

M O H E G A N T R I B A L G A M I N G A U T H O R I T Y



2 0 0 4 ANNUAL REPORT



An object in motion tends to stay in motion. So does one of the world's most acclaimed entertainment destinations. Since 1996, The Mohegan Tribal Gaming Authority has never stopped moving forward. But this past year, we also started moving in a new direction – outward, as we began working with other tribes around the country to write new success stories. It's just one more way we're continually evolving – and keeping the Mohegan momentum going stronger than ever.

momentum

2 0 0 4 A N N U A L R E P O R T

What kept our momentum going in 2004? Everything.

It's hard to single out a single part of Mohegan Sun that excelled last year – because they all did. Awe-inspiring entertainment venues. The championship-caliber season of our very own WNBA team, the Connecticut Sun. A world-renowned hotel and spa. Spectacular meeting facilities. Gourmet restaurants. Two of the world's most successful, world-class casinos. Exclusive shops and boutiques. They all kept our momentum going in 2004. And now, 2005 is already shaping up to be even more, well, momentous. Keep reading to find out what's on the horizon.







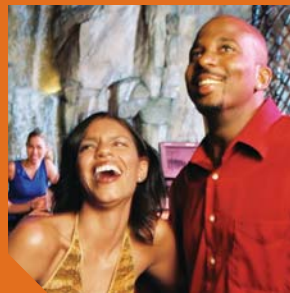
“ Between the hottest acts around and
the incredible run of the Connecticut
Sun, our own basketball team,
this year’s been

a slam dunk.”

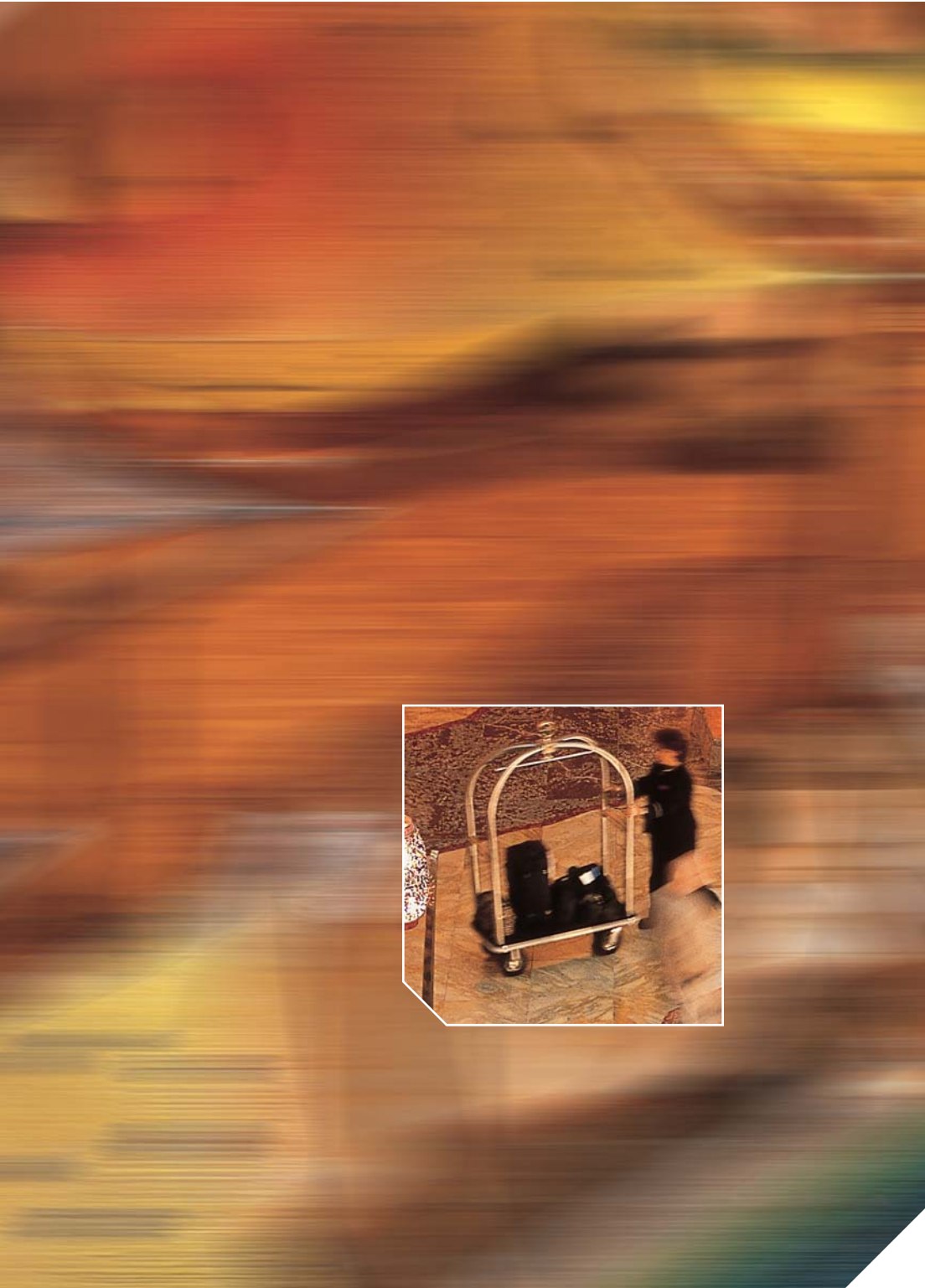
Mitchell Grossinger Etess
President & Chief Executive Officer | Mohegan Sun



“ We were hot before, but
now we’re
really cooking.”



Gary S. Crowder
Sr. Vice President, Food & Beverage | Mohegan Sun

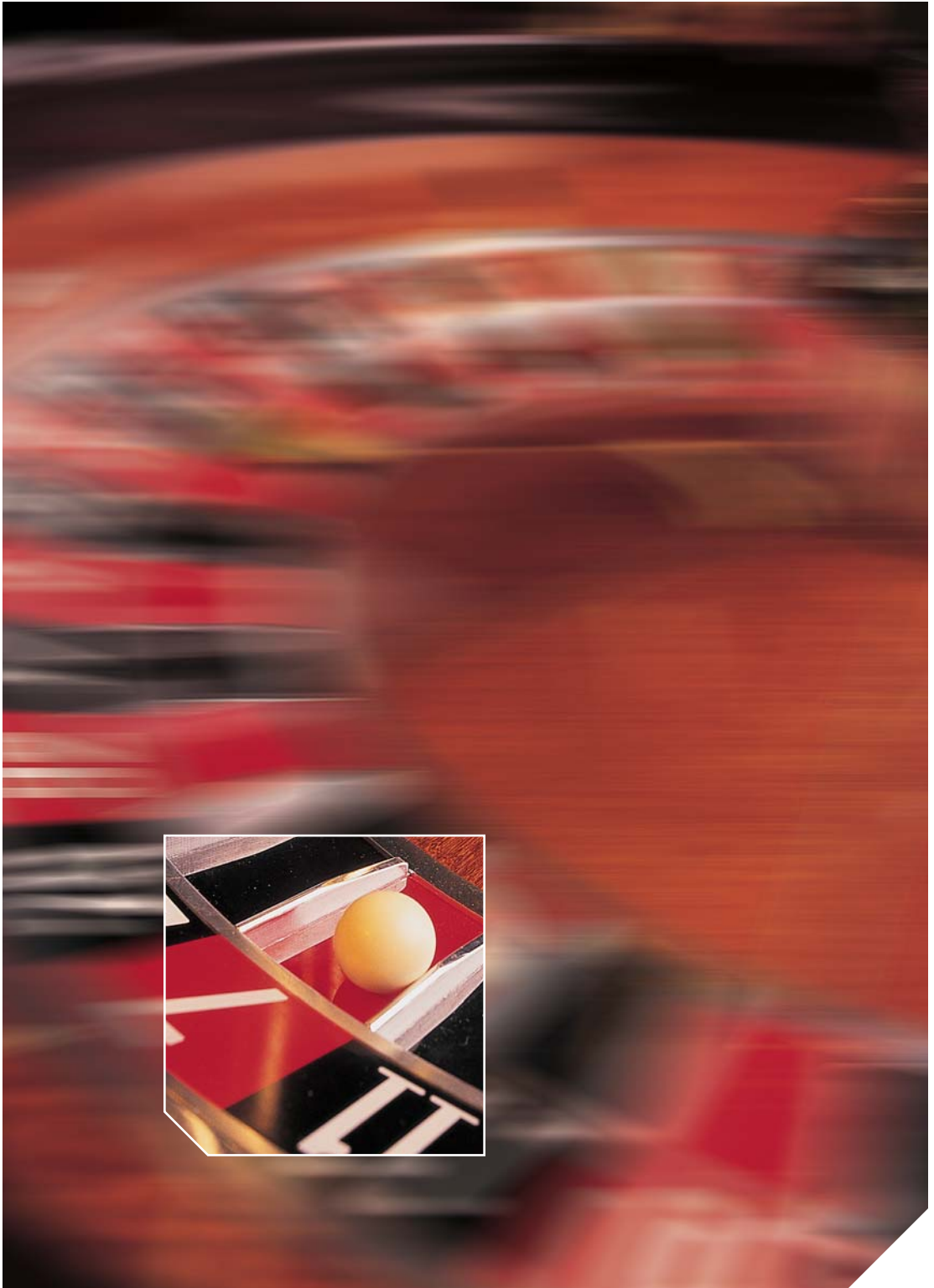




“ The hotel has been a
success from the start.
But this year, we’re

moving to a
whole new level.”

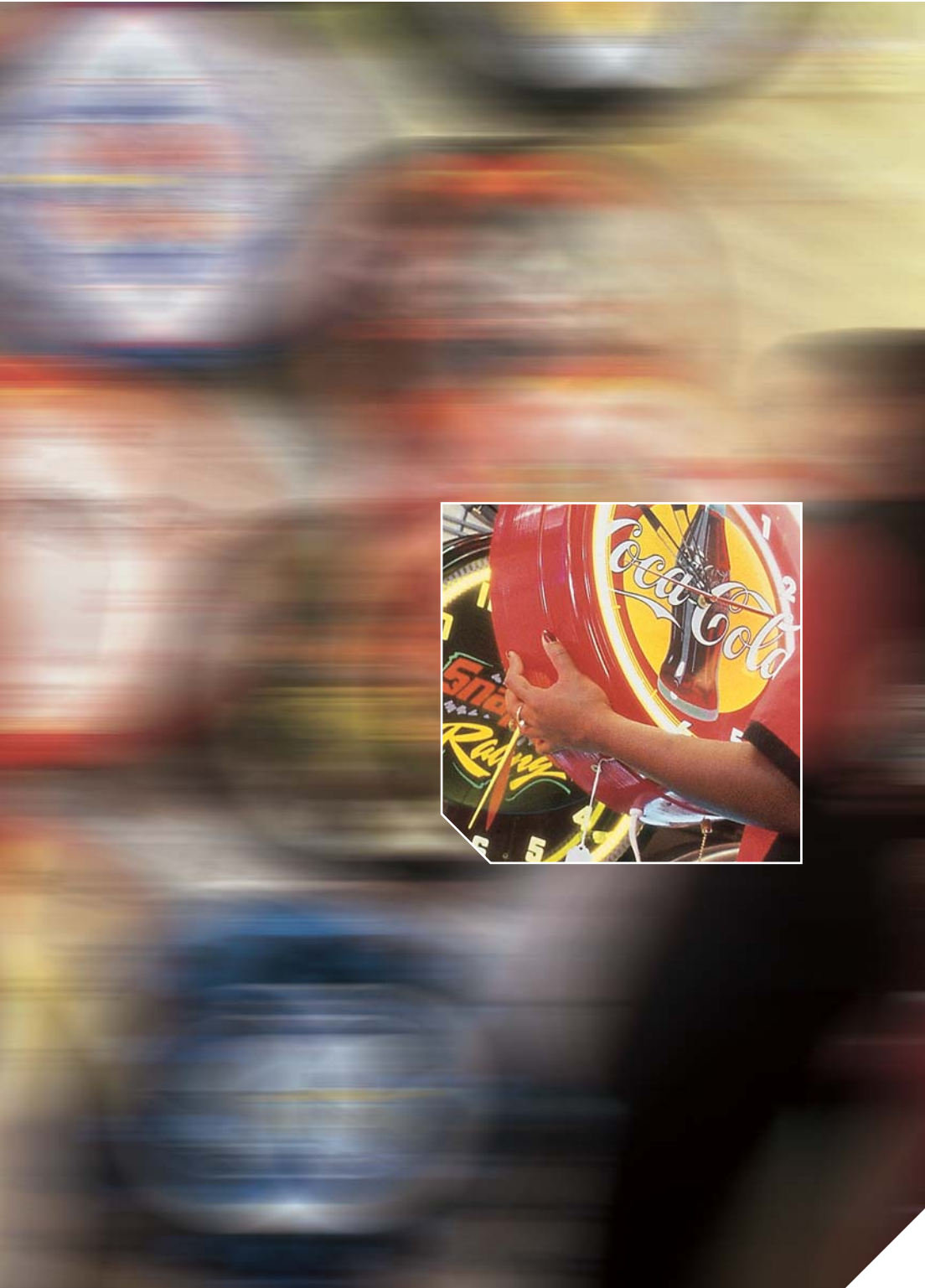
Jon A. Arnesen
Sr. Vice President, Hotel Operations | Mohegan Sun





“ A world-class casino.
Increased revenues. Record attendance.
I'd say we are
on a roll.”

Jeffrey E. Hartmann
Executive Vice President & Chief Operating Officer | Mohegan Sun

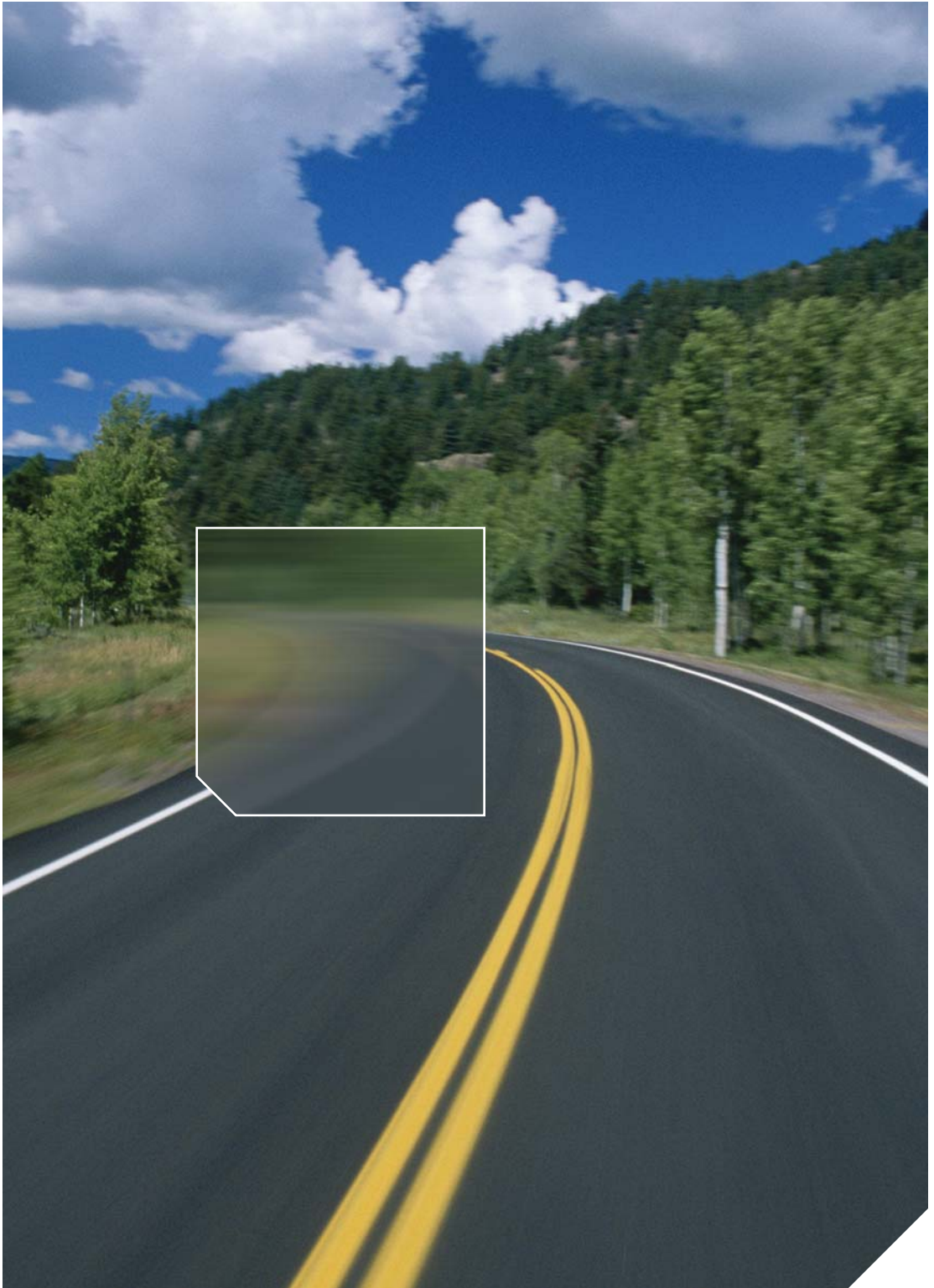


“ Just like our shoppers,
we know what we want and we

go for it.”



Robert J. Soper
Sr. Vice President, Administration | Mohegan Sun



“ We’ve done more than
we ever dreamed possible.
Now we’re going to

do it again.”

William J. Velardo
Chief Executive Officer | Mohegan Tribal Gaming Authority

People have
said our success
is one-of-a-kind.

In just eight years, Mohegan Sun has become not only one of the world's most profitable casinos, but a world-renowned entertainment destination, offering premier events, shows, sporting events and luxury accommodations. In 2004, the same team that built Mohegan Sun from the ground up began reaching out to other tribes to help them achieve their goals, as well as looking for new opportunities in other parts of the country. People have said our success is one-of-a-kind. The Mohegan Tribal Gaming Authority is about to prove them wrong.



LETTER TO OUR BONDHOLDERS & EMPLOYEES

We are pleased to announce that fiscal 2004 was an extremely successful year for the Mohegan Tribal Gaming Authority, with record revenues of \$1.37 billion and record Adjusted EBITDA of \$344.1 million - a 6.8% and 10.7% increase over the prior year, respectively. The 2004 results were highlighted by a \$63.8 million, or 6.0%, increase in gaming revenues, which included a \$51.8 million, or 6.8%, increase in net slot revenues and a \$23.4 million, or 8.1%, increase in table games revenues.

Our performance has exceeded market expectations and evolved with the ever-changing and challenging competitive environment, guided by our four core values:

- Blowing Away the Customer
- Developing Passionate and Dedicated Employees
- Continuously Striving for Perfection
- Bottom Line Performance

We believe Mohegan Sun has become one of the most successful gaming and entertainment properties in the United States. Over the past year we have been able to utilize the Mohegan Sun Arena to bring more star headliner performances to the property. As a result we have seen a 30.3% increase in ticket sales and a 27.5% increase in average ticket price,

culminating in an increase of 94.8% in entertainment revenues, which has a direct effect on growth in gaming and other property revenues. It is with this success that the property continues to provide many benefits to the Mohegan Tribe.

In keeping with our core value of bottom line performance, we also concentrated on the reduction of our property costs and expenses through improvements and efficiencies in gaming and non-gaming operations. In 2004, we initiated a cost reduction program targeting expenditures that grew at substantially faster rates than revenues, such as employee medical insurance. We were also successful in reducing operational full time equivalents while maintaining our superior level of customer service, which led to lower salary and wage costs from our gaming operations in 2004. These improvements are reflected in the Adjusted EBITDA margin which increased from 26.4% in the prior year to 27.4% in 2004.

Looking forward, we realize that our rate of growth may be difficult to sustain with just a single property. With the increasing competitive pressures caused by the impending spread of gaming throughout the Northeast, we have developed a

diversification strategy that will allow us to take advantage of the expanding national gaming market.

The recent announcement of our acquisition of Pocono Downs is the first step in the process. With the closing of the transaction expected to occur in January 2005, we look to spread “The Mohegan Sun Way” philosophy to Pocono Downs and expand the property to meet the emerging Pennsylvania gaming market.

We also plan to use the knowledge and experience gained by the Mohegan Tribe and the Mohegan Tribal Gaming Authority in operating Mohegan Sun to assist other American Indian tribes throughout the country in the development and management of their own casino projects, while minimizing our capital investments. Just recently we have entered into two such agreements with the Menominee Indian Tribe and the Cowlitz Indian Tribe to develop and manage their casino projects in the States of Wisconsin and Washington, respectively. We are very excited about these opportunities and look forward to assisting these tribes in meeting their economic needs through these projects.

We do not intend for our strategic plans to stop with these projects. Over the past year, we have restructured our executive management team to devote more resources to diversification of our business interests outside of Mohegan Sun. The management of Mohegan Sun has been placed into the exceptionally capable hands of Mitchell Grossinger Etess, now President and Chief Executive Officer of Mohegan Sun, and Jeffrey E. Hartmann, now Executive Vice

President and Chief Operating Officer of Mohegan Sun. We have also hired Paul Brody as Vice President of Corporate Development and formed a department to focus solely on diversification activities. Leo Chupaska, formerly Chief Financial Officer of the Mohegan Tribe, has assumed responsibilities as Chief Financial Officer of the Mohegan Tribal Gaming Authority.

As evidenced by the contents of this report, 2004 was a very successful year for both the Mohegan Tribe and the Authority. We believe the continued growth of our business has allowed us to emerge in new markets and become a major player in the gaming and entertainment industry for years to come. As always, it is the hard work of our dedicated and passionate employees that have made us this successful. We look to carry the momentum from that success to our current and future endeavors, building on our strengths and continuously striving for perfection.

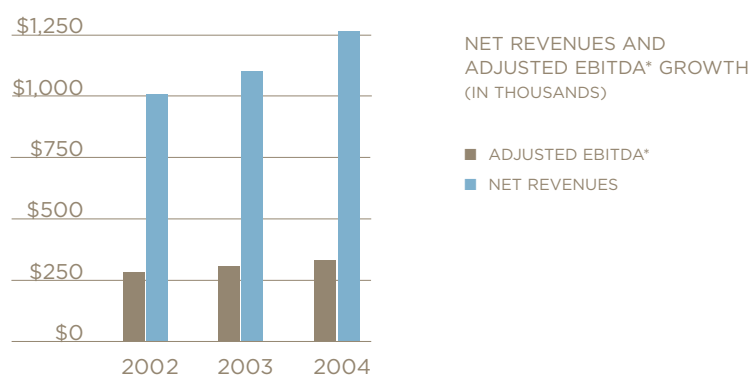


Mark F. Brown
Chairman
Mohegan Tribal Gaming Authority
Management Board
December 2004



William J. Velardo
Chief Executive Officer
Mohegan Tribal Gaming Authority
December 2004

2004 FINANCIAL HIGHLIGHTS



For the Fiscal Year Ended September 30,

	2002	2003	2004
	(in thousands)		
Operating Results:			
Gross revenues	\$ 1,121,060	\$1,280,440	\$ 1,367,933
Promotional allowances	88,167	102,952	111,007
Net revenues	1,032,893	1,177,488	1,256,926
Income from operations	213,680	241,333	246,617
Net income	100,032	95,685	102,887
Other Data:			
Adjusted EBITDA*	280,525	310,746	344,127
Interest expense, net of capitalized interest	76,635	83,492	78,970
Capital expenditures	224,743	30,277	30,680
Net cash flows provided by operating activities	183,699	195,484	215,053
Balance Sheet Data:			
Total assets	1,714,055	1,658,511	1,579,705
Long-term debt and capital lease obligations	1,052,173	1,101,649	1,003,051

* A discussion of Adjusted EBITDA and reconciliation of Adjusted EBITDA to net income is included on page 21 of this annual report.

Reconciliation of Adjusted EBITDA to Net Income

A reconciliation of Adjusted EBITDA to net income, a financial measure determined in accordance with accounting principles generally accepted in the United States of America, or GAAP, is shown below (in thousands):

	For the Fiscal Year Ended September 30,		
	2002	2003	2004
Adjusted EBITDA	\$ 280,525	\$ 310,746	\$ 344,127
Pre-opening costs and expenses	(7,755)	—	—
Depreciation and amortization	(78,721)	(92,123)	(93,595)
Relinquishment liability reassessment	19,631	22,710	(3,897)
Accretion of discount to the relinquishment liability	(36,333)	(33,592)	(29,939)
Interest income	418	269	232
Interest expense, net of capitalized interest	(76,635)	(83,492)	(78,970)
Loss on early extinguishment of debt	—	(27,396)	(34,138)
Write-off of debt issuance costs	(826)	(403)	—
Other expense, net	(272)	(1,034)	(933)
Net income	\$ 100,032	\$ 95,685	\$ 102,887

Adjusted EBITDA Explanation

Earnings before interest, income taxes, depreciation and amortization, or EBITDA, is a commonly used measure of performance in our industry. EBITDA is not a measure of performance calculated in accordance with accounting principles generally accepted in the United States of America, or GAAP. We have historically evaluated our operating performance with the non-GAAP measure, Adjusted EBITDA, which as used in this annual report represents earnings before interest, income taxes, depreciation and amortization, pre-opening costs and expenses, accretion of discount to the relinquishment liability and reassessment of the relinquishment liability to Trading Cove Associates pursuant to a relinquishment agreement, write-off of debt issuance costs, loss on early extinguishment of debt and other non-operating income and expense.

Adjusted EBITDA provides an additional way to evaluate our operations and, when viewed with both our GAAP results and reconciliation to net income, we believe that it provides a more complete understanding of our business than could be otherwise obtained absent this disclosure. Adjusted EBITDA is presented solely as a supplemental disclosure because: (1) we believe it enhances an overall understanding of our past and current financial performance; (2) we believe it is a useful tool for investors to assess the operating performance of the business in comparison to other operators within our industry because Adjusted EBITDA excludes certain items that may not be indicative of our operating results; (3) measures that are comparable to Adjusted EBITDA are often used as an important basis for the valuation of casino and hospitality companies; and (4) we use Adjusted EBITDA internally to evaluate the performance of our operating personnel and management and as a benchmark to evaluate our operating performance in comparison to our competitors.

The use of Adjusted EBITDA has certain limitations. Adjusted EBITDA should be considered in addition to, not as a substitute for or superior to, any GAAP financial measure including net income (as an indicator of our performance) or cash flows provided by operating activities (as an indicator of our liquidity), nor should it be considered as an indicator of our overall financial performance. Our calculation of Adjusted EBITDA is likely to be different from the calculation of EBITDA or other similarly titled measurements used by other casino and hospitality companies and therefore comparability may be limited. Adjusted EBITDA eliminates certain substantial recurring items from net income, such as depreciation and amortization, interest expense and the accretion of discount to the relinquishment liability as described above. Each of these items has been incurred in the past, will continue to be incurred in the future and should be considered in the overall evaluation of our results. We compensate for these limitations by providing the relevant disclosure of depreciation and amortization, interest expense, accretion of discount to the relinquishment liability and other items excluded in the calculation of Adjusted EBITDA both in our reconciliation to the GAAP financial measure of net income and in our consolidated financial statements, all of which should be considered when evaluating our results. We strongly encourage investors to review our financial information in its entirety and not to rely on a single financial measure. A reconciliation of Adjusted EBITDA to net income is included above.

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References in this Annual Report to the "Authority" and the "Tribe" are to the Mohegan Tribal Gaming Authority and the Mohegan Tribe of Indians of Connecticut, respectively. The terms "we," "us," and "our" refer to the Authority.

This Annual Report is summary material only. Any potential investor in any securities of the Authority should read our Form 10-K for the year ended September 30, 2004 in its entirety as filed with the Securities and Exchange Commission.

Some statements contained in the Annual Report are, or may be deemed to be, forward-looking statements, which can sometimes be identified by forward-looking words such as "may," "will," "anticipate," "estimate," "expect," "intend" or other similar words or phrases. Any forward-looking statements are made only as of the date of this Annual Report and actual results could differ materially from those expressed in these statements. Additional information concerning potential factors that could affect our future results is included in the "Cautionary Note Regarding Forward-Looking Statements" included in our Form 10-K for the year ended September 30, 2004.

BUSINESS

OVERVIEW

The Tribe is a federally recognized Indian tribe with an approximately 405-acre reservation situated in southeastern Connecticut, adjacent to Uncasville, Connecticut. Under the Indian Gaming Regulatory Act of 1988, or IGRA, federally recognized Indian tribes are permitted to conduct full-scale casino gaming operations on tribal land, subject to, among other things, the negotiation of a compact with the state in which they operate. The Tribe and the State of Connecticut have entered into such a compact, the Mohegan Compact, which has been approved by the United States Secretary of the Interior.

We were established on July 15, 1995, as an instrumentality of the Tribe with the exclusive power to conduct and regulate gaming activities on tribal lands. We also have the non-exclusive authority to conduct such activities elsewhere. On October 12, 1996, we opened a casino known as Mohegan Sun. Our gaming operation is one of only two legally authorized gaming operations in New England offering traditional slot machines and table games.

MOHEGAN SUN

In October 1996, we opened a gaming and entertainment complex known as Mohegan Sun. Mohegan Sun is located on a 240-acre site on the Tribe's reservation overlooking the Thames River with direct access to Interstate 395 and Connecticut Route 2A via a four-lane access road constructed by us. Mohegan Sun is approximately 125 miles from New York City and approximately 100 miles from Boston, Massachusetts. In fiscal year 2002, we completed a major expansion of Mohegan Sun known as Project Sunburst. The first phase of Project Sunburst, the Casino of the Sky, which included increased gaming, restaurant and retail space and an entertainment arena, opened in September 2001. The remaining components, including an approximately 1,200-room luxury hotel and approximately 100,000 square feet of convention space, were fully opened in June 2002.

Mohegan Sun operates in an approximately 3.0 million square foot facility, which includes the following two casinos:

CASINO OF THE EARTH

The Casino of the Earth, the original casino at Mohegan Sun, has approximately 179,500 square feet of gaming space and offers:

- approximately 3,850 slot machines and 180 table games (including blackjack, roulette, craps and baccarat);
- food and beverage amenities, including three full-service themed fine dining restaurants, with a fourth area featuring cuisine from all three themes, a 610-seat buffet, a New York style delicatessen, a 24-hour coffee shop, a ten-station food court featuring international and domestic cuisine and multiple service bars, all operated by us, for a total of approximately 1,800 restaurant seats;
- an approximately 10,000 square foot, 410-seat lounge featuring live entertainment seven days a week;
- an approximately 9,000 square foot simulcasting race book facility; and
- five retail shops providing shopping opportunities ranging from Mohegan Sun logo merchandise to cigars.

CASINO OF THE SKY

The Casino of the Sky has approximately 119,000 square feet of gaming space and offers:

- approximately 2,400 slot machines and 110 table games (including blackjack, roulette, craps and baccarat);
- food and beverage amenities, including two full-service restaurants, two quick-service restaurants, a 24-hour coffee shop, a 320-seat buffet, a six station food court featuring international and domestic cuisine and five lounges and bars operated by us, as well as four full-service and three quick-service restaurants operated by third parties, for a total of approximately 2,200 restaurant seats;
- Mohegan After Dark, consisting of a nightclub, a lounge and a pub, which are all operated by a third party;
- the Mohegan Sun Arena with seating for up to 10,000;
- a 350-seat Cabaret;
- the Shops at Mohegan Sun containing 29 different retail shops, four of which we own;
- an approximately 1,200-room luxury hotel with room service;
- an approximately 20,000 square foot spa operated by a third party;
- approximately 100,000 square feet of convention space; and
- a child care facility and an arcade style entertainment area operated by a third party.

Mohegan Sun has parking spaces for approximately 13,000 guests and 3,100 employees. In addition, we operate the Mohegan Sun gasoline and convenience center, an approximately 4,000 square foot, 20-pump facility located adjacent to Mohegan Sun.

CONNECTICUT SUN

In January 2003, we formed Mohegan Basketball Club LLC, or MBC, for the purpose of holding a membership in the Women's National Basketball Association, or WNBA, and owning and operating a professional basketball team in the WNBA. MBC entered into a membership agreement with the WNBA permitting it to operate the Connecticut Sun basketball team. The team plays its home games in the Mohegan Sun Arena.

MOHEGAN VENTURES-NW

On July 23, 2004, we formed Mohegan Ventures-Northwest, LLC, or Mohegan Ventures-NW, as a wholly owned unrestricted subsidiary. As an unrestricted subsidiary, Mohegan Ventures-NW is not required to be a guarantor of our debt obligations. Mohegan Ventures-NW holds a 54.15% membership interest in Salishan-Mohegan, LLC, or Salishan-Mohegan, formed with an unrelated third party, Salishan Company, LLC, or Salishan Company, to participate in the development and management of a casino to be located in Clark County, Washington. The proposed casino will be owned by the Cowlitz Indian Tribe. Salishan-Mohegan also has been designated as an unrestricted subsidiary.

COWLITZ PROJECT

On September 21, 2004, Salishan-Mohegan entered into development and management agreements with the Cowlitz Indian Tribe regarding the Cowlitz Project. Under the terms of the development agreement, Salishan-Mohegan will carry out all activities that are necessary to develop the Cowlitz Project, including advising the Cowlitz Indian Tribe with its plan to place land into trust by the United States Department of the Interior, assisting the Cowlitz Indian Tribe in the negotiation of a compact with the State of

Washington, assisting in the arrangement of financing for the Cowlitz Project and administering and overseeing the planning, design, development, and construction of the Cowlitz Project. The development agreement provides for development fees of 3% of total Project Costs, as defined in the development agreement, which are payable to Mohegan Ventures-NW pursuant to the Operating Agreement. The management agreement is for a period of seven years, during which Salishan-Mohegan will manage, operate, and maintain the planned casino. The management agreement provides for a management fee of 24% of Net Revenues, as defined in the management agreement, which approximates income from operations earned from the Cowlitz Project. Pursuant to the Operating Agreement, management fees will be allocated to the members of Salishan-Mohegan based on their respective membership percentages. Development of the Cowlitz Project is subject to certain governmental and regulatory approvals, including, but not limited to, negotiating a gaming compact with the State of Washington and the accepting of land into trust on behalf of the Cowlitz Indian Tribe. The management agreement is subject to approval by the NIGC.

POCONO DOWNS

On October 14, 2004, we entered into a purchase agreement with subsidiaries of Penn National Gaming, Inc, or the Purchase Agreement, under which we will acquire the Pocono Downs Racetrack, a standardbred harness racing facility located on approximately 400 acres of land in Plains Township, Pennsylvania, or Pocono Downs, and five Pennsylvania off-track wagering facilities located in Carbondale, East Stroudsburg, Erie, Hazleton and Lehigh Valley (Allentown). As part of the Purchase Agreement, we have agreed to a \$280 million purchase price before adjustments and other costs and we anticipate that the transaction will close in January 2005, subject to customary closing conditions and regulatory approvals. The Purchase Agreement also provides us with both pre- and post-closing termination rights in the event of certain materially adverse legislative or regulatory events.

Following the closing of the Downs Racing transaction, we will obtain the right to apply for a Pennsylvania Category One slot machine license which, if approved, would initially permit the installation and operation of up to 3,000 slot machines at Pocono Downs. Upon the issuance of a slot machine license, we will proceed with our plans to open a new slot machine facility which we anticipate will open in fiscal year 2006. The new facility will also include restaurants, lounges and a small entertainment venue. We anticipate that we will spend up to \$175 million on the construction, furnishing and equipping of the new facility, in addition to paying a one-time \$50 million fee to the Commonwealth of Pennsylvania upon receipt of a slot machine license.

MENOMINEE PROJECT

On October 21, 2004, we entered into a management agreement with the Menominee Indian Tribe of Wisconsin, or the Menominee Tribe, and the Menominee Kenosha Gaming Authority. According to the management agreement, we are granted the exclusive right and obligation to manage, operate and maintain a planned casino and destination resort to be located in Kenosha, Wisconsin, or the Menominee Project, for a period of seven years in consideration of a management fee of 13.4% of Net Revenues as defined in the management agreement, which approximates income from operations earned from the Menominee Project. The management agreement is subject to approval by the NIGC.

The Tribe previously entered into an agreement with the developer for the Menominee Project under which the Tribe will lend the developer funds necessary to develop the Menominee Project, including administering and overseeing the planning, design, development, and construction of the Menominee Project. The Tribe has lent approximately \$3.1 million to the developer for use in these efforts. Development of the Menominee Project is subject to certain governmental and regulatory approvals, including, but not limited to, the United States Department of the Interior accepting land into trust on behalf of the Menominee Tribe and the approval of the Governor of Wisconsin. A non-binding Kenosha County referendum held on November 2, 2004 authorized the County Board to support the Menominee Project.

STRATEGY

Our overall strategy is to profit from expanding demand in the gaming market in the northeastern United States as well as diversify the Tribe's business interests in the gaming industry outside of Mohegan Sun.

Mohegan Sun's initial success has resulted primarily from patronage from guests residing within 100 miles of Mohegan Sun, which represents our primary market. We have also enjoyed additional success from guests residing within a 100 to 200 mile radius of Mohegan Sun, which represents our secondary market. Based upon Mohegan Sun's results and experience, we believe the gaming market in the northeastern United States is strong. We have developed Mohegan Sun into a full-scale entertainment and destination resort, which has led to increases in the number of guests and lengthened the duration of their stays at our facility. We completed a major expansion of Mohegan Sun, Project Sunburst, in 2002, which included the addition of a luxury hotel, increased gaming, food and beverage and retail space, a convention center and an entertainment arena. With additional gaming capacity and the ability to capture a share of the overnight market, we believe Mohegan Sun's market penetration will continue to increase. We believe that Project Sunburst has created a long-term competitive advantage for Mohegan Sun in the gaming market in the northeastern United States.

The Tribe has determined that it is in their long-term best interests to diversify their business interests, both directly and through us. As a result, from time to time, we and the Tribe identify and evaluate various business opportunities. These opportunities primarily include the management or ownership of, or investment in, other gaming enterprises through direct investments, acquisitions, joint venture arrangements and loan transactions. Since June 30, 2004 we have entered into agreements in furtherance of this diversification strategy. We and the Tribe are currently exploring other opportunities, although there is no assurance that we or the Tribe will continue to pursue any of them or that any of them will be consummated.

MARKET AND COMPETITION FROM OTHER GAMING OPERATIONS

Mohegan Sun and Foxwoods are the only two legally authorized gaming operations offering both traditional slot machines and table games in New England. Foxwoods, operated by the Mashantucket Pequot Tribe under procedures approved by the United States Department of the Interior, is located approximately 10 miles from Mohegan Sun and is currently the largest gaming facility in the United States in terms of total gaming positions. Based on the size and success of Foxwoods and the rapid growth of Mohegan Sun, we believe that the gaming market in New England and the remaining northeastern United States remains underserved.

The existing gaming industry in the northeastern United States is highly competitive. Mohegan Sun currently competes primarily with Foxwoods, which has been in operation for approximately twelve years and may have greater financial resources and operating experience than us. In addition, Foxwoods has offered certain amenities to its guests for a significantly longer duration than Mohegan Sun, such as hotel accommodations and convention center services.

Since the completion of the Project Sunburst expansion in June 2002, including our approximately 1,200-room luxury hotel, we have broadened Mohegan Sun's target market beyond day-trip customers to include guests making overnight stays at the resort. Consequently, Mohegan Sun now competes more directly for customers with casinos in Atlantic City, New Jersey. Many of these casinos have greater resources, operating experience and name recognition than Mohegan Sun.

Under current law, outside of Atlantic City, New Jersey, full-scale commercial casino gaming in the northeastern United States may be conducted only by federally recognized Indian tribes operating under federal Indian gaming laws or on cruise ships in international waters. In recent years, there has been an increase in the number of Indian tribes seeking to engage in commercial casino gaming, including full-scale commercial casinos, in the northeastern United States and in the number of individual groups seeking to obtain federal recognition as Indian tribes so that they may engage in commercial casino gaming in the northeastern United States. Under federal law, after obtaining federal recognition and before gaming operations may commence, a tribe must, among other things, have land taken into trust by the federal government, negotiate a gaming compact with the state in which they intend to engage in commercial casino gaming, adopt a tribal gaming ordinance and construct a facility. A tribe may also need to negotiate a gaming management agreement and obtain funding to construct a facility. Many Indian tribes and individual groups seeking to gain federal recognition as Indian tribes are pursuing commercial casino gaming in the northeastern United States.

A number of states, including Maine, Massachusetts, Rhode Island, Pennsylvania and New York, have considered legalizing one or more forms of commercial casino gaming by non-Indians in one or more locations. In July 2004, Pennsylvania legalized slot machine gaming by non-Indians. Based on internal analysis of the existing and potential gaming market in the northeastern United States, we believe that competition from other commercial casino gaming operations will continue to increase in the future.

We are unable to predict whether any of the efforts by other federally recognized Indian tribes or individual groups attempting to gain federal recognition as Indian tribes or legalization of commercial casino gaming by non-Indians will lead to the establishment of additional commercial casino gaming operations in the northeastern United States. If established, we are uncertain of the impact such commercial casino gaming operations will have on our operations and our ability to meet our financial obligations.

MOHEGAN TRIBE OF INDIANS OF CONNECTICUT

GENERAL

The Tribe became a federally recognized Indian tribe in 1994. The Tribe currently has approximately 1,625 members and approximately 970 adult voting members. Although it only recently received federal recognition, the Tribe has lived in a cohesive community for hundreds of years in what is today southeastern Connecticut. The Tribe historically has cooperated with the United States and is proud of the fact that members of the Tribe have fought on the side of the United States in every war from the Revolutionary War to Operation Iraqi Freedom. The Tribe believes that this philosophy of cooperation exemplifies its approach to developing Mohegan Sun and pursuing diversification of its business interests.

Although the Tribe is a sovereign entity, it has sought to work with, and to gain the support of, local communities in establishing Mohegan Sun. For example, the Tribe gave up its claim to extensive tracts of land that had been guaranteed by various treaties in consideration for certain arrangements in the Mohegan Compact. As a result, local residents and businesses whose property values had been clouded by this dispute were able to gain clear title to their property. In addition, the Tribe has been sensitive to the concerns of the local community in developing Mohegan Sun. This philosophy of cooperation has enabled the Tribe to build a solid alliance among local, state and federal officials to achieve its goal of building Mohegan Sun.

MOHEGAN TRIBAL GAMING AUTHORITY

We were established by the Tribe in July 1995 with the exclusive power to conduct and regulate gaming activities on tribal lands for the Tribe and the non-exclusive authority to conduct such activities elsewhere. We are governed by a nine-member Management Board, consisting of the nine members of the Tribal Council (the governing body of the Tribe). Any change in the composition of the Tribal Council results in a corresponding change in our Management Board.

We have three major functions. The first function is to direct the operation, management and promotion of gaming enterprises on tribal lands and all related activities. The second major function is to regulate gaming activities on tribal lands. Our Management Board has appointed an independent Director of Regulation to be responsible for the regulation of gaming activities at Mohegan Sun. The Director of Regulation serves at the will of the Management Board and ensures the integrity of the gaming operation through the promulgation and enforcement of appropriate regulations. The Director of Regulation and his staff also are responsible for performing background investigations and licensing of non-gaming employees as well as vendors seeking to provide non-gaming products or services within the casino. Pursuant to the Mohegan Compact, the State of Connecticut is responsible for performing background investigations and licensing of gaming employees as well as vendors seeking to provide gaming products or services within the casino. The third major function is to identify and evaluate various diversification opportunities in conjunction with the Tribe. These opportunities primarily include the management and ownership of, or investments in, other gaming enterprises through direct investment, acquisition, joint venture arrangements and loan transactions.

GOVERNMENT REGULATION

GENERAL

We are subject to certain federal, state and tribal laws applicable to both commercial relationships with Indians generally and to Indian gaming and the management and financing of Indian casinos specifically. In addition, we are subject to federal and state laws applicable to the gaming industry generally and to the distribution of gaming equipment. The following description of the regulatory environment in which gaming takes place and in which we operate is only a summary and not a complete recitation of all applicable law. Moreover, since this particular regulatory environment is more susceptible to changes in public policy considerations than others, it is impossible to predict how particular provisions will be interpreted from time to time or whether they will remain intact. Changes in such laws could have a material adverse impact on our operations.

TRIBAL LAW AND LEGAL SYSTEMS

Applicability of State and Federal Law

Federally recognized Indian tribes are independent governments, subordinate to the United States, with sovereign powers, except as those powers may have been limited by treaty or by the United States Congress. The power of Indian tribes to enact their own laws to regulate gaming derives from the exercise of this tribal sovereignty. Indian tribes maintain their own governmental systems and often their own judicial systems. Indian tribes have the right to tax persons and enterprises conducting business on tribal lands, and also have the right to require licenses and to impose other forms of regulations and regulatory fees on persons and businesses operating on their lands.

Absent the consent of the Tribe or action of the United States Congress, the laws of the State of Connecticut do not apply to us or the Tribe. Under the federal law that recognizes the Tribe, the Tribe consented to, among other things, the extension of Connecticut criminal law and Connecticut state traffic controls over Mohegan Sun.

PROPERTIES

Mohegan Sun is located on 240 acres of the Tribe's approximately 405-acre reservation just outside of Uncasville, Connecticut, approximately one mile from the interchange of Interstate 395 and Connecticut Route 2A. The land located in southeastern Connecticut upon which Mohegan Sun is situated is held in trust for the Tribe by the United States. Mohegan Sun has its own exit from Route 2A, giving patrons direct access to Interstate 395 and Interstate 95, the main highways connecting Boston, Providence and New York City. By highway, Mohegan Sun is approximately 125 miles from New York City, 100 miles from Boston, Massachusetts, 45 miles from Hartford, Connecticut and 50 miles from Providence, Rhode Island.

We have a lease with the Tribe for land on which Mohegan Sun is located. The initial term of the lease is 25 years, with an option to renew for one additional 25-year term provided that we are not in default under the lease. The lease also provides that all improvements constructed on the site will become the property of the Tribe. The lease is a net lease requiring that we assume all costs of operating, constructing, maintaining, repairing, replacing and insuring the leased property, in addition to the payment of a nominal annual rental fee.

We have entered into various lease agreements for properties adjacent to Mohegan Sun. The properties are owned by MTIC Acquisitions, LLC, a Connecticut limited liability company controlled by the Tribe. The properties are used for providing access and/or parking for Mohegan Sun.

Salishan-Mohegan, a majority-owned subsidiary of Mohegan Ventures-NW, owns a parcel of land in Ridgefield, Washington for the purposes of developing a casino to be owned by the Cowlitz Indian Tribe. Mohegan Ventures-NW is a wholly-owned subsidiary of the Authority. The land is encumbered by a \$2.6 million mortgage payable and certain lease agreements with the existing tenant on the property. Salishan-Mohegan also has an option to purchase other parcels of land next to the owned land, which would also be used for casino development purposes. The rights to the land and land purchase option shall be assigned to the Cowlitz Indian Tribe upon: (1) receipt of necessary financing for the development of the proposed casino; and (2) the underlying property being taken into trust by the United States Department of the Interior.

We do not own, lease or have any interest in any other property.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXPLANATION OF KEY FINANCIAL STATEMENT CAPTIONS

GROSS REVENUES

Our gross revenues are derived primarily from the following four sources:

- gaming revenues, which include revenues from slot machines, table games, keno and racebook (also poker revenues for the fiscal years ended September 30, 2003 and 2002, prior to the closing of our poker room on September 2, 2003);
- food and beverage revenues;
- hotel revenues; and
- retail, entertainment and other revenues, which include revenues from the Mohegan Sun managed retail shops and the Mohegan Sun Arena.

Our largest component of revenues is gaming revenues, which is recognized as gaming wins less gaming losses and is comprised primarily of revenues from our slot machines and table games. Revenues from slot machines are the largest component of our gaming revenues. Gross slot revenues, also referred to as gross slot win, represent all amounts played in the slot machines reduced by both (1) the winnings paid out and (2) all amounts we deposit into the slot machines to ensure sufficient coins in each machine to pay out the winnings. Pursuant to the Mohegan Compact, we report gross slot revenues and other statistical information related to slot machine operations to the State of Connecticut. On a monthly basis, we also post this information on our website at www.mohegansun.com.

Other commonly used terms in the discussion of revenues from slot machines include progressive slot machines, progressive jackpots, net slot revenues, slot handle, gross slot hold percentage and net slot hold percentage. Progressive slot machines retain a portion of each amount wagered and aggregate these amounts with similar amounts from other slot machines in order to create one-time winnings that are substantially larger than those paid in the ordinary course of play. We refer to such aggregated amounts as progressive jackpots. Wide-area progressive jackpot amounts are paid by a third party vendor and we remit a weekly payment to the vendor based on a percentage of the slot handle for each wide-area progressive slot machine. We accrue in-house progressive jackpot amounts until paid, and such accrued amounts are deducted from gross slot revenues, along with wide-area progressive jackpot amounts, to arrive at net slot revenues, also referred to as net slot win. Net slot revenues are included in gaming revenues in the accompanying condensed consolidated statements of income. Slot handle is the total amount wagered by patrons on slot machines during the period. Gross slot hold percentage is the gross slot win as a percentage of slot handle. Net slot hold percentage is the net slot win as a percentage of slot handle.

Commonly used terms in the discussion of revenues from table games include table games revenues, table games drop and table games hold percentage. Table games revenue represents the closing table games inventory plus table games drop and credit slips for coins, chips or tokens returned to the casino cage, less opening table games inventory, discounts provided on patron losses, free bet coupons and chip fills to the tables. Table games drop is the total amount of cash, free bet coupons, cash advance drafts, customer deposit withdrawals, safekeeping withdrawals and credit issued at the table contained in the locked container at each gaming table. Table games hold percentage is the table games revenues as a percentage of table games drop.

Revenues from food and beverages, hotel, retail, entertainment events and other services are recognized at the time the service is performed. Minimum rental revenues that we receive pursuant to our rental lease agreements for the Shops at Mohegan Sun are recognized on a straight-line basis over the terms of the

leases. Percentage rents are recognized in the period in which the tenants exceed their respective percentage rent thresholds.

PROMOTIONAL ALLOWANCES

We operate a voluntary program for our guests, without membership fees, called the Mohegan Sun Player's Club. This program provides complimentary food, beverages, hotel, retail, entertainment and other services to guests based on points that are awarded for guests' gaming activities. These points may be used to purchase, among other things, items at the retail stores and restaurants located within Mohegan Sun, including the Shops at Mohegan Sun and the Mohegan Sun gasoline and convenience center. Points also may be used to purchase hotel services and tickets to entertainment events held at Mohegan Sun facilities. The retail value of points is included in gross revenues when redeemed at Mohegan Sun operated facilities and then deducted as a promotional allowance to arrive at net revenues.

We also have ongoing promotional programs which offer coupons to our guests for the purchase of food, beverage, hotel and retail amenities offered within Mohegan Sun. The retail value of items or services purchased with coupons at Mohegan Sun operated facilities is included in gross revenues and the respective coupon value is deducted as a promotional allowance to arrive at net revenues.

GAMING EXPENSES

The largest component of gaming expenses is the portion of gross slot revenues which must be paid to the State of Connecticut. We refer to this payment as the slot win contribution. For each 12-month period commencing July 1, 1995, the slot win contribution is the lesser of (a) 30% of gross slot revenues, or (b) the greater of (i) 25% of gross slot revenues or (ii) \$80.0 million. Gaming expenses also include, among other things, expenses associated with operation of slot machines, table games, keno and racebook, certain marketing expenses, and promotional expenses for the Mohegan Sun Player's Club points and coupons redeemed at the hotel, restaurants and retail outlets owned by Mohegan Sun, as well as third party tenant restaurants and the Shops at Mohegan Sun. Gaming expenses for the fiscal years ended September 30, 2003 and 2002 also included expenses associated with poker operations, which closed on September 2, 2003.

INCOME FROM OPERATIONS

We calculate income from operations as net revenues less total operating costs and expenses. Income from operations represents only those amounts that relate to our operations and excludes minority interest, accretion of discount to the relinquishment liability, interest income, interest expense, loss on early extinguishment of debt, write-off of debt issuance costs and other non-operating income and expenses.

ACCRETION OF DISCOUNT TO THE RELINQUISHMENT LIABILITY AND REASSESSMENT OF RELINQUISHMENT LIABILITY

In February 1998, we entered into a relinquishment agreement with TCA. The relinquishment agreement provides that we will make certain payments to TCA out of, and determined as a percentage of, revenues (as defined in the relinquishment agreement) generated by Mohegan Sun over a 15-year period. In accordance with Statement of Financial Accounting Standards, or SFAS, No. 5 "Accounting for Contingencies," or SFAS 5, we have recorded a relinquishment liability of the estimated present value of our obligations under the relinquishment agreement. We reassess projected revenues (and consequently the relinquishment liability) (i) annually in conjunction with our budgeting process and (ii) when necessary to account for material increases or decreases in projected revenues over the relinquishment period. Further, we record a quarterly accretion to the relinquishment liability to reflect the impact of the time value of money. Since there is a high level of estimates and judgments used with respect to calculating the relinquishment liability, future events that affect such estimates and judgments may cause the actual relinquishment liability to differ significantly from the estimate. In addition, we have capitalized \$130.0 million of this relinquishment liability in connection with the trademark value of the Mohegan Sun brand name. Under SFAS No. 142 "Goodwill and Other Intangible Assets," or SFAS 142, the Mohegan Sun trademark is no longer subject to amortization because it has been deemed to have an indefinite useful life. SFAS 142, however, requires the trademark to be evaluated at least annually for impairment by

applying a fair-value test and, if impairment occurs, the amount of impaired trademark must be written off immediately. Refer to Notes 2 and 12 to our consolidated financial statements for a further discussion of how we calculate the relinquishment liability and related reassessments.

RESULTS OF OPERATIONS

SUMMARY OPERATING RESULTS

The following table summarizes our results of operations (in thousands):

	2004	2003	2002	For the Fiscal Years Ended September 30,			
				Dollar Variance		Percentage Variance	
				04 vs. 03	03 vs. 02	04 vs. 03	03 vs. 02
Net revenues	\$ 1,256,926	\$ 1,177,488	\$ 1,032,893	\$ 79,438	\$ 144,595	6.7%	14.0%
Income from operations	246,617	241,333	213,680	5,284	27,653	2.2%	12.9%
Net income	102,887	95,685	100,032	7,202	(4,347)	7.5%	4.3%

The most important factors and trends contributing to our operating performance over the last three years have been:

- The strengthening of our brand awareness in the Northeast gaming market reflected in our slot revenue growth rate, which exceeds the growth rate of the Connecticut slot revenue market;
- Successful marketing programs and promotional events designed to increase targeted patron visitation;
- Improvements in labor productivity leading to the reduction of operational full time equivalents for the year ended September 30, 2004 which resulted in lower salary and wages in our gaming operations and certain related fringe benefit expenditures;
- The initiation of a cost reduction program in fiscal year 2004 which targets expenditures that grow at substantially faster rates than net revenues;
- The closing of our poker room on September 2, 2003 for the purpose of adding approximately 260 slot machines, which led to increased revenue per square foot and a higher operating margin partially due to the use of cashless gaming technology;
- The relinquishment liability reassessment charge of \$3.9 million in fiscal year 2004, which significantly lowered our growth in income from operations from the growth in fiscal year 2003; and
- The refinancing of \$300.0 million of our outstanding debt in late fiscal year 2003, which resulted in lower interest costs that had a positive effect on our net income for the year ended September 30, 2004.

Net revenues for the fiscal years ended September 30, 2004 and 2003 increased as a result of continued growth in both gaming and non-gaming revenues due primarily to continued expansion in public awareness of Mohegan Sun's gaming and non-gaming offerings and amenities, evidenced by the increase in patronage to our Mohegan Sun casino. Additionally, the increased patronage resulted in an increase in the redemption of Mohegan Sun Player's Club points in the outlets owned by Mohegan Sun, resulting in increased promotional allowances for the fiscal year ended September 30, 2004 compared to the prior fiscal year, which offsets the increase in the gross gaming and non-gaming revenues.

Income from operations for the fiscal year ended September 30, 2004 compared to the prior fiscal year increased primarily as a result of the growth in net revenues, offset substantially by the increase in gaming expenses and a relinquishment liability reassessment charge of \$3.9 million for the year ended September 30, 2004, which had the effect of increasing operating expenses, compared to a \$22.7 million relinquishment liability reassessment for the year ended September 30, 2003, which had the effect of reducing operating expenses.

Income from operations for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002, increased primarily as a result of the increase in net revenues, offset substantially by increases in gaming expenses, advertising, general and administrative expenses and depreciation and amortization expense. These increased expenses were partially offset by a \$7.8 million decrease in pre-opening costs and expenses and an increase in the relinquishment liability reassessment of \$3.1 million, which had the effect of reducing operating expenses.

Net income for the fiscal year ended September 30, 2004 compared to prior fiscal year increased primarily as a result of the increase in income from operations and decreases in the accretion of discount to the relinquishment liability and in interest expense, partially offset by an increase in the loss on early extinguishment of debt related to the refinancings in fiscal years 2004 and 2003 as more fully described below.

Net income for the fiscal year ended September 30, 2003 compared to fiscal year ended September 30, 2002, decreased primarily as a result of a \$27.4 million loss on early extinguishment of debt related to the refinancing of our \$300.0 million 8 3/4% senior subordinated notes, offset by the increase in income from operations.

GROSS REVENUES

Gross revenues consisted of the following (in thousands):

	For the Fiscal Years Ended September 30,						
	2004	2003	2002	Dollar Variance		Percentage Variance	
				04 vs. 03	03 vs. 02	04 vs. 03	03 vs. 02
Gaming	\$ 1,125,145	\$1,061,376	\$ 958,617	\$ 63,769	\$ 102,759	6.0%	10.7%
Food and beverage	89,850	87,040	75,062	2,810	11,978	3.2%	16.0%
Hotel	52,035	52,370	20,884	(335)	31,486	-0.6%	150.8%
Retail, entertainment & other	100,903	79,654	66,497	21,249	13,157	26.7%	19.8%
Total	\$ 1,367,933	\$1,280,440	\$ 1,121,060	\$ 87,493	\$ 159,380	6.8%	14.2%

The table below summarizes the percentage of gross revenues from each of our four revenue sources:

	For the Fiscal Years Ended September 30,		
	2004	2003	2002
Gaming	82.2%	82.9%	85.5%
Food and beverage	6.6%	6.8%	6.7%
Hotel	3.8%	4.1%	1.9%
Retail, entertainment and other	7.4%	6.2%	5.9%
Total	100.0%	100.0%	100.0%

The following table presents data related to our gaming revenues (in millions, except where noted):

	For the Fiscal Years Ended September 30,							
	2004	2003	2002	Dollar Variance		Percentage Variance		
				04 vs. 03	03 vs. 02	04 vs. 03	03 vs. 02	
Slot handle	\$ 10,294	\$ 9,654	\$ 8,840	\$ 640	\$ 814	6.6%	9.2%	
Gross slot revenues	\$ 833	\$ 777	\$ 719	\$ 56	\$ 58	7.2%	8.1%	
Net slot revenues	\$ 809	\$ 757	\$ 694	\$ 52	\$ 63	6.9%	9.1%	
Weighted average number of slot machine (in units)	6,224	6,122	6,205	102	(83)	1.7%	-1.3%	
Gross slot hold percentage	8.1%	8.0%	8.1%	0.1%	-0.1%	1.3%	-1.2%	
Gross slot win per unit per day (in dollars)	\$ 366	\$ 347	\$ 317	\$ 19	\$ 30	5.5%	9.5%	
Table games drop	\$ 1,952	\$ 1,834	\$ 1,517	\$ 118	\$ 317	6.4%	20.9%	
Table games revenues	\$ 306	\$ 283	\$ 243	\$ 23	\$ 40	8.1%	16.5%	
Weighted average number of table games (in units)	285	261	246	24	15	9.2%	6.1%	
Table games hold percentage (1)	15.7%	15.4%	16.0%	0.3%	-0.6%	1.9%	-3.8%	
Table games revenue per unit per day (in dollars)	\$ 2,938	\$ 2,974	\$ 2,705	\$ (36)	\$ 269	-1.2%	9.9%	

(1) Table games hold percentage is relatively predictable over long periods of time, but can fluctuate significantly over shorter periods.

Gaming revenues for the fiscal year ended September 30, 2004 compared to the prior fiscal year increased due to continued growth in net slot revenues and table games revenues. The increase in net slot revenues and table games revenues resulted primarily from the continued awareness of the Mohegan Sun brand in the northeastern United States gaming market. Table games drop for the fiscal year ended September 30, 2004 increased at a lower rate compared to the prior year due primarily to increased competition in the Northeast table games market. We exceeded the Connecticut slot revenue market growth rate for the fiscal year ended September 30, 2004 of 4.3%. The State of Connecticut reported slot revenues of \$1.63 billion and \$1.56 billion for the fiscal years ended September 30, 2004 and 2003, respectively.

Gaming revenues for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002 increased due to an increase in net slot revenues and an increase in table games revenues. Gaming revenues for the fiscal year ended September 30, 2003 were enhanced by increased patronage at Mohegan Sun due to the approximately 1,200 room Mohegan Sun hotel completed in June 2002 and improved customer parking created by the additions of the approximately 1,700-space Thames Garage in April 2002 and the approximately 2,700-space Indian Summer Garage in June 2002. We exceeded the Connecticut slot revenue market growth rate for the year ended September 30, 2003 of 3.7%. The State of Connecticut reported slot revenues of \$1.56 billion and \$1.51 billion for the fiscal years ended September 30, 2003 and 2002, respectively.

Food and beverage revenues for the fiscal year ended September 30, 2004 compared to the prior fiscal year increased primarily as a result of an increase in average price per meal of 5.7%, partially offset by a decrease in the number of meals served, or food covers. The average price per meal was \$13.05 and \$12.35 for the fiscal years ended September 30, 2004 and 2003, respectively.

Food and beverage revenues for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002 increased as a result of a 10.8% increase in the number of food covers due to increased patronage at the casino and an increase in the average price per meal of 2.8%. These increases were primarily the result of the Mohegan Sun hotel and convention center being open for the entire fiscal year ended September 30, 2003. The average price per meal was \$12.35 and \$12.01 for the fiscal years ended September 30, 2003 and 2002, respectively.

The following table presents data related to our hotel revenues:

	For the Fiscal Years Ended September 30,						
	2004	2003	2002	Dollar Variance		Percentage Variance	
				04 vs. 03	03 vs. 02	04 vs. 03	03 vs. 02
Rooms occupied	375,100	335,900	114,900	39,200	221,000	11.7%	192.3%
Average daily room rate (ADR)	\$ 132	\$ 149	\$ 173	\$ (17)	\$ (24)	-11.4%	-13.9%
Occupancy rate	87%	78%	70%	9%	8%	11.5%	11.4%
Revenue per available room (REVPAR)	\$ 115	\$ 116	\$ 121	\$ (1)	\$ (5)	-0.9%	-4.1%

Hotel revenues decreased for the fiscal year ended September 30, 2004 compared to the prior fiscal year as a result of decreases in ADR and REVPAR offset by an increase in rooms occupied. The increase in rooms occupied and occupancy rate was due primarily to an increase in promotional programs directed to our casino patrons, which management believes yields a greater gaming revenue contribution than group and transient hotel patrons. Although the promotional programs extended to casino patrons provide lower room rates, which is reflected in the decrease in ADR and REVPAR during the fiscal year ended September 30, 2004, the increased hotel occupancy contributes to growth in gaming, food and beverage, and retail, entertainment and other revenues that more than offsets the declines in ADR and REVPAR.

Hotel revenues for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002 increased due to the operation of the Mohegan Sun hotel with approximately 1,200 available rooms for the entire 2003 fiscal year, compared to six months of operations in fiscal 2002.

Retail, entertainment and other revenues increased for the fiscal year ended September 30, 2004 compared to the prior fiscal year primarily as a result of increased entertainment revenues of 94.8%, or \$16.8 million. This increase in entertainment revenues was primarily the result of a substantial increase in the number of event tickets sold and the average ticket price at the Mohegan Sun Arena due primarily to a larger number of star headliner performances. Tickets sold for Mohegan Sun Arena events increased by 30.3% and average ticket price per event increased by 27.5% for the fiscal year ended September 30, 2004. Retail and other revenues increased by \$4.5 million for the year ended September 30, 2004 as a result of a \$2.6 million increase in gasoline revenues at the Mohegan Sun gasoline and convenience center and a \$1.9 million increase in rental revenues associated with the third party tenant restaurants and retail outlets in the Casino of the Sky, along with retail revenues from our stores.

Retail, entertainment and other revenues for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002 increased due primarily to an increase of \$7.4 million in retail and other revenues coupled with an increase of \$5.8 million in entertainment revenues. The increase in entertainment revenues was attributable primarily to a 63.6% increase in the number of arena events, including 20 home games played by the Connecticut Sun in its first year of operations in fiscal year 2003. The increase in retail and other revenues for the fiscal year ended September 30, 2003 was attributable primarily to increased patronage to the Mohegan Sun operated retail outlets and the Mohegan Sun gasoline and convenience center. This is combined with an increase in rental revenue associated with the third party tenant restaurants and retail outlets in the Casino of the Sky.

PROMOTIONAL ALLOWANCES

The retail value of providing promotional allowances is included in revenues as follows (in thousands):

	For the Fiscal Years Ended September 30,							
	2004	2003	2002	Dollar Variance		Percentage Variance		
				04 vs. 03	03 vs. 02	04 vs. 03	03 vs. 02	
Food and beverage	\$ 43,393	\$ 44,713	\$ 40,654	\$ (1,320)	\$ 4,059	-3.0%	10.0%	
Hotel	14,166	16,514	7,205	(2,348)	9,309	-14.2%	129.2%	
Retail, entertainment and other	53,448	41,725	40,308	11,723	1,417	28.1%	3.5%	
Total	\$ 111,007	\$ 102,952	\$ 88,167	\$ 8,055	\$ 14,785	7.8%	16.8%	

The estimated cost of providing promotional allowances is included in operating costs and expenses, primarily gaming, as follows (in thousands):

	For the Fiscal Years Ended September 30,							
	2004	2003	2002	Dollar Variance		Percentage Variance		
				04 vs. 03	03 vs. 02	04 vs. 03	03 vs. 02	
Food and beverage	\$ 42,837	\$ 43,839	\$ 40,542	\$ (1,002)	\$ 3,297	-2.3%	8.1%	
Hotel	5,916	6,257	3,921	(341)	2,336	-5.4%	59.6%	
Retail, entertainment and other	42,496	32,459	31,682	10,037	777	30.9%	2.5%	
Total	\$ 91,249	\$ 82,555	\$ 76,145	\$ 8,694	\$ 6,410	10.5%	8.4%	

Promotional allowances for the fiscal year ended September 30, 2004 compared to the prior fiscal year increased due to higher retail, entertainment and other complimentary offset by lower hotel complimentary consistent with the decrease in ADR and lower food and beverage complimentary due to the decrease in meals served. The increase in retail, entertainment and other promotional allowances was due primarily to higher entertainment complimentary resulting from higher attendance and retail prices of tickets for events at the Mohegan Sun Arena. Increases in Player's Club points and coupons redeemed at Mohegan Sun managed retail outlets, including the Mohegan Sun gasoline and convenience center, also contributed to the increase in retail, entertainment and other promotional allowances.

Promotional allowances for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002 increased due to an increase in hotel complimentary in the fiscal year ended September 30, 2003. The increase in hotel promotional allowances is attributable to the Mohegan Sun hotel being opened for the entire 2003 fiscal year, compared to only six months of operations in 2002. Additional increases included an increase in food, beverage, retail and gas complimentary associated with increased volumes in the food and retail outlets owned by Mohegan Sun and in the Mohegan Sun gasoline and convenience center.

OPERATING COSTS AND EXPENSES

Operating costs and expenses consisted of the following (in thousands):

	For the Fiscal Years Ended September 30,						
	2004	2003	2002	Dollar Variance		Percentage Variance	
				04 vs. 03	03 vs. 02	04 vs. 03	03 vs. 02
Gaming	\$ 631,498	\$ 603,555	\$ 544,051	\$ 27,943	\$ 59,504	4.6%	10.9%
Food and beverage	43,264	39,206	34,275	4,058	4,931	10.4%	14.4%
Hotel	15,440	14,137	5,989	1,303	8,148	9.2%	136.0%
Retail, entertainment and other	41,870	38,482	26,980	3,388	11,502	8.8%	42.6%
Advertising, general and administrative	179,179	171,362	141,073	7,817	30,289	4.6%	21.5%
Corporate development	1,566	—	—	1,566	—	—	—
Pre-opening costs and expenses	—	—	7,755	—	(7,755)	—	-100.0%
Depreciation and amortization	93,595	92,123	78,721	1,472	13,402	1.6%	17.0%
Relinquishment liability reassessment	3,897	(22,710)	(19,631)	26,607	(3,079)	117.2%	-15.7%
Total	\$ 1,010,309	\$ 936,155	\$ 819,213	\$ 74,154	\$ 116,942	7.9%	14.3%

Gaming costs and expenses for the fiscal year ended September 30, 2004 compared to the prior fiscal year increased primarily as a result of increased marketing efforts, including costs incurred for special promotional events, and an increase in the slot win contribution payments to the State of Connecticut. We recorded expenses associated with the slot win contribution of \$208.2 million and \$194.3 million for the fiscal years ended September 30, 2004 and 2003, respectively. Additionally, the increased patronage resulted in an increase in the redemption of Mohegan Sun Player's Club points in the outlets owned by Mohegan Sun, and, to a lesser extent, the third party tenant restaurants and third party tenants at the Shops at Mohegan Sun, resulting in increased costs allocated to gaming expenses. These increases in gaming costs and expenses were partially offset by a decrease in direct gaming labor costs. Efficiencies achieved in gaming operations caused gaming costs and expenses as a percentage of gaming revenues to decrease from 56.9% for the fiscal year ended September 30, 2003 to 56.1% for the fiscal year ended September 30, 2004.

Gaming costs and expenses for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002 increased due to an increase in labor costs, including employee benefit costs, for the fiscal year to support the 10.7% increase in gaming revenues. We recorded expenses associated with the slot win contribution totaling \$194.3 million and \$179.6 million for the fiscal years ended September 30, 2003 and 2002, respectively. Additionally, increased patronage resulted in an increase in the redemption of Mohegan Sun Player's Club points in the outlets owned by Mohegan Sun, as well as third party tenant restaurants and third party tenants at the Shops at Mohegan Sun, resulting in increased costs allocated to gaming expenses.

Food and beverage costs and expenses for the fiscal year ended September 30, 2004 compared to the prior fiscal year increased due to higher cost of goods sold due to price increases. The increase in cost of goods sold was slightly offset by a decrease in direct labor costs for the food division.

Food and beverage costs and expenses for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002 increased due to the opening of the Mohegan Sun hotel and convention center in April 2002, which resulted in a 10.8% increase in the number of food covers for the fiscal year ended September 30, 2003. The increased volume resulted in higher food and beverage operating costs, particularly labor costs, and an increase in cost of goods sold directly related to the increase in fiscal year 2003 revenues. The net cost of goods sold percentage for food was 32.3% for the fiscal year ended September 30, 2003 compared to 33.6% for the fiscal year ended September 30, 2002.

The net cost of goods sold for beverage was 24.8% for the fiscal year ended September 30, 2003 compared to 25.6% for the fiscal year ended September 30, 2002.

Hotel costs and expenses for the fiscal year ended September 30, 2004 compared to the prior fiscal year increased primarily as a result of increased labor costs related to the increase in the amount of rooms occupied in the year ended September 30, 2004.

Hotel costs and expenses for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002 increased due to the effect of operating the Mohegan Sun hotel with approximately 1,200 rooms for the entire fiscal year ended September 30, 2003, compared to only six months of operations in fiscal 2002.

Retail, entertainment and other costs and expenses for the fiscal year ended September 30, 2004 compared to the prior fiscal year increased primarily as a result of higher entertainment costs associated with a change in the mix of entertainers and events during the fiscal year ended September 30, 2004. During fiscal year 2004, we continued efforts to increase attendance by offering a larger number of star headliner performers at a greater cost to us. This increase was partially offset by a substantial increase in entertainment complimentarys, which resulted in a higher amount of entertainment costs and expenses being allocated to gaming costs and expenses than in the fiscal year ended September 30, 2003. The increase during the fiscal year ended September 30, 2004 was also attributable to a higher cost of gasoline supporting the increase in revenues from our gasoline and convenience center. Despite the increases mentioned above, improvements in the relationship between arena ticket prices and the cost of entertainers contributed to retail, entertainment and other costs and expenses as a percentage of retail, entertainment and other revenues decreasing from 48.3% for the fiscal year ended September 30, 2003 to 41.5% for the fiscal year ended September 30, 2004.

Retail, entertainment and other costs and expenses for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002 increased due to an increase in the number of arena events and entertainment costs associated with the events held in the Mohegan Sun Arena during the fiscal year ended September 30, 2003. There were 108 events in the Mohegan Sun Arena during the fiscal year ended September 30, 2003 compared to 66 events during the fiscal year ended September 30, 2002. The Connecticut Sun incurred \$2.3 million in retail and entertainment costs and expenses in its first year of operations in the fiscal year ended September 30, 2003. Increases were also attributable to higher cost of sales supporting the increase in retail revenues pertaining to Mohegan Sun operated retail outlets and the Mohegan Sun gasoline and convenience center.

Advertising, general and administrative costs and expenses for the fiscal year ended September 30, 2004 compared to prior the fiscal year increased as a result of increased labor costs for advertising, general and administrative departments, in addition to increases in facility maintenance costs and costs related to Sarbanes-Oxley compliance, offset by decreases in advertising and promotional costs. Despite the increases mentioned above, the growth rate in general and administrative expenses decreased substantially in fiscal year 2004 to 4.6% compared to a 21.5% growth rate in fiscal year 2003.

Advertising, general and administrative costs and expenses for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002 increased due to increases in costs to operate the expanded facility, such as increased utilities, engineering, cleaning and maintenance services and information technology. Additional increases were attributed to labor costs, including employee benefit costs, advertising costs, property insurance costs, workers' compensation costs, and reimbursements to the Tribe for governmental and administrative services.

During fiscal 2004, we began corporate development activities related to the diversification of the Tribe's business interests through us. These activities included the identification and evaluation of business opportunities, such as management, development or ownership of, or investment in, other gaming enterprises through direct investments, acquisitions, joint venture arrangements and loan transactions. There were no such related costs during the fiscal years ended September 30, 2003 and 2002.

Pre-opening costs and expenses associated with the opening of the hotel were \$7.8 million for the fiscal year ended September 30, 2002. There were no pre-opening costs and expenses for the fiscal years ended September 30, 2004 and 2003.

Depreciation and amortization for the fiscal year ended September 30, 2004 compared to the prior fiscal year increased primarily due to the termination of certain Connecticut Sun player contracts and the resulting write-off of \$1.0 million of the related portion of the player roster value intangible asset and the placement of new capital assets into service relating to casino renovations completed during the first quarter of fiscal 2004.

Depreciation and amortization for the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002 increased as a result of placing assets in service related to the opening of the Mohegan Sun hotel in April 2002, and the Thames and Indian Summer parking garages in April 2002 and June 2002, respectively.

Relinquishment liability reassessment for the fiscal year ended September 30, 2004 had the effect of increasing operating expenses compared to the reassessment in the prior fiscal year, which had the effect of reducing operating expenses. The relinquishment liability reassessment charge in fiscal year 2004 was the result of our review of current revenue forecasts, including the estimated timing and extent of future competition, which led to increased revenue projections for the near future but reduced overall revenue projections for the period in which the relinquishment agreement applies.

Relinquishment liability reassessments for the fiscal years ended September 30, 2003 and 2002 had the effect of reducing operating expenses. The relinquishment liability reassessment in fiscal year 2003 was the result of a reduction in revenue projections for the period in which the relinquishment agreement applies due to future competition from potential additional commercial casinos.

OTHER INCOME (EXPENSE)

Other income (expense) consisted of the following (in thousands):

	2004	2003	2002	For the Fiscal Years Ended September 30,			
				Dollar Variance		Percentage Variance	
				04 vs. 03	03 vs. 02	04 vs. 03	03 vs. 02
Accretion of discount to the relinquishment liability (1)	\$ (29,939)	\$ (33,592)	\$ (36,333)	\$ 3,653	\$ 2,741	-10.9%	-7.5%
Interest income	232	269	418	(37)	(149)	-13.8%	-35.6%
Interest expense, net of capitalized interest	(78,970)	(83,492)	(76,635)	4,522	(6,857)	-5.4%	8.9%
Loss on early extinguishment of debt	(34,138)	(27,396)	—	(6,742)	(27,396)	24.6%	—
Write-off of debt issuance costs	—	(403)	(826)	403	423	-100.0%	-51.2%
Other expense, net	(933)	(1,034)	(272)	101	(762)	-9.8%	280.1%
Total	\$ (143,748)	\$ (145,648)	\$ (113,648)	\$ 1,900	\$ (32,000)	-1.3%	28.2%

(1) Our accretion of the discount to the relinquishment liability reflects the impact of the time value of money, discounted to present value.

Interest expense for the fiscal year ended September 30, 2004 compared to the prior fiscal year decreased primarily as the result of reduced weighted average debt outstanding. Weighted average debt outstanding decreased to \$1.09 billion for the year ended September 30, 2004, from \$1.15 billion for the year ended September 30, 2003, due to lower average principal amounts borrowed and outstanding from our bank credit facilities. The weighted average interest rate was 7.3% for the fiscal years ended September 30, 2004 and 2003.

Interest expense, net of capitalized interest, for the fiscal year ended September 30, 2003 increased from the fiscal year ended September 30, 2002 primarily as a result of a decrease in the amount of interest capitalized due to the completion of Project Sunburst and an increase in our weighted average debt outstanding, partially offset by a decrease in the weighted average interest rate. The weighted average

debt outstanding was \$1.15 billion for the year ended September 30, 2003, compared to \$1.07 billion for the prior fiscal year. The weighted average interest rate was 7.3% for the year ended September 30, 2003 compared to 8.3% for the prior fiscal year. Capitalized interest was \$12.4 million for the fiscal year ended September 30, 2002. There was no capitalized interest for the fiscal year ended September 30, 2003. The decrease in our weighted average interest rate was due to lower floating interest rates and a favorable change in fair value related to derivative instruments of \$3.0 million for the fiscal year ended September 30, 2003 compared to a favorable change in fair value related to derivative instruments of \$1.3 million for the fiscal year ended September 30, 2002. Additionally, there were interest settlements of \$4.1 million received on derivative instruments held, which we recorded as a reduction to interest expense in the fiscal year ended September 30, 2003 compared to interest settlements of \$4.0 million paid on derivative instruments held, which we recorded as an increase to interest expense in the fiscal year ended September 30, 2002.

Loss on early extinguishment of debt in fiscal year 2004 is related to the refinancing of \$186.0 million of our outstanding 8 1/8% senior notes due 2006 and \$133.7 million of our outstanding 8 3/8% senior subordinated notes due 2011. The loss also includes the redemption of our remaining \$5.2 million 8 3/4% senior subordinated notes due 2009. Loss on early extinguishment of debt in fiscal year 2003 is associated with the refinancing of our \$300.0 million 8 3/4% senior subordinated notes due 2009. There was no loss on early extinguishment of debt for the fiscal year ended September 30, 2002.

Write-off of debt issuance costs for the fiscal years ended September 30, 2003 and 2002 were related to the repayment of the entire outstanding indebtedness under the previous credit facility in March 2003 and the previous credit facility commitment reduction from \$500.0 million to \$400.0 million in March 2002, respectively. There was no write-off of debt issuance costs for the fiscal year ended September 30, 2004.

SEASONALITY

The gaming industry in Connecticut is seasonal in nature, with the heaviest gaming activity often occurring at Mohegan Sun between May and August. Accordingly, the results of operations for the fiscal year ended September 30, 2004 are not necessarily indicative of the operating results for interim periods.

LIQUIDITY, CAPITAL RESOURCES AND CAPITAL SPENDING

Our cash flows consisted of the following (in thousands):

	2004	2003	2002	For the Fiscal Years Ended September 30,			
				Dollar Variance		Percentage Variance	
				04 vs. 03	03 vs. 02	04 vs. 03	03 vs. 02
Net cash provided by operating activities	\$ 215,053	\$ 195,484	\$ 183,699	\$ 19,569	\$ 11,785	10.0%	6.4%
Net cash used in investing activities	(32,514)	(59,288)	(352,255)	26,774	292,967	-45.2%	-83.2%
Net cash provided by (used in) financing activities	(195,009)	(147,949)	179,289	(47,060)	(327,238)	31.8%	-182.5%
Net increase (decrease) in cash and cash equivalents	\$ (12,470)	\$ (11,753)	\$ 10,733	\$ (717)	\$ (22,486)	6.1%	-209.5%

As of September 30, 2004 and September 30, 2003, we held cash and cash equivalents of \$60.8 million and \$73.3 million, respectively. Due to the cash-based nature of our business, operating cash flow levels tend to follow trends in our operating income excluding the effects of non-cash charges, such as depreciation and amortization and relinquishment liability reassessment. The increase in cash provided by operating activities for the year ended September 30, 2004 is attributable primarily to the increase in operating income after adjustments for non-cash items.

Operating activities are a significant source of our cash flows. We use our cash flows provided by operating activities primarily to meet our working capital requirements and to reduce our debt and

provide distributions to the Tribe. While we do not believe that there is any trend or a likely event that would adversely impact the level of our cash flows provided by operating activities, there are numerous potential factors which may cause a substantial reduction in the amount of such cash flows, including, but not limited to, the following:

- increased competition in the gaming industry, including the legalization or expansion of gaming in Connecticut, New York, New Jersey, Massachusetts and Rhode Island, which may result in a substantial decrease in revenue;
- downturn in the economy and lack of consumer confidence, which would result in reduced spending on discretionary items such as gaming activities;
- an infrastructure or transportation disruption, such as the closure of Interstate 95 through Connecticut, for an extended period of time; and
- an act of terrorism in the United States of America.

In addition to cash generated by operating activities, we have relied on external sources of liquidity to meet our investing requirements. The increase in cash used in financing activities for the year ended September 30, 2004 is attributable primarily to a \$32.4 million increase in the net reduction of outstanding debt balances, a higher amount of distributions provided to the Tribe, a \$6.2 million increase in the net cash activity from the termination of our derivative instruments and a higher amount of payments on the principal portion of the relinquishment liability. The decrease in cash used in investing activities for the year ended September 30, 2004 is attributable primarily to lower funds disbursed for capital expenditures. Please refer to "Capital Expenditures" below for further detail regarding our capital expenditures for the fiscal years ended September 30, 2004 and 2003.

EXTERNAL SOURCES OF LIQUIDITY

NOTES. We previously financed much of the costs of construction and initial operations with the net proceeds raised from the issuance of notes. As of September 30, 2004, we had \$14.0 million outstanding in 8 1/8% senior notes due January 1, 2006, or the senior notes; \$16.3 million outstanding in 8 3/8% senior subordinated notes due January 1, 2011 and first callable July 1, 2006, or the 2001 senior subordinated notes; \$250.0 million outstanding in 8% senior subordinated notes due April 1, 2012 and first callable April 1, 2007, or the 2002 senior subordinated notes; \$330.0 million outstanding in 6 3/8% senior subordinated notes due July 15, 2009 and callable at any time, or the 2003 senior subordinated notes; and \$225.0 million outstanding in 7 1/8% senior subordinated notes due 2014 and first callable on August 15, 2009. MBC is a guarantor of each of these notes. Refer to Note 7 to our consolidated financial statements for a further discussion of these notes.

On July 15, 2004, we commenced a cash tender offer and consent solicitation to repurchase any or all of our outstanding senior notes, at a subsequently determined price of 107.068% and any or all of our outstanding 2001 senior subordinated notes at a subsequently determined price of 113.355% of the original principal amount tendered. The tender offer expired on August 11, 2004. As part of the tender offer, we solicited and received requisite consents to certain proposed amendments to the indentures governing the senior notes and 2001 senior subordinated notes which eliminated substantially all of the restrictive covenants thereunder. The aggregate amount paid for the senior notes at the initial closing on August 3, 2004 was \$200.5 million, which represented an original principal amount of senior notes tendered of approximately \$186.0 million, a tender and consent solicitation premium of \$13.2 million and accrued interest of \$1.3 million. The aggregate amount paid for the 2001 senior subordinated notes at the initial closing was \$152.5 million, which represented an original principal amount of senior subordinated notes tendered of approximately \$133.7 million, a tender and consent solicitation premium of \$17.8 million and accrued interest of \$995,000. No additional senior notes or 2001 senior subordinated notes were tendered after the initial closing.

On August 3, 2004, we issued \$225.0 million senior subordinated notes due 2014 with fixed interest payable at a rate of 7 1/8% per annum, or the 2004 senior subordinated notes. The net proceeds from this financing were used to repurchase the outstanding 2001 senior subordinated notes and a portion of the outstanding senior notes tendered in the tender offer described above and to pay fees and expenses

associated with the issuance. We also used \$130.0 million of availability under our bank credit facility to repurchase the remaining outstanding senior notes, as tendered. The 2004 senior subordinated notes mature on August 15, 2014. The first call date for the 2004 senior subordinated notes is August 15, 2009. Interest on the 2004 senior subordinated notes is payable semi-annually on February 15 and August 15, with the first interest payment scheduled for February 15, 2005. The 2004 senior subordinated notes are our uncollateralized general obligations and are subordinated to the bank credit facility, the remaining senior notes, and in a liquidation, bankruptcy or similar proceeding, 50% of our payment obligations under the relinquishment agreement that are then due and owing. The 2004 senior subordinated notes rank equally with the remaining 2001 senior subordinated notes, the 2002 senior subordinated notes, the 2003 senior subordinated notes and the remaining 50% of our payment obligations under the relinquishment agreement that are then due and owing. MBC is a guarantor of the 2004 senior subordinated notes.

Standard and Poor's Ratings Services recently downgraded the credit rating on our senior subordinated debt from BB- to B+, primarily to reflect an anticipated increase in our ratio of debt to earnings related to the anticipated additional financings needed to fund the Pocono Downs acquisition and subsequent development plans. Moody's Investors Services maintained its rating of Ba3 on our senior subordinated debt following our announcement of the Pocono Downs acquisition.

BANK CREDIT FACILITY. We have a recently amended loan agreement for up to \$600.0 million from a syndicate of financial institutions and commercial banks, with Bank of America, N.A. serving as administrative agent, or the bank credit facility. The bank credit facility is comprised of a revolving loan of up to \$450.0 million and a \$150.0 million term loan, both of which mature on March 31, 2008. The maximum aggregate principal amount of \$600.0 million available for borrowing includes amounts available under letters of credit. As of September 30, 2004, the amount available under letters of credit totaled \$250,000, of which no amount was drawn. Pursuant to the terms of the bank credit facility, the term loan shall reduce by one-eleventh of the initial principal balance, or approximately \$13.6 million, beginning on September 30, 2005 and continuing each quarter thereafter. The revolving loan has no mandatory amortization provisions and is payable in full on March 31, 2008. Also, pursuant to the terms of the bank credit facility, the term loan shall reduce automatically and permanently on the date and by the amount of any voluntary prepayment of the term loan. Excluding limitations under the line of credit described below, we had \$202.8 million available for borrowing under the bank credit facility as of September 30, 2004, which does not give effect to the recent amendment.

The bank credit facility is collateralized by a lien on substantially all of our assets and a leasehold mortgage on the land and improvements which comprise Mohegan Sun. We will also be required to pledge additional assets, such as the assets of Pocono Downs and other restricted subsidiaries, as collateral after we acquire them. In addition, our obligations under the bank credit facility are guaranteed by MBC. The bank credit facility subjects us to a number of restrictive covenants, including financial covenants. These financial covenants relate to, among other things, our permitted total debt and senior debt leverage ratios, our minimum fixed charge coverage ratio and our maximum capital expenditures. The bank credit facility includes non-financial covenants by us and the Tribe of the type customarily found in loan agreements for similar transactions including requirements that:

- the Tribe preserve its existence as a federally recognized Indian tribe;
- the Tribe causes us to continually operate Mohegan Sun in compliance with all applicable laws; and
- except under specific conditions, limit us from selling or disposing of our assets, limit the incurrence by us of other debt or contingent obligations and limit our ability to extend credit, make investments or commingle our assets with assets of the Tribe.

At our option, each advance of loan proceeds accrues interest on the basis of a base rate or on the basis of a one-month, two-month, three-month, six-month or twelve-month London Inter-Bank Offered Rate, or LIBOR, plus in either case, the applicable spread at the time each loan is made. We also pay commitment fees for the unused portion of the \$450.0 million revolving loan on a quarterly basis equal to the applicable spread for commitment fees times the average daily unused commitment for that calendar quarter. Applicable spreads are based on our total leverage ratio, as defined in the bank credit facility. The applicable spread for base rate advances will be between 0.50% and 1.25%, and the applicable spread

for LIBOR rate advances will be between 1.75% and 2.50%. The applicable spread for commitment fees will be between 0.375% and 0.50%. The base rate is the higher of Bank of America's announced prime rate or the federal funds rate plus 0.50%. Interest on LIBOR loans is payable at the end of each applicable interest period or quarterly in arrears, if earlier. Interest on base rate advances will be payable quarterly in arrears. As of September 30, 2004, we had \$100.7 million in base rate loans and \$79.0 million in LIBOR rate loans outstanding. The LIBOR rate loans outstanding as of September 30, 2004 were based on a one-month LIBOR rate of 1.68% plus an applicable spread of 2.0%. The base rate loans outstanding at September 30, 2004 were based on the bank's prime rate of 4.75% plus an applicable spread of 0.75%. The applicable spread for commitment fees was 0.5% as of September 30, 2004.

LINE OF CREDIT. We have a \$25.0 million revolving loan agreement with Bank of America (formerly Fleet National Bank), or the line of credit. At our option, each advance accrues interest on the basis of the bank's variable prime rate or on the basis of seven or thirty day LIBOR, plus the applicable spread at the time the advance is made pursuant to the terms of the line of credit. Borrowings under the line of credit are our uncollateralized obligations. The line of credit expires in March 2006. The line of credit subjects us to certain covenants, including a covenant to maintain at least \$25.0 million available for borrowing under the bank credit facility. As of September 30, 2004, we were in compliance with all covenant requirements in the line of credit. As of September 30, 2004, we had \$19.9 million available for borrowing under the line of credit. The interest rate in effect at September 30, 2004 was 3.33% on the outstanding balance on the line of credit.

CAPITAL EXPENDITURES

Capital Expenditures Incurred

Capital expenditures totaled \$30.7 million for the fiscal year ended September 30, 2004, compared to \$30.3 million for the fiscal year ended September 30, 2003. These capital expenditures were an aggregate of the following:

- Property maintenance capital expenditures totaled \$29.6 million and \$29.1 million for the fiscal years ended September 30, 2004 and 2003, respectively. For the fiscal year ended September 30, 2004, these expenditures included \$7.3 million in renovations and the purchase of slot machines added to gaming space formerly used for poker operations and to the keno gaming area and to add 14 new table games in the Casino of the Earth.
- Cumulative Project Sunburst capital expenditures totaled \$1.06 billion, including \$63.5 million in capitalized interest, through September 30, 2004. During the fiscal years ended September 30, 2004 and 2003, Project Sunburst capital expenditures totaled \$748,000 and \$1.2 million, respectively, with no amounts recorded as capitalized interest.
- Capital expenditures for the Thames and Indian Summer parking garages totaled \$359,000 for the fiscal year ended September 30, 2004.

Expected Future Capital Expenditures

We anticipate capital expenditures at Mohegan Sun to be between \$45.0 million and \$55.0 million for the 2005 fiscal year, comprised primarily of anticipated maintenance capital expenditures. We have also agreed to pay \$280.0 million, subject to certain adjustments, for the acquisition of Pocono Downs. We also anticipate that we will spend up to \$175.0 million on the construction, furnishing and equipping of a new slot machine facility at Pocono Downs, in addition to paying a one-time \$50.0 million fee to the Commonwealth of Pennsylvania upon receipt of a gaming license.

Sources of Funding for Capital Expenditures

We will rely primarily on cash generated from operations to finance capital expenditures at Mohegan Sun. The purchase of Pocono Downs is expected to be funded through our recently amended bank credit facility. Subsequent expenditures for Pocono Downs, as described above, are expected to be funded through additional bank financing and/or the issuance of new senior subordinated notes.

Interest Expense

For the years ended September 30, 2004, 2003 and 2002 we incurred the following in interest expense (in thousands):

	For the Fiscal Years Ended September 30,		
	2004	2003	2002
New credit facility	\$ 6,850	\$ 4,690	\$ —
Old credit facility	—	4,628	12,312
8 1/8% senior notes	13,730	16,250	16,250
1999 8 3/4% senior subordinated notes	134	20,446	26,250
2001 8 3/8% senior subordinated notes	10,697	12,563	12,563
2002 8% senior subordinated notes	20,000	20,000	12,278
2003 6 3/8% senior subordinated notes	21,037	4,792	—
2004 7 1/8% senior subordinated notes	2,583	—	—
WNBA note	205	150	—
Line of credit	179	316	17
Change in fair value of derivative instruments	—	(2,994)	(1,254)
Interest settlement—derivative instruments	(2,552)	(4,082)	3,961
Reclassification of derivative instrument losses to earnings	303	787	—
Amortization of deferred gain on sale of derivative instruments	(117)	(741)	—
Amortization of debt issuance costs	5,921	6,687	6,602
Capital lease obligations	—	—	9
Capitalized interest	—	—	(12,353)
Total interest expense	\$ 78,970	\$ 83,492	\$ 76,635

SUFFICIENCY OF RESOURCES

We believe that existing cash balances, financing arrangements and operating cash flows will provide us with sufficient resources to meet our existing debt obligations, relinquishment payments, distributions to the Tribe and foreseeable capital expenditure requirements with respect to current operations for the next twelve months. Distributions to the Tribe are anticipated to total \$67.5 million and \$70.0 million for fiscal years 2005 and 2006, respectively. The planned acquisition of Pocono Downs in January 2005 will be funded through our recently amended bank credit facility. Subsequent investments in Pocono Downs related to the payment of a one time gaming license fee in Pennsylvania and the development of a slot machine facility at the racetrack will be funded through additional bank financing and/or the issuance of new senior subordinated notes.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Our future payment obligations related to our material debt and certain other contractual obligations and the timing of those payments are set forth below.

Contractual Obligations (in thousands)	Total	Payments due by period			
		Less than 1 year (1)	1-3 years	3-5 years	More than 5 years
Long-term debt (2)	\$ 1,030,618	\$ 23,272	\$ 125,062	\$ 388,939	\$ 493,345
Pocono Downs purchase obligation (3)	280,000	280,000	—	—	—
Cowlitz Project obligations (4)	14,926	11,042	3,884	—	—
Total	\$ 1,325,544	\$ 314,314	\$ 128,946	\$ 388,939	\$ 493,345

(1) Amounts represent obligations expected to be incurred from October 1, 2004 to September 30, 2005.

(2) Long-term debt includes maturities scheduled as of September 30, 2004 for our senior and senior subordinated notes, amounts required to be paid pursuant to the bank credit facility, taking into effect Amendment No. 3 in October 2004, and our other debt agreements, but excludes interest payments. Refer to Note 7 to our consolidated financial statements.

(3) Pocono Downs purchase obligation relates to the purchase price agreed upon with Penn National Gaming, Inc. for the acquisition of Pocono Downs. Refer to Note 16 of the consolidated financial statements.

(4) Cowlitz Project obligations include land purchase option payments of \$7.8 million and \$3.9 million for the 2005 and 2006 fiscal years, respectively, excluding interest payments. Salishan-Mohegan also has an obligation to incur up to \$2.8 million for the development of the Cowlitz Project, which is expected to occur in fiscal year 2005. In addition, there is a \$500,000 obligation for additional funding to the Cowlitz Tribe for fiscal year 2005. Refer to Note 14 of the consolidated financial statements.

In addition to the contractual obligations described above, we have certain other contractual commitments as of September 30, 2004 that require payments during the periods described below. The calculation of the estimated payments in the table below are based, in large part, on projections of future revenues over an extended period of time, as well as other factors which are indicated more fully in the footnotes to the following table. Since there are estimates and judgments used with respect to calculating these liabilities, future events that affect such estimates and judgments may cause the actual payments to differ from the estimates set forth below. The amounts included in the table are estimates and, while some agreements are perpetual in term, for the purposes of calculating these amounts, we have assumed that the table contains information for only ten years.

Contractual Commitments (in thousands)	Payments due by period			
	Less than 1 year (1)	1-3 years	3-5 years	5-10 years
Slot Win Contribution (2)	\$ 220,818	\$ 435,573	\$ 337,684	\$ 884,492
Relinquishment commitments (3)	72,543	137,548	106,636	279,310
Priority distributions (4)	15,726	32,825	34,824	96,624
Town of Montville commitment (5)	500	1,000	1,000	2,500
Total	\$ 309,587	\$ 606,946	\$ 480,144	\$ 1,262,926

(1) Amounts represent payment commitments from October 1, 2004 to September 30, 2005.

(2) Slot win contributions are a portion of the gross slot revenues that must be paid by us to the State of Connecticut pursuant to the Mohegan Compact. The slot win contribution is the lesser of (a) 30% of gross slot revenues, or (b) the greater of (i) 25% of gross slot revenues or (ii) \$80.0 million. The amounts shown in this table are estimates of the required payments for the next ten years.

(3) Relinquishment payments are made by us to TCA under a relinquishment agreement. Relinquishment payments are five percent of revenues, as defined in the relinquishment agreement. The amounts shown

in this table are estimates of the required payments for the next ten years and have been calculated in accordance with the relinquishment agreement. Refer to Note 12 to our consolidated financial statements for a further discussion of how the relinquishment payments are calculated.

(4) Priority distributions are monthly payments required to be made by us to the Tribe pursuant to the priority distribution agreement. Refer to Note 11 to our consolidated financial statements for a further discussion of the priority distribution agreement. The payments are calculated based on net cash flows and are limited to a maximum amount of \$14.0 million pursuant to the priority distribution agreement, as adjusted annually based on the Consumer Price Index, or CPI. The amounts included in the table are estimates of the required payments for the next ten years and, while this agreement is perpetual in term, for the purposes of calculating these amounts, we have assumed that we will pay the maximum amount in each of the years covered by the table, as adjusted by an annual CPI adjustment of 2.30%.

(5) We have an agreement with the town of Montville to pay the town an annual payment of \$500,000 to minimize the impact on the town resulting from the decreased tax revenues on reservation land held in trust.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management has identified the following critical accounting policies that affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. The preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, management evaluates those estimates, including those related to asset impairment, relinquishment liability, accruals for unredeemed Player's Club points, self-insurance, compensation and related benefits, revenue recognition, allowance for doubtful accounts, contingencies and litigation. These estimates are based on the information that is currently available to us and on various other assumptions that management believes to be reasonable under the circumstances. Actual results could vary from those estimates.

We believe that the following critical accounting policies affect significant judgments and estimates used in the preparation of our consolidated financial statements:

REVENUE RECOGNITION

We recognize gaming revenues as gaming wins less gaming losses. Revenues from food and beverage, hotel, retail, entertainment and other services are recognized at the time the service is performed. Minimum rental revenues are recognized on a straight-line basis over the terms of the related leases. Percentage rents are recognized in the period in which the tenants exceed their respective percentage rent thresholds.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, which results in bad debt expense. Management determines the adequacy of this allowance by continually evaluating individual customer receivables, considering the customer's financial condition, credit history and current economic conditions. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

UNREDEEMED PLAYER'S CLUB POINTS

We maintain an accrual for unredeemed Player's Club points, as more fully described under "—Explanation of Key Financial Statement Captions—Promotional Allowances." The accrual is based on the estimated cost of the points expected to be redeemed at each balance sheet date. Management determines the adequacy of this accrual by periodically evaluating the historical redemption experience and projected trends related to this accrual. Actual results could differ from those estimates.

SELF-INSURANCE ACCRUALS

We are self-insured up to certain limits for costs associated with workers' compensation and employee medical coverage. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of estimates of incurred but not reported claims. In estimating these costs, we consider historical loss experience and make judgments about the expected levels of costs per claim. We also use information provided by independent consultants to assist in the determination of estimated accruals. These claims are accounted for based on estimates of the undiscounted claims, including those claims incurred but not reported. We believe the use of these estimates to account for these liabilities provides a consistent and effective way to measure these accruals; however, changes in health care costs, accident frequency and severity and other factors can materially affect the estimate for these liabilities. We continually monitor the potential changes in future estimates, evaluate insurance accruals and make adjustments when necessary.

DERIVATIVE INSTRUMENTS

We use derivative instruments, including interest rate caps, collars and swaps in our strategy to manage interest rate risk associated with the variable interest rate on our bank credit facility and the fixed interest rates on our senior notes and senior subordinated notes. Our objective in managing interest rate risk is to achieve the lowest possible cost of debt and manage volatility in the effective cost of debt. We continually monitor risk exposures from derivative instruments held and make the appropriate adjustments to manage these risks within management's established limits. We account for our derivative instruments in accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," or SFAS 133, which requires that all derivative instruments be recorded on the consolidated balance sheet at fair value. In order to qualify for hedge accounting in accordance with SFAS 133, the underlying hedged item must expose us to risks associated with market fluctuations and the financial instrument used must be designated as a hedge and must reduce our exposure to market fluctuation throughout the hedge period. If these criteria are not met, a change in the market value of the financial instrument is recognized as a gain or loss and is recorded as a component to interest expense in the period of change. We exclude the change in the time value of money when assessing the effectiveness of the hedging relationship. All derivatives are evaluated quarterly.

RELINQUISHMENT LIABILITY

In accordance with SFAS 5, we have recorded a relinquishment liability of the estimated present value of our obligations under the relinquishment agreement. We reassess the relinquishment liability (i) annually in conjunction with our budgeting process or (ii) when necessary to account for material increases or decreases in projected revenues over the relinquishment period. If the reassessment causes an overall increase to the projected revenues over the relinquishment period, the relinquishment liability will be increased by five percent of such increase in revenues, discounted at our risk-free rate of investment (an incremental layer). If the reassessment causes an overall decrease to the projected revenues over the relinquishment period, the relinquishment liability will be decreased by five percent of such decrease in revenues, discounted based upon a weighted-average discount rate (a decremental layer). The weighted-average discount rate is defined as the average discount rate used to discount all the previous incremental layers weighted by the amount of each such incremental layer. Further, we record a quarterly accretion to the relinquishment liability to reflect the impact of the time value of money. Since there is a high level of estimates and judgments used with respect to calculating this liability, future events that affect such estimates and judgments may cause the actual liability to differ significantly from the estimate.

INTANGIBLE ASSETS

Our trademark is no longer subject to amortization as it has been deemed to have an indefinite useful life. The trademark is evaluated periodically for impairment by applying a fair-value based test and, if impairment occurs, the amount of impaired trademark will be written off immediately. The intangible assets associated with the acquisition of the WNBA franchise are assessed periodically for impairment pursuant to appropriate accounting standards.

LITIGATION

We are subject to various claims and legal actions in the ordinary course of business. Some of these matters relate to personal injuries to customers and damage to customers' personal assets. Management estimates guest claims expense and accrues for such liabilities based upon historical experience in the other current liabilities category in our accompanying consolidated balance sheets.

IMPACT OF INFLATION

Absent changes in competitive and economic conditions or in specific prices affecting the hotel and casino industry, we do not expect that inflation will have a significant impact on our operations. Changes in specific prices, such as fuel and transportation prices, relative to the general rate of inflation may have a material adverse effect on the hotel and casino industry in general.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities—an interpretation of ARB No. 51," or FIN 46. FIN 46 provides an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," regarding the consolidation of variable interest entities and the corresponding improvement in the financial reporting by enterprises involved with these entities. In December 2003, the FASB deferred the latest date by which we must apply FIN 46 to the first reporting period beginning after December 15, 2004 for variable interest entities acquired prior to January 31, 2003. FIN 46 is currently effective for all new variable interest entities created or acquired after January 31, 2003. In accordance with FIN 46, Salishan-Mohegan accounts have been consolidated into the accounts of Mohegan Ventures-NW. We do not believe the adoption of this standard for variable interest entities acquired prior to January 31, 2003 will affect our financial position, results of operations or cash flows.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Management Board of the Mohegan Tribal Gaming Authority:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in capital and cash flows present fairly, in all material respects, the financial position of Mohegan Tribal Gaming Authority and its subsidiaries (the "Authority") at September 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



Hartford, Connecticut
November 10, 2004

MOHEGAN TRIBAL GAMING AUTHORITY CONSOLIDATED BALANCE SHEETS (IN THOUSANDS)

	September 30, 2004	September 30, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 60,794	\$ 73,264
Receivables, net	13,178	13,434
Due from Tribe	52	2,453
Inventories	15,181	13,822
Other current assets	9,185	15,379
	<u>98,390</u>	<u>118,352</u>
NON-CURRENT ASSETS:		
Property and equipment, net	1,328,132	1,386,338
Trademark and other intangible assets, net	127,550	129,375
Notes receivable from affiliate, net (Note 14)	2,760	—
Other assets, net	22,873	24,446
	<u>1,579,705</u>	<u>\$ 1,658,511</u>
LIABILITIES AND CAPITAL		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 23,272	\$ 1,000
Current portion of relinquishment liability	88,530	85,865
Trade payables	25,710	25,670
Accrued interest payable	18,504	22,323
Other current liabilities	96,142	86,642
	<u>252,158</u>	<u>221,500</u>
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	1,003,051	1,101,649
Relinquishment liability, net of current portion	383,493	419,699
Other long-term liabilities	197	14,558
	<u>1,638,899</u>	<u>1,757,406</u>
Minority interest	1,845	—
COMMITMENTS AND CONTINGENCIES (NOTES 11, 14 AND 16)		
CAPITAL:		
Retained deficit	(61,039)	(98,592)
Accumulated other comprehensive loss	—	(303)
	<u>(61,039)</u>	<u>(98,895)</u>
Total capital	<u>(61,039)</u>	<u>(98,895)</u>
Total liabilities and capital	<u>\$ 1,579,705</u>	<u>\$ 1,658,511</u>

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

MOHEGAN TRIBAL GAMING AUTHORITY CONSOLIDATED
STATEMENTS OF INCOME (IN THOUSANDS)

	For the year ended Sept. 30, 2004	For the year ended Sept. 30, 2003	For the year ended Sept. 30, 2002
Revenues:			
Gaming	\$ 1,125,145	\$ 1,061,376	\$ 958,617
Food and beverage	89,850	87,040	75,062
Hotel	52,035	52,370	20,884
Retail, entertainment and other	100,903	79,654	66,497
Gross revenues	1,367,933	1,280,440	1,121,060
Less—Promotional allowances	(111,007)	(102,952)	(88,167)
Net revenues	1,256,926	1,177,488	1,032,893
Operating costs and expenses:			
Gaming	631,498	603,555	544,051
Food and beverage	43,264	39,206	34,275
Hotel	15,440	14,137	5,989
Retail, entertainment and other	41,870	38,482	26,980
Advertising, general and administrative	179,179	171,362	141,073
Corporate development	1,566	—	—
Pre-opening costs and expenses	—	—	7,755
Depreciation and amortization	93,595	92,123	78,721
Relinquishment liability reassessment	3,897	(22,710)	(19,631)
Total operating costs and expenses	1,010,309	936,155	819,213
Income from operations	246,617	241,333	213,680
Other income (expense):			
Accretion of relinquishment liability discount	(29,939)	(33,592)	(36,333)
Interest income	232	269	418
Interest expense, net of capitalized interest	(78,970)	(83,492)	(76,635)
Loss on early extinguishment of debt	(34,138)	(27,396)	—
Write-off of debt issuance costs	—	(403)	(826)
Other income (expense), net	(933)	(1,034)	(272)
Total other expense	(143,748)	(145,648)	(113,648)
Income before minority interest	102,869	95,685	100,032
Minority interest	18	—	—
Net income	\$ 102,887	\$ 95,685	\$ 100,032

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

MOHEGAN TRIBAL GAMING AUTHORITY CONSOLIDATED
STATEMENTS OF CHANGES IN CAPITAL (IN THOUSANDS)

	Retained Deficit	Accumulated Other Comprehensive Loss	Total Capital
Balances, September 30, 2001	\$ (192,177)	\$ (1,991)	\$ (194,168)
Net income	100,032		100,032
Unrealized gain on derivative instruments		901	901
Total comprehensive income			100,933
Distributions to Tribe	(42,132)		(42,132)
Balances, September 30, 2002	\$ (134,277)	\$ (1,090)	\$ (135,367)
Net income	95,685		95,685
Reclassification of derivative instrument losses to earnings		787	787
Total comprehensive income			96,472
Distributions to Tribe	(60,000)		(60,000)
Balances, September 30, 2003	\$ (98,592)	\$ (303)	\$ (98,895)
Net income	102,887		102,887
Reclassification of derivative instrument losses to earnings		303	303
Total comprehensive income			103,190
Distributions to Tribe	(65,017)		(65,017)
Capital adjustment from majority-owned subsidiary transaction	(317)		(317)
Balances, September 30, 2004	\$ (61,039)	\$ —	\$ (61,039)

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

MOHEGAN TRIBAL GAMING AUTHORITY CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	For the Fiscal Year Ended		
	September 30, 2004	September 30, 2003	September 30, 2002
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Net income	\$ 102,887	\$ 95,685	\$ 100,032
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization	93,595	92,123	78,721
Accretion of discount to the relinquishment liability	29,939	33,592	36,333
Relinquishment liability reassessment	3,897	(22,710)	(19,631)
Cash paid for accretion of discount to the relinquishment liability	(30,852)	(34,277)	(36,207)
Loss on early extinguishment of debt	34,138	27,396	6
Payment of tender offer costs	(32,192)	(23,044)	—
Change in fair value of derivative instruments	—	(2,994)	(1,254)
Loss on disposition of assets	933	1,040	265
Provision for losses on notes and account receivable	710	1,223	991
Amortization of debt issuance costs	5,921	6,687	6,602
Write-off of debt issuance costs	—	403	826
Amortization of net deferred gain on settlement of derivative instruments	(117)	(741)	—
Reclassification of derivative instrument losses to earnings	303	787	—
Minority interest	(18)	—	—
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	1,551	(2,634)	(8,809)
(Increase) decrease in inventories	(1,359)	492	(2,859)
(Increase) decrease in other assets	(794)	(4,157)	8,631
Increase (decrease) in trade payables	40	12,260	(7,904)
Increase in other current liabilities	6,471	14,353	27,956
Net cash flows provided by operating activities	<u>215,053</u>	<u>195,484</u>	<u>183,699</u>
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:			
Purchases of property and equipment, net of change in construction payables of \$(1,232), \$(27,463) and \$(126,674) respectively	(31,912)	(57,740)	(351,417)
Investment in WNBA franchise (See Note 13)	—	(2,259)	—
Proceeds from asset sales	108	1,094	148
Capitalized pre-acquisition costs (See Note 16)	(277)	—	—
Issuance of third-party loans	(654)	(500)	(1,181)
Payments received on third-party loans	221	117	195
Net cash flows used in investing activities	<u>(32,514)</u>	<u>(59,288)</u>	<u>(352,255)</u>
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
Prior bank credit facility borrowings	—	35,000	258,000
Prior bank credit facility repayments	—	(286,000)	(265,000)
Bank Credit Facility borrowings—revolving loan	290,000	206,000	—
Bank Credit Facility repayments—revolving loan	(268,000)	(140,000)	—
Bank Credit Facility borrowings—term loan	—	100,000	—
Bank Credit Facility repayments—term loan	(8,334)	—	—
Line of credit borrowings	208,923	67,000	10,000
Line of credit repayments	(203,837)	(67,000)	(10,000)
Proceeds from the issuance of long-term debt	225,000	330,000	250,000
Payments on long-term debt	(325,925)	(294,759)	—
Minority interest distribution, net of contributions	(2,517)	—	—
Principal portion of relinquishment liability payments	(36,525)	(28,633)	(14,911)
Distributions to Tribe	(65,017)	(60,000)	(42,132)
Payments on capital lease obligations	—	—	(1,520)
Capitalized debt issuance costs	(3,709)	(10,570)	(7,416)
Net proceeds (payment) from settlement of derivative instruments	(5,146)	1,072	2,173
Increase (decrease) in other long-term liabilities	78	(59)	95
Net cash flows provided by (used in) financing activities	<u>(195,009)</u>	<u>(147,949)</u>	<u>179,289</u>
Net increase (decrease) in cash and cash equivalents	<u>(12,470)</u>	<u>(11,753)</u>	<u>10,733</u>
Cash and cash equivalents at beginning of year	<u>73,264</u>	<u>85,017</u>	<u>74,284</u>
Cash and cash equivalents at end of year	<u>\$ 60,794</u>	<u>\$ 73,264</u>	<u>\$ 85,017</u>
Supplemental disclosures:			
Cash paid during the year for interest	\$ 75,282	\$ 84,716	\$ 70,715
Supplemental disclosures:			
Cash paid during the year for interest	\$ 75,282	\$ 84,716	\$ 70,715

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

MOHEGAN TRIBAL GAMING AUTHORITY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION:

The Mohegan Tribe of Indians of Connecticut (the “Tribe”) established the Mohegan Tribal Gaming Authority (the “Authority”) in July 1995 with the exclusive power to conduct and regulate gaming activities for the Tribe on Tribal lands and the non-exclusive authority to conduct such activities elsewhere. The Tribe is a federally recognized Indian tribe with an approximately 405-acre reservation located in southeastern Connecticut. Under the Indian Gaming Regulatory Act of 1988, federally recognized Indian tribes are permitted to conduct full-scale casino gaming operations on tribal land, subject to, among other things, the negotiation of a compact with the affected state. The Tribe and the State of Connecticut have entered into such a compact (the “Mohegan Compact”), which has been approved by the United States Secretary of the Interior. The Authority is primarily engaged in the ownership, operation and development of gaming facilities. On October 12, 1996, the Authority opened a casino known as the Mohegan Sun Casino (“Mohegan Sun”). The Authority is governed by a nine-member Management Board, consisting of the same nine members as those of the Mohegan Tribal Council (the governing body of the Tribe). Any change in the composition of the Tribal Council results in a corresponding change in the Authority’s Management Board.

The Authority has a wholly owned subsidiary, the Mohegan Basketball Club LLC (“MBC”), which owns and operates a professional basketball team in the Women’s National Basketball Association (“WNBA”), the Connecticut Sun. MBC owns approximately 3.9% of the membership interests in WNBA, LLC.

On July 23, 2004, the Authority formed Mohegan Ventures-Northwest, LLC as a wholly owned subsidiary (“Mohegan Ventures-NW”). Mohegan Ventures-NW holds a 54.15% membership interest in Salishan-Mohegan LLC (“Salishan-Mohegan”), formed with an unrelated third party to participate in the development and management of a casino to be located in Clark County, Washington. The proposed casino will be owned by the Cowlitz Indian Tribe.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Authority and its wholly owned subsidiaries MBC and Mohegan Ventures-NW, which includes its majority owned subsidiary, Salishan-Mohegan. In accordance with the Financial Accounting Standard Board (“FASB”) Interpretation No. (“FIN”) 46, “Consolidation of Variable Interest Entities—an interpretation of ARB No. 51” (“FIN 46”), the accounts of Salishan-Mohegan are consolidated into the accounts of Mohegan Ventures-NW as it is deemed to be the primary beneficiary. In consolidation, all intercompany balances and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

The Authority classifies as cash and cash equivalents deposits that can be redeemed on demand and investments with a maturity of three months or less when purchased. Cash equivalents are carried at cost, which approximates market value.

RECEIVABLES

Accounts receivable consists primarily of casino receivables, which represent credit extended to approved casino customers, and hotel and other non-gaming receivables. The Authority maintains an allowance for doubtful accounts which is based on management’s estimate of the amount expected to be uncollectible considering historical experience and the information management obtains regarding the creditworthiness of the customer. Future business or economic trends could affect the collectibility of these receivables.

Notes receivable from affiliate consist of reimbursable costs and expenses incurred by Salishan-Mohegan for the development of a casino in La Center, Washington to be owned by the Cowlitz Indian Tribe (see Note 14). The notes are payable upon (1) the receipt of necessary financing for the development of the proposed casino and (2) the related property being taken into trust by the United States Department of the Interior. Due to the inherent uncertainty in this arrangement, the Authority maintains a reserve for doubtful collection of these notes, which is based on management's estimate of the probability that the notes will be collected considering the information management has on the progress of the casino project. Future complications in the receipt of financing, the relevant land being taken into trust or other matters affecting the development of the casino could affect the collectibility of the notes receivable.

INVENTORIES

Inventories are stated at the lower of cost or market and consist principally of food and beverage, retail, hotel and operating supplies. Cost is determined using an average cost method. The Authority maintains a reserve for slow moving inventory, which is based on management's estimate of the amount of inventory that may not be used in future casino operations considering the length of time items are held in inventory and information management obtains regarding the plans to utilize this inventory. Future business trends could affect the timely use of inventories.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line basis. Useful life estimates of asset categories are as follows:

Buildings and land improvements	40 years
Furniture and equipment	3-7 years

The costs of significant improvements are capitalized. Costs of normal repairs and maintenance are charged to expense as incurred. Gains or losses on disposition of property and equipment are included in the determination of net income. Interest incurred for construction related projects during the construction period is capitalized at the Authority's weighted-average borrowing rate and amortized over the life of the related asset.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), the carrying value of the Authority's assets is reviewed when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an impairment loss has occurred based on current and future levels of income and expected future cash flows as well as other factors, then an impairment loss is recognized in the Consolidated Statement of Income. The Authority believes no such impairment exists at September 30, 2004.

TRADEMARK

In connection with the Relinquishment Agreement (see Note 12), Trading Cove Associates ("TCA") granted the Authority an exclusive, irrevocable, perpetual, world-wide and royalty-free license with respect to trademarks and other similar rights, including the "Mohegan Sun" name used at or developed for Mohegan Sun. The trademarks were appraised by an independent valuation firm to have a value of \$130.0 million. The independent valuation firm used the Income Approach—Relief from Royalty Method. The balance of the trademark is as follows (in thousands):

	As of September 30,	
	2004	2003
Trademark	\$ 130,000	\$ 130,000
Accumulated amortization	(10,308)	(10,308)
Trademark, net	\$ 119,692	\$ 119,692

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") the Mohegan Sun trademark is no longer subject to amortization over its estimated useful life as it has been deemed to have an indefinite useful life. However, SFAS 142 requires the trademark to be evaluated at least annually for impairment by applying a fair-value based test and, if impairment occurs, the amount of the impaired trademark must be written off immediately. The Authority applied the fair value test as of September 30, 2004 and determined that no impairment existed.

OTHER INTANGIBLE ASSETS

In January 2003, MBC acquired a membership in the WNBA and the right to own and operate a professional basketball team in the WNBA. As part of the acquisition, an independent valuation firm estimated a fair value for the player roster value, which is recorded as an intangible asset on the accompanying consolidated balance sheet, and the remainder of the acquisition cost has been recorded as franchise value, which is also included on the accompanying consolidated balance sheet. These assets are being amortized on a straight-line basis over their estimated useful lives. Refer to Note 13 for further discussion regarding the Authority's accounting for these assets. The Authority recorded a write-off of \$1.0 million of the player roster value intangible asset in fiscal year 2004, due to the termination of certain Connecticut Sun player contracts included on the original player roster. The loss is included in depreciation and amortization expense in the accompanying consolidated statement of income. The Authority believes no further write-off of these intangible assets is necessary at September 30, 2004.

DEFERRED FINANCING COSTS

Debt issuance costs incurred in connection with the issuance of long-term debt are capitalized and amortized to interest expense based on the related debt agreements using the effective interest method or the straight-line method, which approximates the effective interest method. The unamortized amounts are included in other assets in the accompanying consolidated balance sheets.

UNREDEEMED PLAYER'S CLUB POINTS

The Authority maintains an accrual for unredeemed Player's Club points. The accrual is based on the estimated cost of the points expected to be redeemed at each balance sheet date. Management determines the adequacy of this accrual by periodically evaluating the historical redemption experience and projected trends related to this accrual. Actual results could differ from those estimates.

SELF-INSURANCE ACCRUALS

The Authority is self-insured up to certain limits for costs associated with workers' compensation and employee medical coverage. Liabilities for insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of actuarial estimates of incurred but not reported claims. These accruals are included in other current liabilities in the accompanying consolidated balance sheet. In estimating these costs, the Authority considers historical loss experience and makes judgments about the expected levels of costs per claim. The Authority also uses information provided by independent consultants to assist in the determination of estimated accruals. These claims are accounted for based on estimates of the undiscounted claims, including those claims incurred but not reported. The Authority believes the use of these estimates to account for these liabilities provides a consistent and effective way to measure these accruals; however, changes in health care costs, accident frequency and severity and other factors can materially affect the estimate for these liabilities. The Authority continually monitors the potential changes in future estimates, evaluates insurance accruals and makes adjustments when necessary.

RELINQUISHMENT LIABILITY

The Authority, in accordance with SFAS No. 5, "Accounting for Contingencies" ("SFAS 5"), has recorded a relinquishment liability of the estimated present value of its obligations under the Relinquishment Agreement (see Note 12). The Authority reassesses projected revenues (and consequently the relinquishment liability) (i) annually in conjunction with the Authority's budgeting process or (ii) when necessary to account for material increases or decreases in projected revenues over the relinquishment period. If the reassessment causes an overall increase to the projected revenues over the relinquishment

period, the relinquishment liability will be increased by five percent of such increases in revenues, discounted at the Authority's risk-free rate of investment (an incremental layer). If the reassessment causes an overall decrease to the projected revenues over the relinquishment period, the relinquishment liability will be decreased by five percent of such decrease in revenues, discounted based upon a weighted-average discount rate (a decremental layer). The weighted-average discount rate is defined as the average discount rate used to discount all previous incremental layers weighted by the amount of each such incremental layer. Further, the Authority records a quarterly accretion to the relinquishment liability to reflect the impact of the time value of money. Since there is a high level of estimates and judgments used with respect to calculating the relinquishment liability, future events that affect such estimates and judgments may cause the actual liability to differ significantly from the estimate.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value amounts presented below are reported to satisfy the disclosure requirements of SFAS No. 107, "Disclosures about Fair Values of Financial Instruments" ("SFAS 107") and are not necessarily indicative of the amounts that the Authority could realize in a current market exchange.

The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued expenses, promissory notes, mortgages and bank financing facilities approximate fair value.

The fair value of the Authority's other financing facilities is as follows (in millions):

	As of September 30,	
	2004	2003
8 1/8% Senior Notes	\$ 15.0	\$ 215.5
1999 8 3/4% Senior Subordinated Notes	\$ —	\$ 5.6
2001 8 3/8% Senior Subordinated Notes	\$ 18.6	\$ 162.9
2002 8% Senior Subordinated Notes	\$ 276.3	\$ 269.1
2003 6 3/8% Senior Subordinated Notes	\$ 342.4	\$ 332.9
2004 7 1/8% Senior Subordinated Notes	\$ 235.7	\$ —

The estimated fair value of the Authority's other financing facilities was based on quoted market prices on or about September 30, 2004.

REVENUE RECOGNITION

The Authority recognizes gaming revenue as gaming wins less gaming losses. Revenues from food and beverage, hotel, retail, entertainment and other services are recognized at the time the service is performed. Minimum rental revenues in the Shops at Mohegan Sun are recognized on a straight-line basis over the terms of the related leases. Percentage rents are recognized in the period in which the tenants exceed their respective percentage rent thresholds.

PROMOTIONAL ALLOWANCES

The Authority operates the Mohegan Sun complimentary program in which food and beverage, hotel, retail, entertainment and other services are provided to guests based on points that are earned through the Mohegan Sun Player's Club. The retail value of these complimentary items is included in gross revenues and then deducted as promotional allowances, except for the redemption at third party tenant restaurants and the Shops at Mohegan Sun, which are charged directly to gaming expenses.

The Authority also has ongoing promotional programs which offer coupons to its guests for the purchase of food, beverages, hotel and retail amenities offered within Mohegan Sun. The retail value of items or services purchased with coupons at Mohegan Sun operated facilities is included in gross revenues and the respective coupon value is deducted as promotional allowances to arrive at net revenues.

The retail value of providing such promotional allowances was included in revenues as follows (in thousands):

	For the Fiscal Years Ended September 30,		
	2004	2003	2002
Food and beverage	\$ 43,393	\$ 44,713	\$ 40,654
Hotel	14,166	16,514	7,205
Retail, entertainment and other	53,448	41,725	40,308
Total	\$ 111,007	\$ 102,952	\$ 88,167

The estimated cost of providing such promotional allowances was included in operating costs and expenses, primarily gaming, as follows (in thousands):

	For the Fiscal Years Ended September 30,		
	2004	2003	2002
Food and beverage	\$ 42,837	\$ 43,839	\$ 40,542
Hotel	5,916	6,257	3,921
Retail, entertainment and other	42,496	32,459	31,682
Total	\$ 91,249	\$ 82,555	\$ 76,145

The Authority records free or discounted food and beverage and other services in accordance with Emerging Issues Task Force Issue No. 01-9 "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." The Authority offers cash inducements and discounts on patron losses in certain circumstances that result in a reduction to gaming revenues. The offsets to gaming revenues were \$1.0 million, \$930,000, and \$547,000 relating to discounts provided on patron losses for fiscal years ending September 30, 2004, 2003 and 2002, respectively, and \$281,000, \$306,000 and \$459,000 relating to Player's Club points redeemed for cash for the fiscal years ended September 30, 2004, 2003 and 2002, respectively.

GAMING EXPENSES

Gaming expenses primarily include the slot win contribution, which the Authority is required to pay to the State of Connecticut (see Note 11), expenses associated with operation of slot machines, table games, keno and racebook, certain marketing expenses, and promotional expenses for the Mohegan Sun Player's Club points and coupons redeemed at the hotel, restaurants and retail outlets owned by Mohegan Sun, as well as third party tenant restaurants and the Shops at Mohegan Sun. Gaming expenses for the fiscal years ended September 30, 2003 and 2002 also included expenses associated with poker operations, which closed on September 2, 2003.

ADVERTISING

The Authority expenses the production costs of advertising the first time the advertising takes place. Prepaid rental fees associated with billboard advertising are capitalized and amortized over the term of the related rental agreement. Total advertising costs for the fiscal years ended September 30, 2004, 2003 and 2002 were \$37.3 million, \$37.7 million and \$34.4 million, respectively. Prepaid advertising on the Authority's balance sheet at September 30, 2004 and 2003 was \$112,000 and \$71,000, respectively.

PRE-OPENING COSTS AND EXPENSES

For the fiscal year ended September 30, 2002, pre-opening costs and expenses consisted primarily of direct incremental personnel costs, marketing and advertising expenses related to a major expansion at

Mohegan Sun, Project Sunburst, which was substantially completed in June 2002. In accordance with the American Institute of Certified Public Accountants' Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," pre-opening costs and expenses were expensed as incurred.

DERIVATIVE INSTRUMENTS

The Authority uses derivative instruments, including interest rate caps, collars and swaps in its strategy to manage interest rate risk associated with the variable interest rate on its bank credit facility and the fixed interest rates on the Authority's senior notes and senior subordinated notes. The Authority's objective in managing interest rate risk is to achieve the lowest possible cost of debt for the Authority, and to manage volatility in the effective cost of debt. The Authority continually monitors risk exposures from derivative instruments held and makes the appropriate adjustments to manage these risks within management's established limits. The Authority accounts for its derivative instruments in accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which requires that all derivative instruments be recorded on the consolidated balance sheet at fair value.

In order for derivative instruments to qualify for hedge accounting in accordance with SFAS 133, the underlying hedged item must expose the Authority to risks associated with market fluctuations and the financial instrument used must be designated as a hedge and must reduce the Authority's exposure to market fluctuation throughout the hedge period. If these criteria are not met, a change in the market value of the financial instrument is recognized as a gain or loss and is recorded as a component of interest expense in the period of change. The Authority excludes the change in the time value of money when assessing the effectiveness of the hedging relationship. All derivatives are evaluated quarterly.

Derivative instruments entered into by the Authority which qualify for hedge accounting are designated as either a fair value hedge or a cash flow hedge:

- A fair value hedge is a hedge of the fair value of a recognized asset or liability. For fair value hedge transactions, changes in fair value of the derivative instrument are generally offset in the consolidated income statement by changes in the fair value of the item being hedged. Gains and losses on these hedges are capitalized as part of the original debt instrument and, upon termination, are amortized and recorded as a component of interest expense over the remaining term of the item being hedged.
- A cash flow hedge is a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability. For cash flow hedge transactions, changes in the fair value of the derivative instrument are reported in other comprehensive income. The gains and losses on cash flow hedge transactions reported in other comprehensive income are reclassified to earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item.

Net interest paid or received pursuant to derivative instruments is included as a component of interest expense in the period. Pending interest settlements earned on derivative instruments held at the end of a period are also included as a component of interest expense and in the accompanying consolidated balance sheet. In addition, current and long-term portions of the fair value of derivative instruments held are separately recorded in the accompanying consolidated balance sheet. The current portion is based on estimated interest settlements for the subsequent one-year period for derivative instruments held and the long-term portion is based on estimated interest settlements through the remaining maturity of the instruments. These estimates are based on forward-looking LIBOR curves at the consolidated balance sheet date.

INCOME TAXES

The Tribe is a sovereign Indian nation with independent legal jurisdiction over its people and its lands. Like other sovereign governments, the Tribe and its entities, including the Authority, are not subject to federal, state or local income taxes.

MANAGEMENT'S USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgements that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. The most significant estimates included in the accompanying consolidated financial statements relate to the relinquishment liability, the liability associated with unredeemed Player's Club points and employee medical coverage and workers' compensation self-insurance reserves. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the fiscal year 2003 and 2002 consolidated financial statements have been reclassified to conform to the fiscal year 2004 presentation.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FIN 46, which provides an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," regarding the consolidation of variable interest entities and the corresponding improvement in the financial reporting by enterprises involved with these entities. In December 2003, the FASB deferred the latest date by which FIN 46 must be applied by the Authority for variable interest entities acquired prior to January 31, 2003, to the first annual reporting period beginning after December 15, 2004. FIN 46 is currently effective for all variable interest entities created or acquired after January 31, 2003. In accordance with FIN 46, Salishan-Mohegan accounts have been consolidated into the accounts of Mohegan Ventures-NW. The Authority does not believe the adoption of this standard for variable interest entities acquired prior to January 31, 2003 will affect the Authority's financial position, results of operations, or cash flows.

NOTE 3—CASH AND CASH EQUIVALENTS:

At September 30, 2004 and 2003, the Authority had cash and cash equivalents of \$60.8 million and \$73.3 million, respectively, of which \$13.2 million, as of September 30, 2003, was invested in deposits that could be redeemed on demand and investments with original maturities of less than three months when purchased. No amounts were invested as of September 30, 2004. For reporting purposes, cash and cash equivalents include all operating cash and in-house funds.

The Authority recorded approximately \$1.8 million of outstanding checks in excess of cash deposits held at or in transit to one of the Authority's banking institutions as accounts payable in the accompanying consolidated balance sheet at September 30, 2004. This balance of outstanding checks was funded through the Authority's bank line of credit when presented for payment.

NOTE 4—RECEIVABLES, NET:

Components of receivables, net are as follows (in thousands):

	As of September 30,	
	2004	2003
Gaming	\$ 8,450	\$ 7,077
Hotel	1,226	925
Other	5,584	7,127
Subtotal	15,260	15,129
Allowance for doubtful accounts	(2,082)	(1,695)
Receivables, net	\$ 13,178	\$ 13,434

NOTE 5—PROPERTY AND EQUIPMENT, NET:

Components of property and equipment, net are as follows (in thousands):

	As of September 30,	
	2004	2003
Land	\$ 32,431	\$ 28,581
Land improvements	44,148	44,119
Buildings and improvements	1,234,685	1,229,921
Furniture and equipment	335,451	311,082
Construction in process	3,512	6,455
Subtotal	1,650,227	1,620,158
Less: accumulated depreciation	(322,095)	(233,820)
Total property and equipment, net	\$ 1,328,132	\$ 1,386,338

For the fiscal years ended September 30, 2004, 2003 and 2002 depreciation expense totaled \$91.7 million, \$91.5 million and \$78.6 million, respectively. Capitalized interest totaled \$12.4 million for the fiscal year ended September 30, 2002. There was no capitalized interest for the fiscal years ended September 30, 2004 and 2003, respectively.

NOTE 6—OTHER CURRENT ASSETS AND OTHER CURRENT LIABILITIES:

Components of other current assets are as follows (in thousands):

	As of September 30,	
	2004	2003
Prepaid expenses	\$ 4,829	\$ 4,874
Accrued interest settlement earned on derivative instruments	—	2,080
Fair market value of derivative instruments held, current portion	—	5,343
Non-qualified deferred compensation	4,356	3,082
Total other current assets	\$ 9,185	\$ 15,379

Components of other current liabilities are as follows (in thousands):

	As of September 30,	
	2004	2003
Accrued payroll and related taxes and benefits	\$ 40,849	\$ 34,639
Slot win contribution payable (Note 11)	17,792	16,019
Miscellaneous other current liabilities	37,501	35,984
Total other current liabilities	\$ 96,142	\$ 86,642

NOTE 7—FINANCING FACILITIES:

Financing facilities, as described below, consisted of the following (in thousands):

	As of September 30,	
	2004	2003
Bank Credit Facility	\$ 179,667	\$ 166,000
8 1/8% Senior Notes	13,970	200,000
1999 8 3/4% Senior Subordinated Notes	—	5,241
2001 8 3/8% Senior Subordinated Notes	16,345	150,000
2002 8% Senior Subordinated Notes	250,000	250,000
2003 6 3/8% Senior Subordinated Notes	330,000	330,000
2004 7 1/8% Senior Subordinated Notes	225,000	—
WNBA Promissory Note	7,000	8,000
Line of Credit	5,086	—
Mortgage - Salishan-Mohegan	2,550	—
Note Payable - Salishan-Mohegan	1,000	—
Subtotal	1,030,618	1,109,241
Deferred gain (loss) on derivative instruments sold	(4,295)	2,504
Fair market value of derivative instruments held	—	(9,096)
Total debt	\$ 1,026,323	\$ 1,102,649

Maturities of the Authority's debt as of September 30, 2004, which reflect the amendment to the Bank Credit Facility in October 2004 described below, are as follows (in thousands):

Fiscal Year	Long-Term Debt Maturities
2005	\$ 23,272
2006	69,516
2007	55,546
2008	57,939
2009	331,000
Thereafter	493,345
Total	\$ 1,030,618

OLD BANK CREDIT FACILITY

On March 25, 2003, the Authority repaid the entire \$251.0 million outstanding under its reducing, revolving, collateralized credit facility (the "Old Bank Credit Facility"). As of March 25, 2003, the Old Bank Credit Facility was terminated and related unamortized debt issuance costs of \$403,000 were written off.

BANK CREDIT FACILITY

The Authority entered into a loan agreement for up to \$391.0 million from a syndicate of financial institutions and commercial banks, with Bank of America, N.A. serving as administrative agent (the "Bank Credit Facility"). The Bank Credit Facility was comprised of a revolving loan of up to \$291.0 million and a \$100.0 million term loan (prior to Amendment No. 3 in October 2004, as described below), both of which mature on March 31, 2008. The maximum aggregate principal amount available for borrowing includes amounts available under letters of credit. As of September 30, 2004, the amount available under letters of credit totaled \$250,000, of which no amount was drawn (refer to "Letters of Credit" below). Pursuant to the terms of the Bank Credit Facility, the term loan would reduce by one-twelfth of the initial principal balance, or \$8.3 million, beginning on June 30, 2005 and continuing each quarter thereafter. The

revolving loan has no mandatory amortization provisions and is payable in full on March 31, 2008. Also, pursuant to the terms of the Bank Credit Facility, the term loan shall reduce automatically and permanently on the date and by the amount of any voluntary prepayment of the term loan. In June 2004, the Authority made a prepayment of \$8.3 million on the term loan, which effectively reduced the term loan commitment from \$100.0 million to \$91.7 million. Excluding limitations under the line of credit described below, the Authority had \$202.8 million available for borrowing under the Bank Credit Facility as of September 30, 2004.

The Bank Credit Facility is collateralized by a lien on substantially all of the Authority's assets and a leasehold mortgage on the land and improvements which comprise Mohegan Sun. In addition, the Authority's obligations under the Bank Credit Facility are guaranteed by MBC. Refer to Note 15 for condensed consolidating financial information of the Authority, MBC and the non-guarantor subsidiaries. The Bank Credit Facility subjects the Authority to a number of restrictive covenants, including financial covenants. These financial covenants relate to, among other things, its permitted total debt and senior debt leverage ratios, its minimum fixed charge coverage ratio and the Authority's maximum capital expenditures. The Bank Credit Facility includes non-financial covenants by the Authority and the Tribe of the type customarily found in loan agreements for similar transactions, including requirements that:

- the Tribe preserve its existence as a federally recognized Indian tribe;
- the Tribe causes the Authority to continually operate Mohegan Sun in compliance with all applicable laws; and
- except under specific conditions, limit the Authority from selling or disposing of its assets, limit the incurrence by the Authority of other debt or contingent obligations and limit the Authority's ability to extend credit, make investments or commingle its assets with assets of the Tribe.

As of September 30, 2004, the Authority and the Tribe were in compliance with all of their respective covenant requirements in the Bank Credit Facility.

At the Authority's option, each advance of loan proceeds accrues interest on the basis of a base rate or on the basis of a one-month, two-month, three-month, six-month or twelve-month London Inter-Bank Offered Rate ("LIBOR"), plus in either case, the applicable spread at the time each loan is made. The Authority also pays commitment fees for the unused portion of the revolving loan on a quarterly basis equal to the applicable spread for commitment fees times the average daily unused commitment for that calendar quarter. Applicable spreads are based on the Authority's Total Leverage Ratio, as defined in the Bank Credit Facility. The applicable spread for base rate advances will be between 0.50% and 1.25%, and the applicable spread for LIBOR rate advances will be between 1.75% and 2.50%. The applicable spread for commitment fees will be between 0.375% and 0.50%. The base rate is the higher of Bank of America's announced prime rate or the federal funds rate plus 0.50%. Interest on LIBOR loans is payable at the end of each applicable interest period or quarterly in arrears, if earlier. Interest on base rate advances will be payable quarterly in arrears. As of September 30, 2004, the Authority had \$100.7 million in base rate loans and \$79.0 million in LIBOR rate loans outstanding. The LIBOR rate loans outstanding as of September 30, 2004 were based on a one-month LIBOR rate of 1.68% plus an applicable spread of 2.0%. The base rate loans outstanding at September 30, 2004 were based on the bank's prime rate of 4.75% plus an applicable spread of 0.75%. The applicable spread for commitment fees was 0.5% as of September 30, 2004. Accrued interest, including commitment fees, on the Bank Credit Facility was \$186,000 and \$64,000 as of September 30, 2004 and 2003, respectively.

In June 2003, the Authority received the requisite consent of its lenders to Amendment No. 1 to its Bank Credit Facility. Amendment No. 1 permitted, among other things, the repurchase of all or any portion of the Authority's outstanding indebtedness under the 1999 Senior Subordinated Notes and the payment of both a premium with respect to such repurchase and the costs of issuance of new notes, which in the aggregate could not exceed \$35.0 million.

In July 2004, the Authority received the requisite consent of its lenders for Amendment No. 2 to its Bank Credit Facility. Amendment No. 2, among other things, permitted the Authority to use the proceeds from a notes offering to repurchase its 8 3/8% Senior Subordinated Notes due 2011. Amendment No. 2 also

allows the Authority to prepay up to an additional \$100.0 million in principal with respect to its other senior subordinated obligations.

On October 14, 2004, the Authority received the requisite consent of its lenders to Amendment No. 3 to its Bank Credit Facility. Amendment No. 3, among other things, provided for an increase in the total loan commitment and permits the Authority to make the acquisition of Downs Racing, Inc. and certain other investments planned for Pocono Downs. Refer to Note 16 for further discussion on this amendment and the purchase of Pocono Downs.

8 1/8% SENIOR NOTES

On March 3, 1999, the Authority issued \$200.0 million Senior Notes with fixed interest payable at a rate of 8.125% per annum (the "Senior Notes"). The proceeds from this financing were used to extinguish or defease existing debt, pay transaction costs and fund initial costs related to the major expansion of Mohegan Sun known as Project Sunburst. Interest on the Senior Notes is payable semi-annually on January 1 and July 1. The Senior Notes mature on January 1, 2006. The Senior Notes are uncollateralized general obligations of the Authority and rank pari passu in right of payment with all current and future uncollateralized senior indebtedness of the Authority. Borrowings under the Bank Credit Facility and other capital lease obligations are collateralized by first priority liens on substantially all of the assets of the Authority. As a result, upon any distribution to creditors in a bankruptcy, liquidation or reorganization or similar proceeding relating to the Authority or the Tribe, the holders of collateralized debt may be paid in full in cash before any payment may be made with respect to the Senior Notes. The Senior Notes rank equally in right of payment with 50% of the Authority's payment obligations under the Relinquishment Agreement that are then due and owing, and rank senior to the remaining 50% of the Authority's payment obligations under the Relinquishment Agreement that are then due and owing, the 2001 Senior Subordinated Notes, the 2002 Senior Subordinated Notes, the 2003 Senior Subordinated Notes and the 2004 Senior Subordinated Notes. MBC is a guarantor of the Senior Notes. Refer to Note 15 for condensed consolidating financial information of the Authority, MBC and the non-guarantor subsidiaries. As of September 30, 2004 and 2003, accrued interest on the Senior Notes was \$200,000 and \$4.1 million, respectively.

On July 15, 2004, the Authority commenced a cash tender offer and consent solicitation to repurchase any or all of its outstanding Senior Notes, at a subsequently determined price of 107.068% of the original principal amount tendered. The tender offer expired on August 11, 2004. As part of the tender offer, the Authority solicited and received requisite consents to certain proposed amendments to the indentures governing the Senior Notes which eliminated substantially all of the restrictive covenants thereunder. The aggregate amount paid for the Senior Notes at the initial closing on August 3, 2004 was \$200.5 million, which represented an original principal amount of Senior Notes tendered of approximately \$186.0 million, a tender and consent solicitation premium of \$13.2 million and accrued interest of \$1.3 million. No additional Senior Notes were tendered after the initial closing. An aggregate principal amount of \$14.0 million of the Senior Notes remain outstanding as of September 30, 2004.

1999 8 3/4% SENIOR SUBORDINATED NOTES

On March 3, 1999, the Authority issued \$300.0 million Senior Subordinated Notes with fixed interest payable at a rate of 8.75% per annum (the "1999 Senior Subordinated Notes"). The proceeds from this financing were used to extinguish or defease existing debt, pay transaction costs and fund initial costs related to Project Sunburst. Interest on the 1999 Senior Subordinated Notes was payable semi-annually on January 1 and July 1. The 1999 Senior Subordinated Notes were scheduled to mature in January 2009. The first call date for the 1999 Senior Subordinated Notes was in January 2004. The 1999 Senior Subordinated Notes were uncollateralized general obligations of the Authority. At September 30, 2003, accrued interest on the 1999 Senior Subordinated Notes was \$115,000.

In July 2003, the Authority completed a cash tender offer and consent solicitation to repurchase all of its outstanding 1999 Senior Subordinated Notes. The aggregate principal amount tendered of the 1999 Senior Subordinated Notes was \$294.8 million. In January 2004, the Authority used the remaining proceeds from its July 2003 offering of \$330.0 million 6 3/8% Senior Subordinated Notes to redeem its outstanding \$5.2 million 1999 Senior Subordinated Notes. These remaining notes were redeemed at a price of 104.375% per \$1,000 principal amount redeemed, or \$5.5 million in aggregate, including a premium of \$229,000 and accrued interest of \$19,000.

2001 8 3/8% SENIOR SUBORDINATED NOTES

On July 26, 2001, the Authority issued \$150.0 million Senior Subordinated Notes with fixed interest payable at a rate of 8.375% per annum (the "2001 Senior Subordinated Notes"). The proceeds from this financing were used to pay transaction costs, pay down \$90.0 million on the Old Bank Credit Facility and fund costs related to Project Sunburst. Interest on the 2001 Senior Subordinated Notes is payable semi-annually on January 1 and July 1. The 2001 Senior Subordinated Notes mature on July 1, 2011. The first call date for the 2001 Senior Subordinated Notes is July 1, 2006. The 2001 Senior Subordinated Notes are uncollateralized general obligations of the Authority and are subordinated to the Bank Credit Facility, the Senior Notes and in a liquidation, bankruptcy or similar proceeding 50% of the Authority's payment obligations under the Relinquishment Agreement that are then due and owing. The 2001 Senior Subordinated Notes rank equally with the 2002 Senior Subordinated Notes, the 2003 Senior Subordinated Notes, the 2004 Senior Subordinated Notes and the remaining 50% of the Authority's payment obligations under the Relinquishment Agreement that are then due and owing. MBC is a guarantor of the 2001 Senior Subordinated Notes. Refer to Note 15 for condensed consolidating financial information of the Authority, MBC and the non-guarantor subsidiaries. As of September 30, 2004 and 2003, accrued interest on the 2001 Senior Subordinated Notes was \$280,000 and \$3.1 million, respectively.

On July 15, 2004, the Authority commenced a cash tender offer and consent solicitation to repurchase any or all of its outstanding 2001 Senior Subordinated Notes at a subsequently determined price of 113.355% of the original principal amount tendered. The tender offer expired on August 11, 2004. As part of the tender offer, the Authority solicited and received requisite consents to certain proposed amendments to the indentures governing the 2001 Senior Subordinate Notes which eliminated substantially all of the restrictive covenants thereunder. The aggregate amount paid for the 2001 Senior Subordinated Notes at the initial closing on August 3, 2004 was \$152.5 million, which represented an original principal amount of 2001 Senior Subordinated Notes tendered of approximately \$133.7 million, a tender and consent solicitation premium of \$17.8 million and accrued interest of \$995,000. No additional 2001 Senior Subordinated Notes were tendered after the initial closing. An aggregate principal amount of \$16.3 million of the 2001 Senior Subordinated Notes remain outstanding as of September 30, 2004.

2002 8% SENIOR SUBORDINATED NOTES

On February 20, 2002, the Authority issued \$250.0 million Senior Subordinated Notes with fixed interest payable at a rate of 8.0% per annum (the "2002 Senior Subordinated Notes"). The proceeds from this financing were used to pay transaction costs and pay down \$243.0 million on the Old Bank Credit Facility. Interest on the 2002 Senior Subordinated Notes is payable semi-annually on April 1 and October 1. The 2002 Senior Subordinated Notes mature on April 1, 2012. The first call date for the 2002 Senior Subordinated Notes is April 1, 2007. The 2002 Senior Subordinated Notes are uncollateralized general obligations of the Authority and are subordinated to the Bank Credit Facility, the Senior Notes and, in a liquidation, bankruptcy or similar proceeding, 50% of the Authority's payment obligations under the Relinquishment Agreement that are then due and owing. The 2002 Senior Subordinated Notes rank equally with the 2001 Senior Subordinated Notes, the 2003 Senior Subordinated Notes, the 2004 Senior Subordinated Notes and the remaining 50% of the Authority's payment obligations under the Relinquishment Agreement that are then due and owing. MBC is a guarantor of the 2002 Senior Subordinated Notes. Refer to Note 15 for condensed consolidating financial information of the Authority, MBC and the non-guarantor subsidiaries. As of September 30, 2004 and September 30, 2003, accrued interest on the 2002 Senior Subordinated Notes was \$10.0 million.

2003 6 3/8% SENIOR SUBORDINATED NOTES

On July 9, 2003, the Authority issued \$330.0 million Senior Subordinated Notes with fixed interest payable at a rate of 6.375% per annum (the "2003 Senior Subordinated Notes"). The proceeds from this financing were used to repurchase substantially all of the outstanding 1999 Senior Subordinated Notes and to pay fees and expenses associated with the issuance. Interest on the 2003 Senior Subordinated Notes is payable semi-annually on January 15 and July 15. The 2003 Senior Subordinated Notes mature on July 15, 2009. The 2003 Senior Subordinated Notes are uncollateralized general obligations of the Authority and are subordinated to the Bank Credit Facility, the Senior Notes and, in a liquidation, bankruptcy or similar proceeding, 50% of the Authority's payment obligations under the Relinquishment

Agreement that are then due and owing. The 2003 Senior Subordinated Notes rank equally with the 2001 Senior Subordinated Notes, the 2002 Senior Subordinated Notes, the 2004 Senior Subordinated Notes and the remaining 50% of the Authority's payment obligations under the Relinquishment Agreement that are then due and owing. MBC is a guarantor of the 2003 Senior Subordinated Notes. Refer to Note 15 for condensed consolidating financial information of the Authority, MBC and the non-guarantor subsidiaries. As of September 30, 2003 and 2004, accrued interest on the 2003 Senior Subordinated Notes was \$4.4 million and \$4.8 million, respectively.

2004 7 1/8% SENIOR SUBORDINATED NOTES

On August 3, 2004, the Authority issued \$225.0 million Senior Subordinated Notes with fixed interest payable at a rate of 7 1/8% per annum (the "2004 Senior Subordinated Notes"). The net proceeds from this financing, together with \$130.0 million of availability under the Bank Credit Facility, were used to repurchase the outstanding 2001 Senior Subordinated Notes and the outstanding Senior Notes tendered in the tender offer described above and to pay fees and expenses associated with the issuance. The 2004 Senior Subordinated Notes mature on August 15, 2014. The first call date for the 2004 Senior Subordinated Notes is August 15, 2009. Interest on the 2004 Senior Subordinated Notes is payable semi-annually on February 15 and August 15, with the first interest payment scheduled for February 15, 2005. The 2004 Senior Subordinated Notes are uncollateralized general obligations of the Authority and are subordinated to the Bank Credit Facility, the Senior Notes, and in a liquidation, bankruptcy or similar proceeding, 50% of the Authority's payment obligations under the Relinquishment Agreement that are then due and owing. The 2004 Senior Subordinated Notes rank equally with the 2001 Senior Subordinated Notes, the 2002 Senior Subordinated Notes, the 2003 Senior Subordinated Notes and the remaining 50% of the Authority's payment obligations under the Relinquishment Agreement that are then due and owing. MBC is a guarantor of the 2004 Senior Subordinated Notes. Refer to Note 15 for condensed consolidating financial information of the Authority, MBC and the non-guarantor subsidiaries. As of September 30, 2004, accrued interest on the 2004 Senior Subordinated Notes was \$2.6 million.

The senior and senior subordinated note indentures contain certain financial and non-financial covenants with which the Authority and the Tribe must comply. The financial covenants include, among other things, limitations on restricted payments and the incurrence of indebtedness, while the non-financial covenants include, among other things, reporting obligations, compliance with laws and regulations and the Authority's continued existence. As of September 30, 2004, both the Authority and the Tribe were in compliance with all of their respective covenant requirements in the senior and senior subordinated note indentures.

WNBA PROMISSORY NOTE

The Authority and MBC are parties to a membership agreement with WNBA, LLC (the "Membership Agreement"). The Membership Agreement sets forth the terms and conditions pursuant to which MBC acquired a membership in the WNBA and the right to own and operate a professional basketball team in the WNBA. The Authority guaranteed the obligations of MBC under the Membership Agreement.

In consideration for this acquisition, MBC paid \$2.0 million (with funds advanced from the Authority) and issued a promissory note dated January 28, 2003, to the WNBA (the "WNBA Note") for \$8.0 million that accrues interest at an annual rate equal to three-month LIBOR plus 1.5%. As of September 30, 2004, the effective interest rate for the WNBA Note was 3.11%. The Authority guaranteed the obligations of MBC under the WNBA Note. Pursuant to the WNBA Note, principal payments of \$1.0 million, subject to adjustment for certain revenue thresholds, and interest payments are required to be paid to the WNBA on each anniversary of the WNBA Note. As of September 30, 2004 and 2003, accrued interest on the WNBA Note was \$134,000 and \$150,000, respectively. Refer to Note 13 for a further discussion of the Authority's investment in a WNBA franchise.

LINE OF CREDIT

The Authority has a \$25.0 million revolving loan agreement with Bank of America (formerly Fleet National Bank) (the "Line of Credit"). At the Authority's option, each advance accrues interest on the basis of the bank's variable prime rate or on the basis of seven or thirty day LIBOR, plus the applicable spread at the time the advance is made pursuant to the terms of the Line of Credit. Borrowings under the Line of

Credit are the Authority's uncollateralized obligations. The Line of Credit expires in March 2006. The Line of Credit subjects the Authority to certain covenants, including a covenant to maintain at least \$25.0 million available for borrowing under the Bank Credit Facility. As of September 30, 2004, the Authority was in compliance with all covenant requirements in the Line of Credit. As of September 30, 2004, the Authority had \$19.9 million available for borrowing under the Line of Credit. No amounts were outstanding under the Line of Credit at September 30, 2003. The interest rate in effect at September 30, 2004 was 3.33% on the outstanding balance on the Line of Credit.

NOTE AND MORTGAGE PAYABLES

On July 23, 2004, the Authority's wholly owned subsidiary, Mohegan Ventures-NW, formed a limited liability company, Salishan-Mohegan, with Salishan Company, LLC ("Salishan Company"), an unrelated third party, to participate in the development and management of a casino to be located in Clark County, Washington. The proposed casino will be owned by the Cowlitz Indian Tribe. Mohegan Ventures-NW holds a 54.15% membership interest in Salishan-Mohegan, and pursuant to respective provisions of FIN 46, the accounts of Salishan-Mohegan have been consolidated into the accounts of Mohegan Ventures-NW in the consolidated financial statements.

Upon formation of Salishan-Mohegan, Salishan Company contributed, among other things, a mortgage payable of \$2.6 million and a note payable of \$1.0 million to the venture, which related to land and a land purchase option, respectively, also contributed to the venture. The mortgage payable bears interest due on a monthly basis at an annual rate of 9.5%, with the principal balance payable in full on March 28, 2005. The note payable bears interest at an annual rate of 15% and is payable in full, including accrued interest, on December 31, 2004. Accrued interest on the mortgage payable and note payable as of September 30, 2004 was \$113,000. Refer to Note 14 for a further discussion of the formation of Salishan-Mohegan. Any and all amounts paid by Salishan-Mohegan, including interest payments, pursuant to these agreements are reimbursable by the Cowlitz Indian Tribe provided certain events occur, as prescribed in the development agreement between Salishan-Mohegan and the Cowlitz Indian Tribe. Refer to Note 14 for a further discussion of the development agreement with the Cowlitz Indian Tribe.

DERIVATIVE INSTRUMENTS

The Authority is considered an "end user" of derivative instruments and engages in derivative transactions from time to time for risk management purposes only. There were no derivative instruments held by the Authority as of September 30, 2004.

On July 10, 2003, the Authority entered into four interest rate swap agreements, each based on six-month LIBOR plus spreads of 297 to 298 basis points and each hedging \$82.5 million of the 2003 Senior Subordinated Notes. On July 29, 2003, the Authority entered into two other interest rate swap agreements, each based on six-month LIBOR plus spreads of 363 to 364 basis points and each hedging \$35.0 million of the 2001 Senior Subordinated Notes. Under these agreements, the Authority made payments on the variable interest rate provided by the derivative instrument and received payments equal to the fixed interest rate on the debt being hedged. These interest rate swap agreements qualified for hedge accounting in accordance with SFAS 133, as amended, and were designated as fair value hedges. In the quarter ended March 31, 2004, the Authority sold these instruments for an aggregate loss of \$5.1 million. The \$5.1 million loss was deferred and added to the carrying value of the respective notes being hedged and is being amortized and recorded in interest expense over the remaining term of the respective notes. Of the unamortized loss related to the 2001 Senior Subordinated Notes that were tendered and paid in August 2004, \$141,000 was recognized as a component of loss on early extinguishment of debt. For the fiscal year ended September 30, 2004, the Authority recorded amortization of \$558,000 on the deferred loss to interest expense and expects to record approximately \$935,000 to interest expense over the next twelve months.

On February 25, 2003, the Authority entered into two interest rate swap agreements, each based on six-month LIBOR plus spreads of 388 basis points and 387.5 basis points, respectively, and each hedging \$75.0 million of the 2001 Senior Subordinated Notes. These interest rate swap agreements qualified for hedge accounting and were designated as fair value hedges. On March 10, 2003, the Authority sold these instruments for a gain of \$1.1 million. The \$1.1 million gain was deferred and added to the carrying value of the 2001 Senior Subordinated Notes and is being amortized and recorded as a reduction in interest

expense over the remaining term of the 2001 Senior Subordinated Notes. Of the unamortized gain related to the 2001 Senior Subordinated Notes that were tendered and paid in August 2004, \$795,000 was recognized as an offset to loss on early extinguishment of debt. For the fiscal year ended September 30, 2004, the Authority recorded amortization of \$110,000 as an offset to interest expense and expects to record approximately \$14,000 as an offset to interest expense over the next twelve months.

In September 2002, the Authority modified an interest rate swap and interest rate collar agreement, which were designated as cash flow hedges. The resulting fair market value liability at the date of modification was reclassified from other comprehensive loss to interest expense over the original terms of the derivative instruments. There was no remaining unamortized amount of the fair market value liability at September 30, 2004. For the fiscal year ended September 30, 2004, the Authority reclassified the remaining unamortized amounts of the fair market value liability of approximately \$303,000 into interest expense.

In August 2002, the Authority entered into three interest rate swap agreements, each based on six-month LIBOR plus a spread of 437 basis points with one instrument hedging \$100.0 million of the Senior Notes and two instruments each hedging \$50.0 million of the Senior Notes. These interest rate swap agreements qualified for hedge accounting and were designated as fair value hedges. During September 2002, the Authority sold these agreements for a gain of \$2.2 million. The \$2.2 million gain was deferred and added to the carrying value of the Senior Notes and is being amortized and recorded as a reduction to interest expense over the remaining term of the Senior Notes. Of the unamortized gain related to the Senior Notes that were tendered and paid in August 2004, \$881,000 was recognized as an offset to loss on early extinguishment of debt. For the fiscal year ended September 30, 2004, the Authority recorded amortization of \$565,000 as an offset to interest expense and expects to record approximately \$47,000 as an offset to interest expense over the next twelve months.

The aggregate fair market value change in all of the Authority's derivative instruments was \$3.0 million and \$1.3 million for the fiscal years ended September 30, 2003 and 2002, respectively, which has been recorded as an offset to interest expense in the Authority's consolidated statements of income. There was no change in the aggregate fair market value on the Authority's derivative instruments recorded as an offset to or as a component of interest expense for the fiscal year ended September 30, 2004 as all derivative instruments qualified for hedge accounting. The Authority recorded a reduction to interest expense of \$2.6 million and \$4.1 million for the fiscal years ended September 30, 2004 and 2003, respectively, compared to an increase to interest expense of \$4.0 million for the fiscal year ended September 30, 2002, related to interest settlements on the Authority's derivative instruments.

LETTER OF CREDIT

The Authority maintains a \$250,000 uncollateralized letter of credit to satisfy potential workers' compensation liabilities that may arise. The letter of credit expires on August 31, 2005. As of September 30, 2004, no amounts were drawn on the letter of credit.

NOTE 8—LEASES:

The Authority leases space to certain tenants in the Shops at Mohegan Sun and certain other Mohegan Sun outlets. The Authority also leases, to third parties, the rights to utilize the Authority's antenna on the Arena. Minimum future rental income on non-cancelable leases expected to be received by the Authority is as follows (in thousands):

	Fiscal Year Ending September 30,						
	2005	2006	2007	2008	2009	Thereafter	Total
Minimum Future Rental Income	\$ 3,136	\$ 3,115	\$ 2,285	\$ 2,257	\$ 2,375	\$ 6,351	\$ 19,519

The Authority also has loaned funds to tenants related to the Shops at Mohegan Sun and certain other Mohegan Sun outlets. As of September 30, 2004 and 2003, outstanding tenant loans were \$2.3 million

and \$1.8 million, respectively. These loans mature in periods between three and ten years. These amounts have been included in other assets in the accompanying consolidated balance sheets.

NOTE 9—RELATED PARTY TRANSACTIONS:

The Tribe provides governmental and administrative services to the Authority in conjunction with the operation of Mohegan Sun. During the fiscal years ended September 30, 2004, 2003 and 2002, the Authority incurred \$15.4 million, \$13.1 million and \$10.0 million, respectively, of expenses for such services.

The Authority leases the land on which Mohegan Sun is located from the Tribe pursuant to a long-term lease. The Authority is required to pay to the Tribe a nominal annual rental fee under the lease (see Note 11). The lease has an initial term of 25 years and it is renewable for an additional 25-year term upon expiration.

The Tribe, through one of its limited liability companies, has entered into various land lease agreements with the Authority for access, parking and related purposes for Mohegan Sun. For each of the fiscal years ended September 30, 2004 and 2003, the Authority expensed \$262,000 relating to these land lease agreements. The Authority expensed \$353,000 relating to these land lease agreements for the fiscal year ended September 30, 2002.

The Mohegan Tribal Utility Authority (an entity owned by the Tribe) was established by the Tribe in 1996 to provide utility services to the Tribe, its affiliated entities, which includes the Authority, and other tenants located on the reservation. The Authority purchases the majority of its utilities, including electricity, gas, water and sewer, from the Mohegan Tribal Utility Authority. During the fiscal years ended September 30, 2004, 2003 and 2002, the Authority incurred costs of \$16.7 million, \$16.7 million and \$13.9 million, respectively, for these utilities.

The Authority and Little People, LLC (an entity owned by the Tribe) have a lease agreement, whereby Little People, LLC leases retail space located in the Shops at Mohegan Sun from the Authority. The lease term expires on September 30, 2006 and may be renewed on a monthly basis. Little People, LLC is not obligated to pay any rent. The Authority reimburses the Tribe for sales where patron Player's Club points are utilized. The Authority reimbursed the Tribe for patron Player's Club points in the amounts of \$244,000, \$244,000 and \$241,000 for fiscal years ended September 30, 2004, 2003 and 2002, respectively.

On September 25, 1995, the Tribe adopted the Mohegan Tribal Employment Rights Ordinance (the "TERO"), which sets forth hiring and contracting preference requirements for employers and entities conducting business on Tribal land or working on behalf of the Tribe. Pursuant to the TERO, an employer is required to give hiring, promotion, training, retention and other employment-related preferences to Native Americans who meet the minimum qualifications for the applicable employment position. However, this preference requirement does not apply to key employees, as such persons are defined in the TERO.

Similarly, any entity awarding a contract to be performed on Tribal land or on behalf of the Tribe must give preference, first to certified Mohegan entities and second to other certified Indian entities. This contracting preference is conditioned upon the bid by the preferred certified entity being within 5% of the lowest bid by a non-certified entity (unless the preferred certified entity's bid exceeds \$100,000 of the lowest bid by a non-certified entity). The TERO establishes procedures and requirements for certifying Mohegan entities and other Indian entities. Certification is based largely on the level of ownership and control exercised by the members of the Tribe or other Indian tribes, as the case may be, over the entity bidding on a contract. A number of contracts for Project Sunburst were awarded to companies controlled by Native Americans, including Tribal members, under the TERO provision described above.

As of September 30, 2004, approximately 114 employees of the Authority were members of the Tribe.

The Authority engaged McFarland Johnson, Inc. for surveying, civil engineering and professional design services. Roland Harris, a current member and a former Chairman of the Management Board and the Tribal Council, was a consultant for this firm pursuant to a consulting agreement which expired in May 2001. For the fiscal years ended September 30, 2003 and 2002, the Authority incurred \$83,000 and

\$372,000, respectively, for such services provided by McFarland Johnson. No such services were performed for the fiscal year ended September 30, 2004. McFarland Johnson formerly conducted business as Harris and Clark, Inc. The Authority believes that the terms of this engagement were comparable to those that would pertain to an arms length engagement with an unaffiliated firm.

NOTE 10—EMPLOYEE BENEFIT PLANS:

The Authority maintains a retirement savings plan for its employees under Section 401(k) of the Internal Revenue Code (“401(k) Plan”). The plan allows employees of the Authority to defer up to the lesser of the maximum amount prescribed by the Internal Revenue Code or 25% of their income on a pre-tax basis, through contributions to the 401(k) Plan. The Authority matches 100% of the eligible employees’ contributions up to a maximum of 3% of their individual earnings. The Authority recorded matching contributions, net of forfeitures, of approximately \$4.6 million, \$3.6 million and \$3.7 million to this plan for the fiscal years ended September 30, 2004, 2003 and 2002, respectively.

The Authority, together with the Tribe, maintains a Non-Qualified Deferred Compensation Plan (the “Deferred Compensation Plan”) for certain key employees. This plan allows participants to defer up to 100% of their pre-tax income to the plan. For the fiscal years ended September 30, 2004, 2003 and 2002, employee contributions, net of withdrawals and changes in fair value of investments, totaled \$1.3 million, \$921,000 and \$658,000, respectively.

The Authority sponsors a retirement plan (the “Retirement Plan”) for all employees under the provisions of Section 401(a) of the Internal Revenue Code. Contributions to the Retirement Plan by the Authority are discretionary. Contributions are allocated to eligible employee accounts based on a rate of \$0.30 per qualified hour worked. Employees become eligible after 90 days of employment and become fully vested after seven years of credited service. For the fiscal years ended September 30, 2004, 2003 and 2002, the Authority has contributed \$3.9 million, \$4.5 million and \$3.9 million, net of forfeitures, to the Retirement Plan, respectively.

NOTE 11—COMMITMENTS AND CONTINGENCIES:

THE MOHEGAN COMPACT

In May 1994, the Tribe and the State of Connecticut entered into a Memorandum of Understanding (“MOU”) which sets forth certain matters regarding implementation of the Mohegan Compact. The MOU stipulates that a portion of the revenues earned on slot machines must be paid to the State of Connecticut (“Slot Win Contribution”). The Slot Win Contribution payments will not be required if the State of Connecticut legalizes any other gaming operations with slot machines or other commercial casino table games within Connecticut, except those consented to by the Tribe and the Mashantucket Pequot Tribe. For each 12-month period commencing July 1, 1995, the Slot Win Contribution shall be the lesser of (a) 30% of gross revenues from slot machines, or (b) the greater of (i) 25% of gross revenues from slot machines or (ii) \$80.0 million.

The Authority reflected expenses associated with the Slot Win Contribution totaling \$208.2 million, \$194.3 million and \$179.6 million, respectively, for the fiscal years ended September 30, 2004, 2003 and 2002. As of September 30, 2004 and 2003, outstanding Slot Win Contribution payments to the State of Connecticut totaled \$17.8 million and \$16.0 million, respectively.

PRIORITY DISTRIBUTION AGREEMENT

On August 1, 2001, the Authority and the Tribe entered into an agreement (the “Priority Distribution Agreement”), which obligates the Authority to make monthly payments to the Tribe to the extent of the Authority’s net cash flow, as defined in the Priority Distribution Agreement. The Priority Distribution Agreement, which has a perpetual term, limits the maximum aggregate payments by the Authority to the Tribe in each calendar year to \$14.0 million, as adjusted annually in accordance with the formula specified in the Priority Distribution Agreement to reflect the effects of inflation. However, payments pursuant to the Priority Distribution Agreement do not reduce the Authority’s obligations to make payments to reimburse the Tribe for governmental services provided by the Tribe or any payments under any other agreements with the Tribe. The monthly payments under the Priority Distribution Agreement are limited

obligations of the Authority payable only to the extent of its net cash flow and are not secured by a lien or encumbrance on any assets or property of the Authority. The Authority's consolidated financial statements reflect payments associated with the Priority Distribution Agreement of \$15.4 million for the fiscal year ended September 30, 2004 and \$15.1 million for each of the fiscal years ended September 30, 2003 and 2002.

AGREEMENT WITH THE TOWN OF MONTVILLE

On June 16, 1994, the Tribe and the Town of Montville (the "Town") entered into an agreement whereby the Tribe agreed to pay to the Town an annual payment of \$500,000 to minimize the impact on the Town resulting from the decreased tax revenues on reservation land held in trust. Additionally, the Tribe agreed to make a one-time payment of \$3.0 million towards infrastructure improvements to the Town's water system. The Tribe assigned its rights and obligations in the agreement with the Town of Montville to the Authority. As of September 30, 2002, the Authority fulfilled the obligation to make a one-time payment of \$3.0 million for improvements to the municipal water system, which has been included in other assets in the accompanying consolidated balance sheets and is being amortized over 40 years.

LAND LEASE FROM THE TRIBE TO THE AUTHORITY

The land upon which Mohegan Sun is situated is held in trust for the Tribe by the United States. The Tribe and the Authority have entered into a land lease under which the Tribe leases to the Authority the property and all buildings, improvements and related facilities constructed or installed on the property. The lease was approved by the Secretary of the Interior on September 29, 1995. Summarized below are several key provisions of this lease.

TERM

The term of the lease is 25 years with an option, exercisable by the Authority, to extend the term for one additional 25-year period. Upon the termination of the lease, the Authority will be required to surrender to the Tribe possession of the property and improvements, excluding any equipment, furniture, trade fixtures or other personal property.

RENT AND OTHER OPERATING EXPENSES

The Authority is required to pay to the Tribe a nominal annual rental fee. For any period when the Tribe or another agency or instrumentality of the Tribe is not the tenant under the lease, the rent will be 8% of the tenant's gross revenues from the premises. The Authority is responsible for the payment of all costs of owning, operating, constructing, maintaining, repairing, replacing and insuring the leased property.

USE OF LEASED PROPERTY

The Authority may use the leased property and improvements solely for the construction and operation of Mohegan Sun, unless prior approval is obtained from the Tribe for any proposed alternative use. Similarly, no construction or alteration of any building or improvement located on the leased property by the Authority may be made unless complete and final plans and specifications have been approved by the Tribe. Following foreclosure of any mortgage on the Authority's interest under the lease or any transfer of such interest to the holder of such mortgage in lieu of foreclosure, the leased property and improvements may be used for any lawful purpose, subject only to applicable codes and governmental regulations; provided, however, that a non-Indian holder of the leased property may in no event conduct gaming operations on the property.

PERMITTED MORTGAGES AND RIGHTS OF PERMITTED MORTGAGES

The Authority may not mortgage, pledge or otherwise encumber its leasehold estate in the leased property except to a holder of a permitted mortgage. Under the lease, a "permitted mortgage" includes the leasehold mortgage securing the Authority's obligations under the Bank Credit Facility granted by the Authority that provides, among other things, that (1) the Tribe will have the right to notice of, and to cure, any default of the Authority, (2) the Tribe will have the right to prior notice of an intention by the holder to foreclose on the permitted mortgage and the right to purchase the mortgage in lieu of any foreclosure,

and (3) the permitted mortgage is subject and subordinated to any and all access and utility easements granted by the Tribe under the lease.

As provided in the lease, each holder of a permitted mortgage has the right to notice of any default of the Authority under the lease and the opportunity to cure such default within any applicable cure period.

DEFAULT REMEDIES

The Authority will be in default under the lease if, subject to the notice provisions, it fails to make lease payments or to comply with its covenants under the lease or if it pledges, encumbers or conveys its interest in the lease in violation of the terms of the lease. Following a default, the Tribe may, with approval from the Secretary of the Interior, terminate the lease unless a permitted mortgage remains outstanding with respect to the leased property. In that case, the Tribe may not (1) terminate the lease or the Authority's right to possession of the leased property, (2) exercise any right of re-entry, (3) take possession of and/or relet the leased property or any portion thereof, or (4) enforce any other right or remedy which may materially and adversely affect the rights of the holder of the permitted mortgage, unless the default triggering such rights was a monetary default which such holder failed to cure after notice.

ACLS OF NEW ENGLAND, INC.

In October 2002, the Authority entered into a 10-year laundry services agreement with ACLS of New England, Inc. ("ACLS"). The Authority has an option to renew the agreement for one additional 10-year term. Under the laundry services agreement, the Authority will pay an agreed upon rate for laundry services, adjusted annually for the Consumer Price Index and unusual increases in energy costs. Additionally, the Authority has made a \$500,000 loan to ACLS to develop the laundry service facility. Pursuant to the terms of the loan, interest may accrue based on the exercise of the renewal options or other certain circumstances. In the event that circumstances occur where interest will be accrued, interest shall accrue commencing from the date of the advance at an annual rate of five percent.

The Authority also entered into a co-investment agreement with the Mashantucket Pequot Tribal Nation ("MPTN") and ACLS. Under the terms of the co-investment agreement, the Authority and MPTN are guarantors of a term loan entered into between ACLS and Citizens Bank of Connecticut. The term of the co-investment agreement is for ten years and, in the event of default by ACLS, the maximum potential future payments (undiscounted) the Authority could be required to make is approximately \$6.4 million.

LITIGATION

The Authority is a defendant in certain litigation incurred in the normal course of business. In the opinion of management, based on the advice of counsel, the aggregate liability, if any, arising from such litigation will not have a material adverse effect on the Authority's financial position, results of operations or cash flows.

NOTE 12—RELINQUISHMENT AGREEMENT:

In February 1998, the Authority and TCA entered into an agreement (the "Relinquishment Agreement"). Effective January 1, 2000 (the "Relinquishment Date"), the Relinquishment Agreement superseded a then existing management agreement with TCA. The Relinquishment Agreement provides, among other things, that the Authority will make certain payments to TCA out of, and determined as a percentage of, Revenues (as defined in the Relinquishment Agreement) generated by Mohegan Sun over a 15-year period commencing on the Relinquishment Date. The payments ("Senior Relinquishment Payments" and "Junior Relinquishment Payments") have separate schedules and priority. Senior Relinquishment Payments commenced on April 25, 2000, twenty-five days following the end of the first three-month period following the Relinquishment Date and continue at the end of each three-month period thereafter until January 25, 2015. Junior Relinquishment Payments commenced on July 25, 2000, twenty-five days following the end of the first six-month period following the Relinquishment Date and continue at the end of each six-month period thereafter until January 25, 2015. Each Senior Relinquishment Payment and Junior Relinquishment Payment is an amount equal to 2.5% of the Revenues generated by Mohegan Sun over the immediately preceding three-month or six-month payment period, as the case may be. "Revenues" are defined in the Relinquishment Agreement as gross gaming revenues (other than Class II gaming revenue) and all other facility revenues (including, without limitation, hotel revenues, room

service, food and beverage sales, ticket revenues, fees or receipts from convention/events center and all rental or other receipts from lessees and concessionaires but not the gross receipts of such lessees, licenses and concessionaires).

In the event of any bankruptcy, liquidation or reorganization or similar proceeding relating to the Authority, the Relinquishment Agreement provides that each of the Senior and Junior Relinquishment Payments then due and owing are subordinated in right to payment of senior secured obligations, which include the Bank Credit Facility and capital lease obligations, and that the Junior Relinquishment Payments then due and owing are further subordinated to payment of all other senior obligations, including the Authority's remaining Senior Notes. The Relinquishment Agreement also provides that all relinquishment payments are subordinated in right of payment to the minimum priority distribution payments, which are monthly payments required to be made by the Authority to the Tribe, to the extent then due. The Authority, in accordance with SFAS 5, has recorded a relinquishment liability of the estimated present value of its obligations under the Relinquishment Agreement (see Note 2).

A relinquishment liability of \$549.1 million was established at September 30, 1998 based on the present value of the estimated future Mohegan Sun revenues utilizing the Authority's risk-free investment rate. At September 30, 2004, the carrying amount of the relinquishment liability was \$472.0 million as compared to \$505.6 million at September 30, 2003. The decrease during the fiscal year ended September 30, 2004 is due to \$67.4 million in relinquishment payments, offset by \$29.9 million for the accretion of discount to the relinquishment liability and \$3.9 million for a relinquishment liability reassessment adjustment. Of the \$67.4 million in relinquishment payments, \$36.5 million represents payment of principal and \$30.9 million represents payment of the accretion of discount to the relinquishment liability. During the fiscal year ended September 30, 2003, the Authority paid \$62.9 million in relinquishment payments, consisting of \$28.6 million in principal amounts and \$34.3 million for the payment of the accretion of discount to the relinquishment liability. During the fiscal year ended September 30, 2002, the Authority paid \$51.1 million in relinquishment payments, consisting of \$14.9 million in principal amounts and \$36.2 million for the payment of the accretion of discount to the relinquishment liability. The accretion of the relinquishment liability discount resulted from the impact of the discount for the time value of money. The relinquishment liability reassessment adjustment of \$3.9 million, \$22.7 million and \$19.6 million for the fiscal years ended September 30, 2004, 2003 and 2002, respectively, resulted from revised revenue projections as of the end of the current year compared to estimates of revenue projections as of the end of the prior year on the determination of the relinquishment liability. In fiscal year 2004, the Authority reviewed current revenue forecasts, including the estimated timing and extent of future competition, and increased revenue projections for the near future but reduced overall revenue projections for the period in which the Relinquishment Agreement applies. In fiscal years 2003 and 2002, the Authority reduced revenue projections for the period in which the Relinquishment Agreement applies, due to uncertainties involving economic market conditions that have affected the Authority's revenues and future competition from potential additional Native American and commercial casinos in the northeastern gaming market. At September 30, 2004 and September 30, 2003, relinquishment payments earned but unpaid were \$18.3 million and \$17.3 million, respectively.

NOTE 13—INVESTMENT IN WNBA FRANCHISE:

On January 27, 2003, the Authority created a wholly owned subsidiary, MBC, for the purpose of acquiring a membership in the WNBA and the right to own and operate a professional basketball team in the WNBA. On January 28, 2003, the Authority and MBC entered into the Membership Agreement with WNBA, LLC. The Membership Agreement set forth the terms and conditions pursuant to which MBC acquired a membership in the WNBA and the right to own and operate a professional basketball team in the WNBA. The Authority guaranteed the obligations of MBC under the Membership Agreement. MBC is a full and unconditional guarantor of the Authority's outstanding indebtedness under the Bank Credit Facility and senior and senior subordinated notes. Refer to Note 15 for condensed consolidating financial information of the Authority, MBC and the non-guarantor subsidiaries.

In consideration for this acquisition, MBC paid \$2.0 million (with funds advanced from the Authority) and issued the WNBA Note for \$8.0 million that accrues interest at an annual rate equal to three-month LIBOR plus 1.5%. The Authority guaranteed the obligations of MBC under the WNBA Note. Pursuant to the WNBA Note, principal payments of \$1.0 million, subject to adjustment for certain revenue thresholds, and interest payments are required to be paid on each anniversary of the WNBA Note.

MBC recorded an aggregate investment of \$10.3 million for the acquisition, of which \$10.0 million represents the purchase price and \$259,000 pertains to capitalized purchase costs. As part of the acquisition, an independent valuation firm estimated the fair value of the player roster at approximately \$4.8 million, and the remaining \$5.5 million was recorded as franchise value. The player roster value is being amortized over seven years. As of September 30, 2004 and 2003, accumulated amortization on the player roster value was \$836,000 and \$454,000, respectively. The franchise value is being amortized over thirty years. As of September 30, 2004 and 2003, accumulated amortization on the franchise value was \$305,000 and \$122,000, respectively. For the fiscal year ended September 30, 2004 and 2003, amortization expense associated with these intangible assets totaled \$1.8 million, including the \$1.0 million charge from a write-off of certain player contracts included on the original player roster, and \$576,000, respectively. The Authority expects to incur \$684,000 in amortization expense for each of the next five years related to these assets.

In connection with MBC's purchase of a membership in the WNBA, MBC has an approximately 3.9% ownership position in WNBA, LLC, which is being accounted for under the cost method. Under the Limited Liability Company Agreement of WNBA, LLC, if at any time WNBA, LLC's board of governors determines that additional funds are necessary or desirable for the WNBA, LLC's or any league entity's general business, the board of governors may require additional cash capital contributions. In that circumstance, each member of the league shall be obligated to contribute to WNBA, LLC an amount of cash equal to that member's proportionate share of ownership. Pursuant to the WNBA Note, the principal payment due on the WNBA Note after any such contribution made by MBC will be reduced by the contribution amount. Through September 30, 2004, there were no cash capital contributions required by WNBA, LLC.

NOTE 14—MOHEGAN VENTURES-NORTHWEST, LLC:

On July 23, 2004, the Authority formed Mohegan Ventures-NW as a wholly owned unrestricted subsidiary of the Authority. As an unrestricted subsidiary, Mohegan Ventures-NW is not required to be a guarantor of the Authority's debt obligations. Mohegan Ventures-NW holds a 54.15% membership interest in Salishan-Mohegan, formed with Salishan Company, an unrelated third party, to participate in the development and management of a casino to be located in Clark County, Washington. The proposed casino (the "Cowlitz Project") will be owned by the Cowlitz Indian Tribe, of which the sole member of Salishan Company is an affiliate. Salishan-Mohegan also has been designated as an unrestricted subsidiary of the Authority, and pursuant to FIN 46, a variable interest entity, which requires the accounts of Salishan-Mohegan to be consolidated into the accounts of Mohegan Ventures-NW in the consolidated financial statements.

Upon formation of Salishan-Mohegan, Mohegan Ventures-NW contributed cash of approximately \$2.5 million to Salishan-Mohegan as its initial capital contribution. Salishan Company contributed net tangible assets of \$4.1 million, including: (1) land of \$3.9 million and a land purchase option with no recorded value, with a related mortgage payable and note payable of \$2.6 million and \$1.0 million, respectively (see Note 7); (2) a \$1.9 million asset representing the difference between the fair market value and the cost basis of the land and land purchase option, which are to be assigned to the Cowlitz Indian Tribe at cost upon the culmination of certain events described below; (3) notes receivable from the Cowlitz Indian Tribe, including accrued interest and net of reserve, of \$2.4 million; and (4) accrued interest payable of \$492,000. The fair value of the land and land purchase option recorded at formation was determined through a market value appraisal performed by an independent valuation firm on November 2, 2004. Management does not believe the condition of the appraised land or overall market conditions have materially changed between the date of formation and the date of appraisal. Pursuant to the Operating Agreement of Salishan-Mohegan LLC dated July 23, 2004 (the "Operating Agreement"), a cash distribution of \$2.5 million was made from Salishan-Mohegan to Salishan Company immediately following the initial contributions in order to establish the membership interests in accordance with the Operating Agreement. Based on a difference in membership interests prescribed in the Operating Agreement and the fair market value of the assets and liabilities contributed for those interests, a reduction in capital of \$317,000 was recorded. As of September 30, 2004, the minority interest liability recorded in the accompanying consolidated balance sheet was \$1.8 million.

The land and land purchase option relate to property to be assigned to the Cowlitz Indian Tribe for purposes of the Cowlitz Project. According to the development agreement between Salishan-Mohegan

and the Cowlitz Indian Tribe, described below, the rights to these assets shall be assigned to the Cowlitz Indian Tribe at cost upon (1) receipt of necessary financing for the development of the proposed casino and (2) the underlying property being taken into trust by the United States Department of the Interior. The land purchase option commits Salishan-Mohegan to purchase land at specified closing dates no later than April 2005 and April 2006 for \$7.8 million and \$3.9 million, respectively, which are net of deposits paid prior to formation by Salishan Company. Under the option agreement, Salishan-Mohegan is also required to make interest payments on the aggregate agreed-upon net purchase price of \$11.7 million at an annual rate of 6.5%, with applicable portions payable on the respective closing dates. As of September 30, 2004, accrued interest on the land purchase option was \$568,000.

Pursuant to the development agreement described below, the notes receivable of \$3.0 million contributed to Salishan-Mohegan and amounts paid by Salishan-Mohegan subsequent to formation related to the development of the Cowlitz Project are reimbursable to Salishan-Mohegan by the Cowlitz Indian Tribe, subject to appropriate approvals defined in the development agreement. Reimbursements are contingent and payable upon: (1) the receipt of necessary financing for the development of the proposed casino; and (2) the assignable property being taken into trust by the United States Department of the Interior. Notes receivable bear interest at the Wall Street Journal Prime Rate plus 2%, compounded annually. Based upon a collectibility analysis performed by management on the notes receivable at formation, a reserve amount of \$594,000 was estimated and recorded. As of September 30, 2004, notes receivable from the Cowlitz Indian Tribe totaled \$3.5 million, including accrued interest, offset by a \$690,000 reserve in the consolidated balance sheet.

Pursuant to the Operating Agreement, Mohegan Ventures-NW is committed to lend up to \$3.5 million to Salishan-Mohegan in connection with development costs incurred prior to the receipt of necessary financing for the Cowlitz Project, including commitments under the land purchase contracts contributed by Salishan Company. As of September 30, 2004, Salishan-Mohegan has incurred \$726,000 in costs subsequent to formation, which was recorded as a note receivable from the Cowlitz Indian Tribe, resulting in a remaining commitment of \$2.8 million. Additionally Salishan-Mohegan is committed under the development agreement, described below, to lend the Cowlitz Tribe \$500,000 for general purposes.

On September 21, 2004, Salishan-Mohegan entered into development and management agreements with the Cowlitz Indian Tribe regarding the Cowlitz Project. Under the terms of the development agreement, Salishan-Mohegan will carry out all activities that are necessary to develop the Cowlitz Project, including advising the Cowlitz Indian Tribe with its plan to place land into trust by the United States Department of the Interior, assisting the Cowlitz Indian Tribe in the negotiation of a compact with the State of Washington, assisting in the arrangement of financing for the Cowlitz Project and administering and overseeing the planning, design, development, and construction of the Cowlitz Project. The development agreement provides for development fees of 3% of total Project Costs, as defined in the development agreement, which are payable to Mohegan Ventures-NW pursuant to the Operating Agreement. The management agreement is for a period of seven years, during which Salishan-Mohegan will manage, operate, and maintain the planned casino. The management agreement provides for a management fee of 24% of Net Revenues, as defined in the management agreement, which approximates income from operations earned from the Cowlitz Project. Pursuant to the Operating Agreement, management fees will be allocated to the members of Salishan-Mohegan based on their respective membership percentages. Development of the Cowlitz Project is subject to certain governmental and regulatory approvals, including, but not limited to, negotiating a gaming compact with the State of Washington and the accepting of land into trust on behalf of the Cowlitz Indian Tribe. The management agreement is subject to approval by the National Indian Gaming Commission (the "NIGC").

NOTE 15—CONDENSED CONSOLIDATING FINANCIAL STATEMENT INFORMATION:

The Authority's outstanding public debt, comprised of its senior and senior subordinated notes, is fully and unconditionally guaranteed by MBC. Separate financial statements and other disclosures concerning MBC are not presented below because the Authority believes that they are not material to investors. Financial statement information for fiscal year 2002 is also not presented below due to the formation of MBC in January 2003. Condensed consolidating financial statement information for the Authority, MBC and the non-guarantor subsidiaries as of September 30, 2004 and 2003, and for the fiscal years ended September 30, 2004 and 2003 is as follows (in thousands):

CONDENSED CONSOLIDATING BALANCE SHEETS

	As of September 30, 2004				
	Authority	MBC	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
ASSETS					
Property and equipment, net	\$ 1,324,106	\$ 176	\$ 3,850	\$ —	\$ 1,328,132
Other assets, net	247,313	8,550	4,640	(8,930)	251,573
Total assets	\$ 1,571,419	\$ 8,726	\$ 8,490	\$ (8,930)	\$ 1,579,705

LIABILITIES AND CAPITAL

Total current liabilities	\$ 245,848	\$ 8,227	\$ 7,013	\$ (8,930)	\$ 252,158
Long-term debt, net of current portion	997,051	6,000	—	—	1,003,051
Relinquishment liability, net of current portion	383,493	—	—	—	383,493
Other long-term liabilities	197	—	—	—	197
Investment in subsidiaries	5,553	—	—	(5,553)	—
Total liabilities	1,632,142	14,227	7,013	(14,483)	1,638,899
Minority interest	—	—	1,845	—	1,845
Total capital	(60,723)	(5,501)	(368)	5,553	(61,039)
Total liabilities and capital	\$ 1,571,419	\$ 8,726	\$ 8,490	\$ (8,930)	\$ 1,579,705

	As of September 30, 2003			
	Authority	MBC	Consolidating Adjustments	Consolidated Total
ASSETS				
Property and equipment, net	\$ 1,386,130	\$ 208	\$ —	\$ 1,386,338
Other assets, net	265,199	10,492	(3,518)	272,173
Total assets	\$ 1,651,329	\$ 10,700	\$ (3,518)	\$ 1,658,511

LIABILITIES AND CAPITAL

Total current liabilities	\$ 219,500	\$ 5,518	\$ (3,518)	\$ 221,500
Long-term debt, net of current portion	1,094,649	7,000	—	1,101,649
Relinquishment liability, net of current portion	419,699	—	—	419,699
Other long-term liabilities	14,558	—	—	14,558
Investment in subsidiary	1,818	—	(1,818)	—
Total liabilities	1,750,224	12,518	(5,336)	1,757,406
Total capital	(98,895)	(1,818)	1,818	(98,895)
Total liabilities and capital	\$ 1,651,329	\$ 10,700	\$ (3,518)	\$ 1,658,511

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	For the Fiscal Year Ended September 30, 2004				
	Authority	MBC	Non-Guarantor Subsidiaries ¹	Consolidating Adjustments	Consolidated Total
Net revenues	\$ 1,254,018	\$ 3,479	\$ —	\$ (571)	\$ 1,256,926
Operating costs and expenses:					
Gaming and other operations	729,495	3,148	—	(571)	732,072
Advertising, general and administrative	178,699	1,918	128	—	180,745
Depreciation and amortization	91,701	1,894	—	—	93,595
Relinquishment liability reassessment	3,897	—	—	—	3,897
Total operating costs and expenses	1,003,792	6,960	128	(571)	1,010,309
Income (loss) from operations	250,226	(3,481)	(128)	—	246,617
Accretion of discount to the relinquishment liability	(29,939)	—	—	—	(29,939)
Interest expense	(78,765)	(205)	—	—	(78,970)
Loss on early extinguishment of debt	(34,138)	—	—	—	(34,138)
Loss on interests in subsidiaries	(3,736)	—	—	3,736	—
Other income (expense), net	(761)	2	58	—	(701)
Income (loss) before minority interest	102,887	(3,684)	(70)	3,736	102,869
Minority interest	—	—	18	—	18
Net income (loss)	\$ 102,887	\$ (3,684)	\$ (52)	\$ 3,736	\$ 102,887

(1) Period from date of inception (July 23, 2004) to September 30, 2004.

	As of September 30, 2003			
	Authority	MBC ¹	Consolidating Adjustments	Consolidated Total
Net revenues	\$ 1,174,729	\$ 3,252	\$ (493)	\$ 1,177,488
Operating costs and expenses:				
Gaming and other operations	693,052	2,821	(493)	695,380
Advertising, general and administrative	169,856	1,506	—	171,362
Depreciation and amortization	91,528	595	—	92,123
Relinquishment liability reassessment	(22,710)	—	—	(22,710)
Total operating costs and expenses	931,726	4,922	(493)	936,155
Income (loss) from operations	243,003	(1,670)	—	241,333
Accretion of discount to the relinquishment liability	(33,592)	—	—	(33,592)
Interest expense	(83,342)	(150)	—	(83,492)
Loss on early extinguishment of debt	(27,396)	—	—	(27,396)
Loss on interest in subsidiary	(1,818)	—	1,818	—
Other income (expense), net	(1,170)	2	—	(1,168)
Net income (loss)	\$ 95,685	\$ (1,818)	\$ 1,818	\$ 95,685

(1) Period from date of inception (January 27, 2003) to September 30, 2003.

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	For the Fiscal Year Ended September 30, 2004				
	Authority	MBC	Non-Guarantor Subsidiaries ¹	Consolidating Adjustments	Consolidated Total
Net cash flows provided by (used in) operating activities	\$ 217,602	\$ (2,398)	\$ (151)	\$ —	\$ 215,053
Purchases of property and equipment	(31,874)	(38)	—	—	(31,912)
Other cash flows used in investing activities	(602)	—	—	—	(602)
Net cash flows used in investing activities	(32,476)	(38)	—	—	(32,514)
Bank Credit Facility borrowings—revolving loan	290,000	—	—	—	290,000
Bank Credit Facility repayments—revolving loan	(268,000)	—	—	—	(268,000)
Line of credit borrowings	208,923	—	—	—	208,923
Line of credit repayments	(203,837)	—	—	—	(203,837)
Proceeds from the issuance of long-term debt	225,000	—	—	—	225,000
Payments on long-term debt	(325,925)	—	—	—	(325,925)
Principal portion of relinquishment liability payments	(36,525)	—	—	—	(36,525)
Distributions to Tribe	(65,017)	—	—	—	(65,017)
Other cash flows provided by (used in) financing activities	(22,029)	2,250	151	—	(19,628)
Net cash flows provided by (used in) financing activities	(197,410)	2,250	151	—	(195,009)
Net decrease in cash and cash equivalents	(12,284)	(186)	—	—	(12,470)
Cash and cash equivalents at beginning of year	72,690	574	—	—	73,264
Cash and cash equivalents at end of year	\$ 60,406	\$ 388	\$ —	\$ —	\$ 60,794

(1) Period from date of inception (July 23, 2004) to September 30, 2004.

	For the Period Ended September 30, 2003			
	Authority	MBC ¹	Consolidating Adjustments	Consolidated Total
Net cash flows provided by operating activities	\$ 194,696	\$ 788	\$ —	\$ 195,484
Purchases of property and equipment	(57,514)	(226)	—	(57,740)
Other cash flows provided by (used in) investing activities	711	(2,259)	—	(1,548)
Net cash flows used in investing activities	(56,803)	(2,485)	—	(59,288)
Prior bank credit facility borrowings	35,000	—	—	35,000
Prior bank credit facility repayments	(286,000)	—	—	(286,000)
Bank Credit Facility borrowings—revolving loan	206,000	—	—	206,000
Bank Credit Facility repayments—revolving loan	(140,000)	—	—	(140,000)
Bank Credit Facility borrowings—term loan	100,000	—	—	100,000
Line of credit borrowings	67,000	—	—	67,000
Line of credit repayments	(67,000)	—	—	(67,000)
Proceeds from the issuance of long-term debt	330,000	—	—	330,000
Payments on long-term debt	(294,759)	—	—	(294,759)
Principal portion of relinquishment liability payments	(28,633)	—	—	(28,633)
Distributions to Tribe	(60,000)	—	—	(60,000)
Other cash flows provided by (used in) financing activities	(11,828)	2,271	—	(9,557)
Net cash flows (used in) financing activities	(150,220)	2,271	—	(147,949)
Net increase (decrease) in cash and cash equivalents	(12,327)	574	—	(11,753)
Cash and cash equivalents at beginning of year	85,017	—	—	85,017
Cash and cash equivalents at end of year	\$ 72,690	\$ 574	\$ —	\$ 73,264

(1) Period from date of inception (January 27, 2003) to September 30, 2003.

NOTE 16—SUBSEQUENT EVENTS:

POCONO DOWNS

On October 14, 2004, the Authority entered into an agreement to purchase Downs Racing, Inc. and its subsidiaries from subsidiaries of Penn National Gaming, Inc (the "Purchase Agreement"). Under the terms of the Purchase Agreement, the Authority will acquire Pocono Downs, a standardbred harness racing facility located on approximately 400 acres of land in Wilkes-Barre, Pennsylvania, and five Pennsylvania off-track wagering operations located in Carbondale, East Stroudsburg, Erie, Hazleton and Lehigh Valley (Allentown). As part of the Purchase Agreement, the Authority agreed to a \$280 million purchase price before adjustments and other costs, with \$14.0 million paid at execution of the agreement. The transaction is scheduled to close in January 2005, subject to customary closing conditions and regulatory approvals. The Purchase Agreement also provides the Authority with both pre- and post-closing termination rights in the event of certain materially adverse legislative or regulatory events. Following the closing of the transaction, the Authority will obtain the right to apply for a Pennsylvania Category One slot machine license, which if approved would initially permit the installation and operation of up to 3,000 slot machines at Pocono Downs.

AMENDMENT NO. 3 TO BANK CREDIT FACILITY

On October 14, 2004, the Authority received the requisite consent of its lenders to Amendment No. 3 to its Bank Credit Facility. Amendment No. 3, among other things, provided for an increase in the total loan commitment from \$382.7 million to \$600.0 million, comprised of a \$450.0 million revolving loan and a \$150.0 million term loan. Amendment No. 3 also permits the Authority to make the Downs Racing acquisition and certain other investments planned for Pocono Downs. Amendment No. 3 also modified certain provisions of the loan agreement, including the Authority's covenants relating to total leverage ratio requirements and the reduction of the term loan commitment, in eleven quarterly installments, beginning September 30, 2005.

Upon funding under Amendment No. 3 on October 18, 2004, the Authority received proceeds of \$58.3 million from the increase in the term loan commitment from \$91.7 million to \$150.0 million. The proceeds were used to pay down existing principal amounts outstanding on the revolving loan.

MENOMINEE PROJECT

On October 21, 2004, the Authority entered into a management agreement with the Menominee Indian Tribe of Wisconsin (the "Menominee Tribe") and the Menominee Kenosha Gaming Authority. According to the management agreement, the Authority was granted the exclusive right and obligation to manage, operate and maintain a planned casino and destination resort to be located in Kenosha, Wisconsin (the "Menominee Project") for a period of seven years in consideration of a management fee of 13.4% of Net Revenues, as defined in the management agreement, which approximates income from operations earned from the Menominee Project. The management agreement is subject to approval by the NIGC.

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