,000	\$50,000
Aggregate carrying amount, Series B Term Loan	37,974	32,750
Total aggregate carrying amount	\$87,974	\$82,750
Aggregate fair value, Series A Term Loan	\$46,500	\$46,000
Aggregate fair value, Series B Term Loan	32,278	27,510
Total aggregate fair value	\$78,778	\$73,510

## 4. COMMITMENTS AND CONTINGENCIES

As of September 30, 2014, the Company had no commitments or contingencies that are not already accounted for in the consolidated financial statements or disclosed in the accompanying condensed notes.

## Legal Proceedings and Related Events

The Company is a 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.

## Concentrations of Labor Subject to Collective Bargaining Agreements

As of September 30, 2014, 636 of our 999 employees were covered by collective bargaining agreements. Since December 31, 2013, we have successfully negotiated tentative or final agreements with several of our employee groups which are subject to collective bargaining agreements. A prolonged dispute with employees covered by collective bargaining agreements could have an adverse impact on our operations. In addition, wage and/or benefit increases resulting from new collective bargaining agreements may be significant and could also have an adverse impact on our results of operations.

## Management Agreement

On June 21, 2013, RHC and ROC entered into a Resort Management Agreement (the "Management Agreement") with Paragon Riviera LLC ("Paragon"). Pursuant to the Management Agreement, RHC and ROC engaged Paragon to provide oversight of the executive level management at Riviera Hotel & Casino. Paragon will also provide financial, marketing, business and organizational strategy services to Riviera Hotel & Casino. The term of the Management Agreement is two years from the date of execution, unless earlier terminated in accordance with its terms and conditions. Paragon receives a base fee payment monthly on the first day of each calendar month during the term. Paragon is eligible to receive an additional incentive management fee upon achieving a specified threshold at the end of each year of the term of the agreement. As of September 30, 2014, there is \$0.4 million recorded as accrued management fees for Paragon. Management fees expense for the three month periods ended September 30, 2013 and 2014 was \$0.6 million. Management fees expense for the nine month periods ended September 30, 2013 and 2014 was

\$0.6 million and \$1.8 million, respectively.

8

---

Index

## 5. LONG TERM DEBT AND COMMITMENTS

Long Term Debt consists of the following (in thousands):

	September 30, 2014 (unaudited)	December 31, 2013
Series A Term Loan, due April 1, 2016, interest at LIBOR plus 5%, 7% at September 30, 2014	\$50,000	\$50,000
Series B Term Loan, due April 1, 2019, interest at LIBOR plus 18% PIK, 20% at September 30, 2014	37,974	32,750
Total long term debt	87,974	82,750
Less current portion of long term debt	(87,974	) (82,750
Total long term debt, net of current portion	\$—	\$—

## Series A Credit Agreement

On April 1, 2011, pursuant to the Company's second Amended Joint Plan of Reorganization (as amended and supplemented, the "Plan"), entered into in connection with the Company's reorganization proceedings under the United States Bankruptcy Code that were consummated on April 1, 2011 (the "Substantial Consummation Date"), RHC entered into a first lien credit agreement (the "Series A Credit Agreement") with ROC and our former subsidiary Riviera Black Hawk, Inc., as guarantors, Cantor Fitzgerald Securities, as administrative agent, and the lenders from time to time party thereto. The Series A Credit Agreement provides for initial aggregate lender commitments of \$60 million, including a \$50 million term loan facility (the "Series A Term Loan") and a \$10 million revolving loan (the "Working Capital Facility"). The Working Capital Facility provides for a letter of credit facility and a swingline loan facility with sublimits of \$5 million and \$2 million, respectively. The Series A Credit Agreement has a maturity date of April 1, 2016. Availability of the revolving loans under the Working Capital Facility is subject to certain conditions provided for in the Series A Credit Agreement. The proceeds of extensions of credit under the Series A Credit Agreement can be used by RHC for working capital and other general corporate purposes.

Interest accrues at a LIBOR Rate (as defined in the Series A Credit Agreement) for a specified interest period (with a floor of 2.0%) plus a margin rate of 5.0% per annum or the Alternate Base Rate (as defined below) plus a margin rate of 4.0% per annum. Alternate base rate ("Alternate Base Rate") interest is an alternate base rate equal to the highest of (i) the prime rate (as defined in the Series A Credit Agreement), (ii) the Federal Funds Effective rate (as defined in the Series A Credit Agreement) in effect on such day plus 1/2 of 1.0% and (iii) the LIBOR Rate that would be payable on such day for LIBOR Rate Loan (as defined in the Series A Credit Agreement) with one month interest period plus 1.0%.

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

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



The Series A Credit Agreement subjects RHC to certain customary affirmative covenants, including the delivery of financial statements and annual operating budgets. In addition, the Series A Credit Agreement contains customary restrictive covenants, including, but not limited to, restrictions on RHC's ability to incur additional indebtedness, create liens, make investments, pay dividends, and merge. Beginning on June 30, 2012 and as of each subsequent quarter, including as of September 30, 2014, the Company was not in compliance with the financial covenants in, and in default under, the Series A Credit Agreement. The Required Lenders (as defined in the Series A Credit Agreement) temporarily waived such default with respect to the June 30, 2012 default and this waiver expired on July 31, 2012. On April 29, 2014, we entered into a forbearance agreement with the Required Lenders pursuant to which the Required Lenders agreed to forbear from exercising their remedies under the Series A Credit Agreement arising out of the default for a period up to and including July 31, 2014 (the "Series A Forbearance Agreement"). The parties have amended the Series A Forbearance Agreement on each of July 31, 2014, August 30, 2014, September 30, 2014 and October 31, 2014 to extend the forbearance period through August 31, 2014, September 30, 2014, October 31, 2014 and November 30, 2014,

Index

respectively. The lenders and administrative agent under the Series A Credit Agreement have not taken any action to exercise any remedies under the Series A Credit Agreement.

In addition, the Series A Credit Agreement contains provisions concerning customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults, certain events of bankruptcy and insolvency, judgment defaults, failure of any guarantee of the loan obligations or any loan document to be in full force and effect, the occurrence of a Change of Control (as defined in the Series A Credit Agreement), certain ERISA defaults and failure to keep any necessary casino licenses in full force and effect. If an event of default occurs and is continuing, amounts due under the Series A Credit Agreement may be accelerated, and the rights and remedies of the lenders under the Series A Credit Agreement may be exercised, including rights with respect to the collateral securing obligations under the Series A Credit Agreement. As such, the balance of the Series A Term Loan, as of December 31, 2013 and September 30, 2014, is classified as a current obligation.

Upon the occurrence of the event of default described above, and for so long as such event of default is continuing, the Required Lenders (as defined in the Series A Credit Agreement) have the ability to increase the interest accruing on amounts owed under the Series A Credit Agreement. Different default interest rates would apply to the principal of the loans, the accrued but unpaid interest on the loans and any other amounts owed under the Series A Credit Agreement. With respect to the principal of the loans made pursuant to the Series A Credit Agreement, the default interest rate is equal to the current interest rate plus 2.0%. Although the Required Lenders under the Series A Credit Agreement have not taken any action to increase the interest rate under the Series A Credit Agreement, the Company is accruing for the additional 2.0% default interest.

The Company is currently in discussions with the Required Lenders (who also hold similar percentage equity interests in the Company) concerning new financial covenants and other amendments to the Series A Credit Agreement to resolve the existing default. There can be no assurance that the Company and its Required Lenders (in their dual capacity as debt holder and equity holder) will be successful in doing so or that such amendments will be on favorable terms to the Company.

#### Series B Credit Agreement

On April 1, 2011, pursuant to the Plan, RHC also entered into a second lien credit agreement (the "Series B Credit Agreement") with ROC and our former subsidiary Riviera Black Hawk, Inc., as guarantors, Cantor Fitzgerald Securities, as administrative agent, and the lenders from time to time party thereto. The Series B Credit Agreement provides for, and governs the terms of, a \$20 million term loan facility (the "Series B Term Loan").

The Series B Term Loan bears interest at a per annum rate equal to the sum of the LIBOR Rate (as defined in the Series B Credit Agreement) plus 3.0%, payable in cash, and the LIBOR Rate plus 13.0%, payable in kind (PIK) in interest that will be recapitalized as principal. The Series B Credit Agreement has a maturity date of April 1, 2019.

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

The Series B Credit Agreement subjects RHC to certain customary affirmative covenants, including the delivery of financial statements and annual operating budgets. In addition, the Series B Credit Agreement contains customary restrictive covenants, including, but not limited to, restrictions on RHC's ability to incur additional indebtedness, create liens, make investments, pay dividends, and merge. Beginning on June 30, 2012 and as of each subsequent

quarter, including as of September 30, 2014, the Company was not in compliance with the financial covenants in, and in default under, the Series B Credit Agreement. The Required Lenders (as defined in the Series B Credit Agreement) temporarily waived such default with respect to the June 30, 2012 default and this waiver expired on July 31, 2012. On April 29, 2014, we entered into a forbearance agreement with the Required Lenders pursuant to which the Required Lenders agreed to forbear from exercising their remedies under the Series B Credit Agreement arising out of the default for a period up to and including July 31, 2014 ("Series B Forbearance Agreement", collectively with the Series A Forbearance Agreement, and as amended, the "Forbearance Agreement"). The parties have amended the Series B Forbearance Agreement on each of July 31, 2014, August 30, 2014, September 30, 2014 and October 31, 2014 to extend the forbearance period through August 31, 2014, September 30, 2014, October 31, 2014 and November 30, 2014, respectively. The lenders and administrative agent under the Series B Credit Agreement have not taken any action to exercise any remedies under the Series B Credit Agreement.

In addition, the Series B Credit Agreement contains provisions concerning customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults, certain events of

## Index

bankruptcy and insolvency, judgment defaults, failure of any guarantee of the loan obligations or any loan document to be in full force and effect, the occurrence of a Change of Control (as defined in the Series B Credit Agreement), certain ERISA defaults and failure to keep any necessary casino licenses in full force and effect. If an event of default occurs and is continuing, amounts due under the Series B Credit Agreement may be accelerated and the rights and remedies of the lenders under the Series B Credit Agreement may be exercised, including rights with respect to the collateral securing obligations under the Series B Credit Agreement. As such, the balance of the Series B Term Loan, as of December 31, 2013 and September 30, 2014, is classified as a current obligation.

Upon the occurrence of the event of default described above, and for so long as such event of default is continuing, the Required Lenders (as defined in the Series B Credit Agreement) have the ability to increase the interest accruing on amounts owed under the Series B Credit Agreement. Different default interest rates would apply to the principal of the loan, the accrued but unpaid interest on the loan and any other amounts owed under the Series B Credit Agreement. With respect to the principal of the loan made pursuant to the Series B Credit Agreement, the default interest rate is equal to the current interest rate plus 2.0%. Although the Required Lenders under the Series B Credit Agreement have not taken any action to increase the interest rate under the Series B Credit Agreement, the Company is accruing for the additional 2.0% default interest.

The Company is currently in discussions with the Required Lenders (who also hold similar percentage equity interests in the Company) concerning new financial covenants and other amendments to the Series B Credit Agreement to resolve the existing default. There can be no assurance that the Company and its Required Lenders (in their dual capacity as debt holder and equity holder) will be successful in doing so or that such amendments will be on favorable terms to the Company.

## 6. STOCKHOLDERS' EQUITY

### Common Stock

The Company is authorized to issue up to 10,000,011 shares of common stock, consisting of (i) 10 Class A Shares, par value \$0.001 per share (the "Class A Voting Common Stock"), and (ii) 10,000,001 Class B Shares, par value \$0.001 per share (the "Class B Non-Voting Common Stock"), of which 10 shares of Class A Voting common stock, and 9,305,541 shares of Class B Non-Voting Common Stock were issued and outstanding as of September 30, 2014.

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

contribution and provisions related to conflicts of interests and transactions with affiliates.

#### Preferred Stock

We are authorized to issue up to 500,000 shares of preferred stock, \$0.001 par value per share, of which none were issued as of September 30, 2014. Our Board of Directors, without further action by the holders of common stock, may issue shares of preferred stock in one or more classes or series and to fix for each such class or series such voting powers, preferences and relative participating, optional or other special rights, and such qualifications, limitations or restrictions thereof. Our Board of Directors, without further stockholder approval, may issue shares of preferred stock with rights that could adversely affect the rights of the holders of common stock.

#### Warrants

11

---

## Index

Creditors under our \$245 million Credit Agreement, dated June 8, 2007, that ceased to be in effect on April 1, 2011 upon consummation of the Plan, who elected to participate in the designated new money investment and Working Capital Facility received warrants exercisable into Class B Non-Voting Common Stock (the "Class B Warrants") to purchase an aggregate of 950,000 shares of our Class B Non-Voting Common Stock. The Class B Warrants do not have a stated term; the stated exercise price is \$0.01 per exercise. The Company evaluated the Class B Warrants under current accounting pronouncements and determined they were properly classified as equity on the accompanying consolidated balance sheet. The Company valued the shares of Class B Non-Voting Common Stock with attached Class B Warrants using the Chaffee option valuation model assuming a life of 1 and 1.5 years, volatility factors of 48.5% and 53.18%, risk free rates of 0.27% and 0.54% and implied discounts for lack of marketability of 20% and 25%, respectively. The resulting value of the Class B Non-Voting Common Stock (with attached Class B Warrants) for future holders of, or current stockholders viewed as having an indirect interest in, Class A Voting Common Stock held by Riviera Voteco, L.L.C. for accounting purposes, is \$17.72 per share. The resulting value of the Class B Non-Voting Common Stock (with attached Class B Warrants) for holders of warrants exercisable into membership interests in Voteco is \$16.61 per share.

On May 23, 2014, one holder of our Class B Warrants exercised its Class B Warrant at the stated aggregate exercise price of \$0.01 and we issued to the holder 96,283 shares of Class B Non-Voting Common Stock as a result.

On August 19, 2014, two holders of our Class B Warrants exercised their Class B Warrants in full at the total stated aggregate exercise price of \$0.05 and we issued to the holders an aggregate of 170,223 shares of Class B Non-Voting Common Stock as a result.

## 7. SUBSEQUENT EVENTS

On April 29, 2014, the Company entered into the Forbearance Agreement with the Required Lenders pursuant to which the Required Lenders agreed to forbear from exercising their remedies under the Credit Agreements arising out of the existing default under the Credit Agreements for a period up to and including July 31, 2014. Subsequent to July 31, 2014, the parties have amended the Forbearance Agreement for an additional thirty days on a monthly basis with the latest extension entered into on October 31, 2014 extending the forbearance period through November 30, 2014.

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

### Overview

We own and operate the Riviera Hotel & Casino on the Las Vegas Strip in Las Vegas. Our primary marketing focus is to maximize gaming revenues and grow revenue per available room, or RevPar. To maximize gaming revenues, we market directly to members of our Club Riviera utilizing customized mail offerings and special promotions to entice players to visit and game at the property. We frequently use free slot play, complimentary room, food and beverage and entertainment products to increase player visits and gaming revenues. We also use various promotions to entice hotel guests that are not members of Club Riviera to join Club Riviera and game at the property. To grow RevPar, we are leveraging our significant convention space to entice meeting planners and convention coordinators to choose Riviera Hotel & Casino for their events. Moreover, we are showcasing our hotel room product to grow our tour and travel and internet sales.

In addition to the above, we continuously strive to maximize the number of people who patronize the Riviera Hotel & Casino but who are not guests in our hotel. To achieve this, we attempt to capitalize on our Las Vegas Strip location, convention center proximity and availability of our entertainment productions and other amenities. We are

well-situated for walk-in traffic on the Las Vegas Strip near several major properties including the Circus Circus Las Vegas Resort and Casino, Westgate Las Vegas Resort & Casino (formerly the LVH Hotel), Las Vegas Convention Center, Wynn Las Vegas, Wynn Encore and several timeshare and condominium projects. While we benefit from our proximity to several major properties, the still dormant Resorts World Las Vegas (formerly known as Echelon) construction project (construction has not yet commenced) and the dormant Fontainebleau construction project have caused a major reduction in walk-in traffic.

Index

## Results of Operations

Three Months Ended September 30, 2014 Compared to 2013 (unaudited)

(In thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Percentage Increase (Decrease) 2014 vs 2013	
<b>Revenues</b>				
Casino	\$8,215	\$7,616	7.9	%
Rooms	9,373	8,617	8.8	%
Food and beverage	3,440	3,211	7.1	%
Entertainment	242	204	18.6	%
Other	771	738	4.5	%
Total revenues	22,041	20,386	8.1	%
Less-promotional allowances	(1,394	) (1,584	) (12.0	)%
Net revenues	20,647	18,802	9.8	%
<b>Costs and Expenses</b>				
Casino	3,871	4,173	(7.2	)%
Rooms	6,452	5,409	19.3	%
Food and beverage	2,963	2,693	10.0	%
Entertainment	491	185	165.4	%
Other	222	242	(8.3	)%
<b>Other operating expenses:</b>				
Other general and administrative	7,835	7,353	6.6	%
Depreciation and amortization	1,841	1,532	20.2	%
Total expenses	23,675	21,587	9.7	%
Loss from Operations	\$(3,028	) \$(2,785	) 8.7	%

## Revenues

Net revenues for the three months ended September 30, 2014 were \$20.6 million, an increase of \$1.8 million, or 9.8%, from \$18.8 million for the comparable period in the prior year.

Casino revenues for the quarter ended September 30, 2014 were \$8.2 million, an increase of \$0.6 million, or 7.9%, from \$7.6 million for the comparable period in the prior year. Casino revenues are comprised primarily of slot machine and table game revenues. In comparison to the period in the prior year, slot machine revenue was \$6.6 million, an increase of \$0.5 million, or 8.0%, from \$6.2 million, and table game revenue was \$1.6 million, an increase of \$0.1 million, or 8.9%, from \$1.4 million. Slot machine win increased due to higher volume and hold percentage during 2014. Coin-in increased to \$79.9 million for the quarter ended September 30, 2014 from \$78.7 million for the comparable period in the prior year, and hold percentage increased to 8.3% from 7.8% for the comparable period in the prior year. Table game drop was \$10.0 million for the quarter ended September 30, 2014, compared to \$8.8 million for the comparable period in the prior year. Hold percentage decreased to 14.7% from 16.1% for the comparable period in the prior year due mainly to decreases in hold percentages on mini baccarat and blackjack.

Room revenues for the quarter ended September 30, 2014 were 8.8% higher than the prior year period. Occupancy increased to 81.3% for the quarter ended September 30, 2014 from 73.8% in the prior year period due primarily to increases in wholesale and group channels. Our average daily room rate decreased \$1.63 across all channels. Room revenues included \$0.5 million and \$0.7 million related to rooms provided to casino guests on a complimentary basis for each of the quarters ended September 30, 2014 and 2013, respectively. These revenues are included in promotional



allowances, which are deducted from total revenues to arrive at net revenues.

Food and beverage revenues for the quarter ended September 30, 2014 increased \$0.2 million, or 7.1% from the prior year period. The increase was primarily due to an increase of 31.7% in R Steak & Seafood revenues. Food and beverage revenues included \$0.9 million and \$0.8 million related to food and beverage provided to casino guests on a complimentary basis for the quarters

13

---

## Index

ended September 30, 2014 and 2013, respectively. These revenues are included in promotional allowances, which are deducted from total revenues to arrive at net revenues.

Entertainment revenues for the quarter ended September 30, 2014 increased 18.6% from the prior year period. In January 2014, we completed the transition of all box office operations to Red Mercury Entertainment. Our agreement with Red Mercury Entertainment requires them to bring a minimum of four new shows to the property, all of which launched as of April 2014. In addition, as of January 2014, we completed remodeling the Versailles Theatre, which has been vacant since 2009, and we anticipate having entertainment offerings in the space in the first half of 2015. Entertainment revenues included \$0 million and \$0.01 million in revenues related to show tickets offered to guests on a complimentary basis for the quarters ended September 30, 2014 and 2013, respectively. These revenues are included in promotional allowances, which are deducted from total revenues to arrive at net revenues.

Other revenues for the quarter ended September 30, 2014 increased 4.5% from the prior year period. An increase of 13.8% was due to increased use of ATM machines on the property from which we receive commissions. An increase of 4.7% was due to rental income from tenant leases.

Promotional allowances were \$1.4 million and \$1.6 million for the three months ended September, 2014 and 2013, respectively. Promotional allowances are comprised of food, beverage, hotel room nights and other items provided on a complimentary basis primarily to our high-value casino players and convention guests. Promotional allowances decreased primarily due to our efforts to focus complimentary on our most valuable customers.

## Costs and Expenses

Costs and expenses for the quarter ended September 30, 2014 were \$23.6 million, an increase of \$2.0 million, or 9.2%, from \$21.6 million for the comparable period in the prior year.

Casino costs and expenses for the quarter ended September 30, 2014 decreased \$0.3 million or 7.2% from the prior year period. The decrease in casino expenses was primarily due to a decrease in marketing expenses as a result of fewer special events, promotions, and tournaments.

Room department costs and expenses for the quarter ended September 30, 2014 increased \$1.0 million or 19.3% from the prior year period. The increase in room expenses was primarily due to an increase in staffing, associated labor costs and other expenses related to higher occupancy.

Food and beverage costs and expenses for the quarter ended September 30, 2014 increase 10.0% from the comparable period in the prior year. The increase in food & beverage expenses was primarily due to increase in staffing and other payroll related expenses.

Entertainment department costs and expenses for the quarter ended September 30, 2014 increased 165.4% from the same period in the prior year primarily due to an increase in payroll and benefits and professional services.

Other general and administrative costs and expenses increased 6.5% as a result of increased legal fees, staffing related expenses and increase in property operations and maintenance.

## Loss from Operations

Loss from operations for the three months ended September 30, 2014 was \$3.0 million, compared to a loss from operations for the three months ended September 30, 2013 of \$2.8 million.



Index

Nine Months Ended September 30, 2014 Compared to 2013 (unaudited)

(In thousands)	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Percentage Increase (Decrease) 2014 vs 2013	
<b>Revenues</b>				
Casino	\$24,379	\$20,547	18.6	%
Rooms	30,565	22,711	34.6	%
Food and beverage	9,418	8,023	17.4	%
Entertainment	629	579	8.6	%
Other	2,325	2,388	(2.6)	)%
Total revenues	67,316	54,248	24.1	%
Less-promotional allowances	(4,110)	(4,849)	(15.2)	)%
Net revenues	63,206	49,399	27.9	%
<b>Costs and Expenses</b>				
Casino	11,271	13,330	(15.4)	)%
Rooms	18,198	13,910	30.8	%
Food and beverage	7,756	7,115	9.0	%
Entertainment	1,255	577	117.5	%
Other	649	735	(11.7)	)%
<b>Other operating expenses:</b>				
Other general and administrative	22,653	20,968	8.0	%
Depreciation and amortization	5,112	5,039	1.4	%
Total expenses	66,894	61,674	8.5	%
Loss from Operations	\$(3,688)	\$(12,275)	(70.0)	)%

**Revenues**

Net revenues for the nine months ended September 30, 2014 were \$63.2 million, an increase of \$13.8 million, or 27.9%, from \$49.4 million for the comparable period in the prior year.

Casino revenues for the nine months ended September 30, 2014 were \$24.4 million, an increase of \$3.8 million, or 18.6%, from \$20.5 million for the comparable period in the prior year. Casino revenues are comprised primarily of slot machine and table game revenues. In comparison to the period in the prior year, slot machine revenue was \$19.6 million, an increase of \$3.2 million, or 19.3%, from \$16.4 million, and table game revenue was \$4.8 million, an increase of \$0.9 million, or 22.2%, from \$3.9 million. Slot machine win increased due to higher volume and hold percentage during 2014. Coin-in increased to \$237.2 million for the nine months ended September 30, 2014 from \$213.1 million for the comparable period in the prior year, and hold percentage increased to 8.3% from 7.7% for the comparable period in the prior year. Table game drop was \$29.2 million for the nine months ended September 30, 2014, compared to \$26.3 million for the comparable period in the prior year, and hold percentage was 15.8% for the nine months ended September 30, 2014 compared to 14.7% for the comparable period in the prior year.

Room revenues for the nine months ended September 30, 2014 were 34.6% higher than the prior year period. Occupancy increased to 83.6% for the nine months ended September 30, 2014 from 60.0% in the prior year period mainly due to increases in wholesale and retail channels. Our average daily room rate decreased \$4.29 across all channels. Room revenues included \$1.6 million and \$2.5 million related to rooms provided to casino guests on a complimentary basis for each of the nine months ended September 30, 2014 and 2013. These revenues are included in promotional allowances, which are deducted from total revenues to arrive at net revenues.

Food and beverage revenues for the nine months ended September 30, 2014 increased \$1.4 million, or 17.4%, from the prior year period. The increase was primarily due to our operation of Wicked Vicky Tavern, which was previously a leased outlet prior to June 2013, as well as an increase of \$0.3 million in R Steak & Seafood sales and a \$0.6 million increase in beverage sales in our bars. Food and beverage revenues included \$2.5 million and \$2.2 million related to food and beverage provided to casino guests

## Index

on a complimentary basis for the nine months ended September 30, 2014 and 2013, respectively. These revenues are included in promotional allowances, which are deducted from total revenues to arrive at net revenues.

Entertainment revenues for the nine months ended September 30, 2014 increased 8.6% from the prior year period. Our agreement with Red Mercury Entertainment requires them to bring a minimum of four new shows to the property, all of which launched in April 2014. In addition, as of January 2014, we completed remodeling the Versailles Theatre, which has been vacant since 2009, and we anticipate having entertainment offerings in the space in the first half of 2015. Entertainment revenues included \$0.0 million and \$0.1 million in revenues related to show tickets offered to guests on a complimentary basis for the nine months ended September 30, 2014 and 2013, respectively. These revenues are included in promotional allowances, which are deducted from total revenues to arrive at net revenues.

Other revenues for the nine months ended September 30, 2014 decreased 2.6% from the prior year period. The decrease was primarily due to amounts received by tenants for percentage rent.

Promotional allowances were \$4.1 million and \$4.8 million for the nine months ended September 30, 2014 and 2013, respectively. Promotional allowances are comprised of food, beverage, hotel room nights and other items provided on a complimentary basis primarily to our high-value casino players and convention guests. Promotional allowances decreased primarily due to our efforts to focus complimentary on our most valuable customers.

## Costs and Expenses

Costs and expenses for the nine months ended September 30, 2014 were \$66.8 million, an increase of \$5.1 million, or 8.3%, from \$61.7 million for the comparable period in the prior year.

Casino costs and expenses for the nine months ended September 30, 2014 decreased 15.4% from the prior year period. The decrease in casino expenses was primarily due to a decrease in table game and slots payroll and related costs due to a reduction in staffing due to a more condensed gaming floor layout which resulted in savings of 10.5% from prior year. Marketing expenses decreased as a result of fewer specials events, promotions, and tournaments.

Room department costs and expenses for the nine months ended September 30, 2014 increased 30.8% from the prior year period. The increase in room expenses was primarily due to an increase in staffing, associated labor costs and other expenses related to higher occupancy.

Food and beverage costs and expenses for the nine months ended September 30, 2014 increased 9.0% from the comparable period in the prior year. The increase was primarily related to an increase in food and beverage sales and an increase in staffing and related costs.

Entertainment department costs and expenses for the nine months ended September 30, 2014 increased 117.5% from the same period in the prior year due to an increase in payroll and benefits and professional services

Other general and administrative costs and expenses increased 8.0% as a result of increased legal fees, staffing related expenses and increase in property operations and maintenance.

## Loss from Operations

Loss from operations for the nine months ended September 30, 2014 was \$3.7 million, compared to a loss from operations for the nine months ended September 30, 2013 of \$12.3 million.

## Liquidity and Capital Resources as of September 30, 2014

Our independent registered public accounting firm included an explanatory paragraph in its audit report contained in our Form 10-K for the year ended December 31, 2013 that expresses doubt as to our ability to continue as a going concern. We cannot provide any assurance that we will in fact operate our business profitably, maintain existing financings, or obtain sufficient financing in the future to sustain our business in the event we are not successful in our efforts to generate sufficient revenue and operating cash flow. The accompanying unaudited consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts of liabilities that might be necessary should we be unable to continue in existence.

Index

The Company had \$57.0 million (unaudited) and \$60.1 million in cash, cash equivalents and restricted cash (of which \$0.4 million (unaudited) and \$39.3 million, respectively, was restricted) as of September 30, 2014 and December 31, 2013, respectively. On April 28, 2014, the Company requested and received approval from the Required Lenders, as defined in each of the Series A Credit Agreement and the Series B Credit Agreement, to withdraw the full amount, \$38.9 million, held in the Company's segregated cash account for working capital purposes. Additionally, effective April 1, 2011, the Company has access to a \$10.0 million Working Capital Facility. However, due to the default under the Series A Credit Agreement and the Series B Credit Agreement described in Note 5 to the consolidated financial statements, we do not currently have the ability to draw any funds under the Working Capital Facility until such time as the default is cured or waived. The lenders under our Series A Credit Agreement and our Series B Credit Agreement also hold 100% of our Class B Non-Voting Common Stock. As a result of the default, the Required Lenders (as defined in the Series A Credit Agreement and the Series B Credit Agreement, respectively) have the ability to increase the interest accruing on amounts owed under the Series A Credit Agreement and the Series B Credit Agreement, respectively. An increase in the interest rate would negatively affect our available cash and results from operations. Further, the Required Lenders and administrative agent under the Series A Credit Agreement and the Series B Credit Agreement, respectively, have the right to accelerate repayment of all amounts owed under each of the agreements and require us to repay such amounts immediately. We do not currently have sufficient funds to repay the Series A and Series B debt. Repaying these amounts and covering our operating losses will require additional cash, which may include the issuance of additional equity, debt financing and/or capital contributions from stockholders, if available to us. There can be no assurance that we will be successful in obtaining additional capital resources. The inability to obtain additional capital will restrict our ability to grow and inhibit our ability to continue to conduct business operations. Any additional equity financing may result in substantial dilution to our then existing stockholders. We do not provide any guarantees or assurances that the Company will have ample liquidity and capital resources to meet future financial obligations. If repayment of the indebtedness under our Series A Credit Agreement and Series B Credit Agreement were accelerated, we do not believe the Company has sufficient liquidity and capital resources to meet both debt service and normal operating expenditures.

## Current Economic and Operating Environment

We believe that a number of factors affect consumer sentiment and behavior. We believe that results of operations for the nine month periods ended September 30, 2014 improved in relation to the comparable periods of 2013 partially as a result of improved economic conditions. During the nine months ended September 30, 2014, visitor volume to Las Vegas increased 3.8% and the average daily Las Vegas Strip room rate increased 6.0% compared to the same period in the prior year, as reported by the Las Vegas Convention and Visitors Authority. We expect to benefit from a continued trend of improvements in general economic conditions in 2014.

## Contractual Obligations and Other Commitments

The following table summarizes our contractual obligations and other commitments as of September 30, 2014:

Contractual Obligations	Payments Due by Period (In thousands)				
	Total	less than 1 year	1 to 3 years	4 to 5 years	more than 5 years
Operating Leases	\$94	\$34	\$60	\$—	\$—
Capital Leases	300	110	190	—	—
Resort Management Agreement*	1,800	1,800	—	—	—
Maturities of Borrowings Under Credit Facility (Note 5)	87,974	87,974	—	—	—
Total Contractual Cash Obligations	\$90,168	\$89,918	\$250	\$—	\$—



\*This amount represents the total un-accrued contractual obligations. \$1.125 million of the \$1.8 million is due and payable to Paragon if the Company achieves certain EBITDAM targets set forth in the Management Agreement.

#### Off-Balance Sheet Arrangements

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

#### Critical Accounting Policies

17

---

Index

A description of our critical accounting policies and estimates can be found in Item 7 of our Form 10-K for the year ended December 31, 2013. For a further discussion of our accounting policies, see Note 2 to the consolidated financial statements in this Form 10-Q. During the three and nine month periods ended September 30, 2014, there were no significant changes other than those described in this Form 10-Q, from the critical accounting policies described in our Form 10-K for the year ended December 31, 2013.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

At times, we are exposed to market risk from adverse changes in interest rates with respect to the short-term floating interest rate on borrowings under our credit agreements. As of September 30, 2014, we had \$88.0 million in borrowings outstanding under our credit agreements. Any borrowings outstanding accrue interest at LIBOR plus a margin determined by the credit agreements. As of September 30, 2014, if LIBOR rates were to increase or decrease by one percentage point, our interest expense would increase or decrease by approximately \$0.9 million per year.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our President ("CEO") and chief financial officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2014, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our CEO and CFO concluded that our disclosure controls and procedures were effective.

During our last fiscal quarter ended September 30, 2014, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Index

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Item 1A of our Form 10-K for the fiscal year ended December 31, 2013.

Forward-Looking Statements

Throughout this Form 10-Q, 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," "project" or "anticipate" and our discussions about our ongoing or future plans, objectives or expectations and our liquidity projections. We do not guarantee that any of the transactions or events described in this Form 10-Q will happen as described or that any positive trends referred to in this Form 10-Q 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 Form 10-Q thoroughly and with the understanding that actual future results may be materially different from what we expect. We do not plan to update forward-looking statements even though our situation or plans may change in the future, unless applicable law requires us to do so. Specific factors that might cause our actual results to differ from our plans, objectives or expectations, might cause us to modify our plans or objectives, or might affect our ability to meet our expectations include, but are not limited to:

- adverse consequences from our current default under our credit facilities, such as the imposition of default interest rate or acceleration of the amounts outstanding thereunder;
- potential impairment of long-lived assets;

- our limited operating history under our Management Agreement;

- our substantial losses since the Substantial Consummation Date;

- our inability to achieve projected financial results and to service our debt obligations;

- negative effects of our recent bankruptcy proceedings on our image;

- competition in the gaming industry, including the availability and success of alternative gaming venues, and other entertainment attractions;

- risks related to geographic market concentration;

- loss of management and key personnel;

changes or developments in laws, regulations or taxes in the gaming industry, for example, an increase in the Nevada gaming tax;

risks related to environmental liabilities;

increasing energy prices;

adverse effects of factors that are beyond our control;

uninsured losses or losses that are not adequately covered by insurance;

19

---

Index

- costs and liabilities associated with litigation;
- the consequences of concerns associated with wars, terrorism and homeland security;
- labor disputes and work stoppages;
- volatility in our hold percentage;
- the availability of additional capital to support capital improvements and development;
- the loss of technological services and electrical power;
- the loss in value of the Riviera brand;
- our inability to protect our brands;
- adverse effects from climate change, climate change regulations and greenhouse gas effects;
- costs associated with legal claims and litigation related to the alleged effect of our operations on climate change;
- adverse consequences from data breaches and other cyber security related risks;
- the availability and adequacy of our cash flow to meet our capital requirements, including payment of amounts due under our credit agreements, and our inability to raise additional capital if needed;
- adverse consequences of interest rate fluctuations; and
- restrictions imposed by the terms of our indebtedness and our ability to meet the affirmative and negative covenants set forth in our credit agreements.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 23, 2014, one holder of our Class B Warrants exercised its Class B Warrant in full at the stated aggregate exercise price of \$0.01 and we issued to the holder 96,283 shares of Class B Non-Voting Common Stock. On August 19, 2014, two holders of our Class B Warrants exercised their Class B Warrants in full at the total stated aggregate exercise price of \$0.05 and we issued to the holders an aggregate of 170,223 shares of Class B Non-Voting Common Stock. The issuances of the Class B Non-Voting Common Stock were exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), because (i) the Class B Warrants were originally issued under Section 1145 of the United States Bankruptcy Code, which generally exempts from such registration requirements the issuance of securities underlying warrants issued under a plan of reorganization, and (ii) Section 4(a)(2) of the Securities Act because the issuance did not involve any public offering in that we issued the shares of Class B Non-Voting Common Stock to existing holders of our Class B Warrants, who are also creditors, and we placed a legend on the stock certificates stating that the securities have not been registered under the Securities Act and cannot be sold or otherwise transferred without registration or an exemption therefrom.

Item 3. Defaults Upon Senior Securities

Beginning on June 30, 2012 and as of each subsequent quarter, including as of September 30, 2014, the Company was in default under the Series A Credit Agreement and the Series B Credit Agreement for failure to satisfy the financial covenant that neither the Credit Parties (as defined in the Series A Credit Agreement and the Series B Credit Agreement, respectively) nor any Subsidiary (as defined in the Series A Credit Agreement and the Series B Credit Agreement, respectively) permit the Consolidated Interest Coverage Ratio (as defined and calculated as set forth in the Series A Credit Agreement and the Series B Credit Agreement, respectively) to be less than 1:00 to 1:00 for each quarter ended.

Index

If an event of default occurs and is continuing, amounts due under the Series A Credit Agreement and the Series B Credit Agreement, respectively, may be accelerated, and the rights and remedies of the lenders under the agreements may be exercised, including rights with respect to the collateral securing obligations under the agreements. As such, the balances of the Series A Term Loan and the Series B Term Loan, as of September 30, 2014 and December 31, 2013 have been classified as a current obligation.

Further, upon the occurrence of the event of default described above, and for so long as such event of default is continuing, the Required Lenders (as defined in the Series A Credit Agreement and the Series B Credit Agreement, respectively) have the ability to increase the interest accruing on amounts owed under the Series A Credit Agreement and the Series B Credit Agreement. Different default interest rates would apply to the principal of the loans, the accrued but unpaid interest on the loans and any other amounts owed under the Series A Credit Agreement and the Series B Credit Agreement. With respect to the principal of the loans made pursuant to the Series A Credit Agreement and the Series B Credit Agreement, the default interest rate is equal to the current interest rate plus 2.0%. Although the Required Lenders under the Series A Credit Agreement and the Series B Credit Agreement have not taken any action to increase the interest rate under the Series A Credit Agreement and the Series B Credit Agreement, the Company is accruing for the additional 2% default interest.

The Required Lenders temporarily waived such default with respect to the June 30, 2012 default and this waiver expired on July 31, 2012. On April 29, 2014, we entered into the Forbearance Agreement with the Required Lenders pursuant to which the Required Lenders agreed to forbear from exercising their remedies under the Series A Credit Agreement and the Series B Credit Agreement arising out of the default for a period up to and including July 31, 2014. The parties amended the Forbearance Agreement on each of July 31, 2014, August 30, 2014, September 30, 2014 and October 31, 2014 to extend the forbearance period through August 31, 2014, September 30, 2014, October 31, 2014 and November 30, 2014, respectively. The lenders and administrative agent under the Series A Credit Agreement and the Series B Credit Agreement, respectively, have not taken any action to exercise any remedies under the agreements.

The Company is currently in discussions with the Required Lenders (who also hold similar percentage equity interests in the Company) concerning new financial covenants and other amendments to the Series A Credit Agreement and the Series B Credit Agreement to resolve the existing default. There can be no assurance that the Company and its Required Lenders (in their dual capacity as debt holder and equity holder) will be successful in doing so or that such amendments will be on favorable terms to the Company.

Item 5. Other Information

The disclosure in Part II, Item 2 are incorporated herein by reference.

Item 6. Exhibits

See list of exhibits below.

SIGNATURES

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

RIVIERA HOLDINGS CORPORATION

Edgar Filing: BRASIL TELECOM SA - Form 425

Date: November 14, 2014

By: /s/ Robert James Kunkle  
President and General Manager  
(Authorized Officer)

Date: November 14, 2014

By: /s/ Michael Pearse  
Treasurer and Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)

21

---



Index

Exhibits

Exhibit No.:	Description:
31.1*	Certification of Robert James Kunkle, President, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Michael Pearse, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Robert James Kunkle, President, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Michael Pearse, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

\* Filed herewith.

\*\* Furnished herewith.