MOHEGAN TRIBAL GAMING AUTHORITY

Moderator: Mario Kontomerkos
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11:30 a.m. ET

Operator: Good afternoon. My name is Kerry and I'll be your conference operator today. At this time, I would like to welcome everyone to the Third Quarter Fiscal Earnings Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

I would now like to turn the call over to your Vice President of Finance, Mohegan Tribal Gaming Authority, Mr. Mario Kontomerkos.

Peter Roberti: Thank you, Kerry, and good morning, everyone. Actually, it's Peter Roberti, Vice President of Finance. Thank you for joining our call this morning.

Today, we issued a press release on our operating results for our third quarter, ending June 30th, 2014. Release is available on our Web site …

Operator: Please hold for a moment.

Ladies and gentlemen, please stay on the line. We'll resume the call momentarily.

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Mitchell Etess: Hi, everybody. It's Mitchell Etess here. Apparently, we had some transmission problems, so we're going to start from – Mario is going to pretend you heard the Safe Harbor language from Peter and Mario is going to begin with his portion of the program.

Mario Kontomerko: OK. Thank you, Mitchell. Good morning, everyone.

Before we begin, I'd like to introduce the participants of today's call. We have, with us, Kevin Brown, Chairman of the MTGA Management Board. From MTGA, we have Mitchell Etess, as you just heard, our CEO, and Peter Roberti, our Vice President of Finance.

From Mohegan Sun, we have President and CEO, Bobby Soper, and from Mohegan Sun of Pocono Downs is Mike Bean, our President and General Manager in Pennsylvania.

In addition, we have a number of others in the room and on the phone that are available to answer any questions you may have.

As usual, our chairman will give some introductory comments, followed by Mitchell, who will briefly discuss our operating results for the last quarter. I'll then provide you with a brief overview of balance sheet matters, after which I'll open up the call for Q&A.

So, with that, I'll turn the call over to the Chairman of the Mohegan Tribe and of the MTGA Management Board, Kevin Brown.

Kevin Brown: Thanks again, Mario. Good morning, everyone, and thanks for joining us.

The bottom line, upfront, is that our results for the third fiscal quarter were less than stellar, but there are silver linings that demonstrate that, despite a tough market all around, we're overcoming some of the challenges that many others in the industry are facing in the present.

And just as importantly, if not more so, we are well postured for a bright future, based on the aggressive pursuits on the development front that we are engaged in; something that will ensure the future of our Tribe and our business and something we always hearken back to in our Mohegan vision statement that looks thirteen generations forward.

Mitch will get into the details of our operating results very shortly, to talk about some of our near-term challenges and successes. But he'll also get into the very exciting future development opportunities we see in Philadelphia, the Catskills, and particularly in the town of Revere, Massachusetts.

Our development team has done an outstanding job of meeting all the requirements of these various gaming boards, as well as generating grassroots support for the Mohegan Sun brand in those locations. Overall, the team has gone above and beyond their duties and it shows in the positive public discourse about our projects in each of these competitive pursuits.

If MTGA were to win even one of these opportunities, it will go a long way towards helping us achieve our strategic goals of diversification growth.

With that, let me turn the call over to Mitchell Etess, Chief Executive Officer of the Mohegan Tribal Gaming Authority; Mitchell?

Mitchell Etess: Thanks, Kevin, and hello, everybody, and thanks for joining our call and thank you for all of your support.

Our results for the fiscal quarter were mixed. There are some positive factors, but overall, we're experiencing the same challenges many of our peers in the industry.

In terms of gaming revenues, clearly, we're being impacted by the lackluster economy and its effect on discretionary spend, which, in turn, has created some pressure and seems to have caused our competitors to become less rational and more aggressive in their spend as well.

There's no doubt that many households are also feeling pressure, with personal income not keeping pace with inflation. In addition, although the economy is adding jobs, many of them are part-time in nature. As a result, we're not seeing the benefits of the newly employed in our results as we have seen in past recoveries.

Also, it would appear that things in Connecticut, which represents 59% of our gaming trips and 53% of our gaming win, here in Mohegan Sun in Connecticut, are recovering somewhat more slowly, as actually, things in Connecticut often do.

But this is the world in which we're operating today; therefore, we must try to work within these macro economic conditions and focus on what we can control. Therefore, we continue to work hard and are gaining market share in the markets that we operate in. And we're focusing on being as efficient as possible, while not compromising the experience our guests expect when they visit a Mohegan property.

Now, as indicated in our Press Release, we experienced decreases in our Net Revenues and Adjusted EBITDA in our fiscal third quarter. Contributing to the decrease in Adjusted EBITDA was an increase in corporate expenses of $3.6 million, due to our pursuit of the Massachusetts gaming license for a casino in Revere, Massachusetts, just outside of Boston.

Excluding Corporate, Property Level Adjusted EBITDA decreased 15.2%. Consolidated Property Operating Costs and expenses decreased by 1.2% of the quarter. And, during the quarter, our consolidated property labor cost declined 2.8%, despite having a new hotel and convention center at Mohegan Sun in Pocono Downs.

We're realizing the benefits from our previously announced cost-savings initiatives and we continue to reexamine our operations to reap additional efficiencies and savings. The future, however, is extremely bright for us and we're super excited about it.

As most of you are aware, we have a number of development opportunities, which we're expected to be – to hear about and are going to be decided in the not-too-distant future. We'll talk about more of this in a little while. Now, on to our quarter results for the operating units.

In Connecticut, Mohegan Sun's Adjusted EBITDA totaled $63.7 million, a 14.8% decline as compared to the prior year. The decline in Adjusted EBITDA was principally due to lower slot revenues and lower table drop and the associated win, as compared to the prior year. Mohegan Sun's Adjusted EBITDA margin declined 240 basis points, to 25.6% for the quarter, compared to 28% in the prior year quarter.

Table games revenues declined by 6.3%, with table games drop declining 6.4%. Table games revenues are down, year over year, however, and – but part of that was self-inflicted and we steered away from unprofitable business by eliminating some poorly performing bus lines, particularly.

In addition, part of this was due to the timing of high-end gaming tournaments that we had two last year's quarter, versus only one in this year's quarter. And obviously, that does impact our overall drop.

Slot revenues declined by 9.1%, impacted by the issues I just discussed. The Connecticut marketplace was competitive during the quarter, as our closest competitor increased their free slot play by 44.4%, to $22.7 million, whereas we only slightly increased our free slot play by 3.7%.

It appears that this elevated level of promotional activity has leveled off since the end of the quarter, likely, again, due to the recognition in our market that smarter marketing, not the volume of marketing, is what leads to more profitability.

On a positive note, we experienced increases in our food and beverage revenues, along with our hotel revenues during the quarter, despite a slight decline in retail, entertainment and other revenues. The Mohegan Sun Arena had a very busy quarter; holding 29 events versus 26 events in the prior year period.

We're very proud to say that we are currently ranked number 2 in the country and the world by Venues Magazine, for an Arena of our size, behind only Radio City Music Hall. It has been a stellar run for the Arena. Acts during the quarter included two shows by Bruce Springsteen, Lady Gaga, Cher, Sting, Brantley Gilbert, Hunter Hayes, Rod Stewart, the Killers, Boston, Cheap Trick, Avicii, Chelsea Handler, Jeff Foxworthy and some MMA.

We also were the host to the WNBA 2014 draft, which was aired primetime on ESPN2 and ESPN3. And we also had the first pick for our team and there was nine regular season home games during the quarter.

One more thing on the Arena; Pollstar's rankings just came out and the Mohegan Sun Arena is the 11th busiest arena, of any size, in the country. And, really, that's just amazing. I mean that includes all arenas and it's just a great driver of business and true differentiator between Mohegan Sun and many other regional destinations.

Operating costs and expenses declined by 3.6%, led by declines in labor costs. The operating team did a great job controlling labor costs, as these costs declined 4.4% for the quarter. But we aren't satisfied with these results.

Given the current environment, we've instituted a wholesale review of the cost structure at both properties and anticipate benefits to be realized from this exercise in the near future. In fact, here in Connecticut, we're already seeing results and the EBITDA in July is up very nicely on a year-over-year basis.

Down in Pennsylvania, in general, the story is that Mohegan Sun's Pocono Downs is a successful launch and ramp-up of our new hotel and how the impact is allowing the property to offset some of the negative trends being experienced elsewhere in the Commonwealth, while significantly decreasing promotional spend at the same time.

Mohegan Sun at Pocono Downs' Adjusted EBITDA totaled $13 million; a decline of 17.3%, as compared to the prior year, on flat Net Revenues. EBITDA margin decreased to 16.9%, compared to 20.4% in the prior year.

Impacting this quarter was an approximate $900,000 one-time regulatory fee benefit last year that we did not experience this year. Excluding this, the EBITDA decrease would have been about 11%; not 16.9%.

With flat revenues, in an environment where our peers were down 3.4% in aggregate in the quarter on a same-store basis, Pocono gained share is now up to 4th from 7th, in terms of slot revenue in the Commonwealth, on a fiscal year-to-date basis.

This outperformance is due to a pronounced 42% decline in unprofitable promotional credits for the quarter, which increases net revenue, as well as the opening of a new hotel and event center. This year-over-year decline in Adjusted EBITDA reflects fully-ramped labor, rent, and supplies and expenses related to the hotel.

And it was indicated so far, we're pleased with the performance of our new hotel and we've received very high ratings from our guests who have stayed there. Our operating metrics improved during the quarter, as follows. Occupancy increased to 94.9% from 89.9% last quarter, whereas ADR increased to $62 from $57 in the previous quarter.

Also worth noting is the $173 average rate for the transient segment, which is very impressive in that market and indicative of the type of hotel experience that we're providing. Furthermore, casino guests who stay at our new hotel have been spending approximately 1.5 to 2 times their regular spend.

Our Non-game revenues increased 21.5% for the quarter, led by hotel revenues and a 5.9% increase in food and beverage revenues. Again, we feel that when you look at the results for the Commonwealth, there's no doubt that both our Hotel and Momentum programs are having their desired effect.

Moving over to Mohegan Gaming Advisors, the team has been extremely busy during the quarter, so let me give you an update of each of the projects.

In Atlantic City, things are going well. We continue to grow market share at Resorts, despite a decline in the overall market. In the last quarter, we continued to outpace the growth of the market in slot revenues. The A.C. slot market was up 0.9% on a same-store basis and our Resorts in Atlantic City was up 3.7%.

Even more important is that we're beginning to see the benefits of our – on our bottom line. Resorts has been cash flow-positive for the last four months in a row; the first time this happened to that property in 6 years and a significant feat in a market where four other facilities have or have announced closing.

This speaks not only to the amazing group of employees at Resorts, but to all the benefits that Mohegan Gaming Advisors brings the table in a way no one else can, such as our very powerful database, outstanding operational expertise, a keen focus on guest service and loyalty, which is supported by training programs, the dedication and financial commitment of our partner, Morris Bailey, who has invested the capital to make that property a really, really nice place.

Now, if you're listening and have not been to Resorts post Margaritaville and you think I'm crazy, I suggest you just get into your car and head down there. The most recent additions are the branded food court, right off the casino floor, and the beach bar are great and we're happy to be seeing these benefits. Really, Resorts right now is as good an experience as you can find on the boardwalk and you should go see it for yourself.

Talking about Mohegan Sun Massachusetts Revere, we continue to be very excited about our chances to win the Boston casino license. As you may or may not know, during the quarter, we gave our last Host Community Presentation on June 24th and completed all or our Surrounding Community Agreements, capping off this effort with the announcement of our agreement with Boston on July 8th, just after the close of the quarter.

We found out that a potential repeal of the gaming legislation will be on the ballot for a statewide vote on November 4th. We're now awaiting decision by the Massachusetts Gaming Commission, which we believe is going to occur on or about September 12.

Now, I can speak forever about why we believe we are clearly the best choice for the Commonwealth, but in general, when you consider the power of our brand in the marketplace and the resultant quick ramp up of business, our transparency through this entire process with the Gaming Commission, and our outwardly looking model, which guided us to 12 surrounding community agreements, without one going to arbitration, and has us extending our momentum program out into the community.

Putting millions of dollars of Players' Club point out for direct use in the community, the jobs we'll not only create, but those that we will save at Suffolk Down, the financial strains of our application, based on our financial partner, our tremendous support from local business and the host and surrounding communities, including the City of Revere, with its long history of Gaming and Tourism, and our experience in the national and international arena.

OK, I'll stop. Just let it be said, we are clearly the best choice for Massachusetts and hope that that's what the commission sees on September 12th.

In Philadelphia, in Market 8, as previously disclosed, we have partnered with Market East Associates to pursue a casino license in Philadelphia, Pennsylvania, where we will operate the gaming and entertainment portions of our proposed casino facility, to be developed in Center City, Philadelphia, known as Market 8.

Although we're not certain exactly when, we anticipate and are hopeful that the PGCB will make a decision on the Philadelphia area very soon.

In New York, we're continuing to work there and in late June, we submitted our proposal, along with Concord Associates, to seek a casino license with the State of New York and believe that our planned facility will be very competitive in the process of selecting an operator and location for the Catskills.

We're getting much more active in the community there, now that we have submitted our application and we feel our location, database and operational expertise will make us very competitive there. According to the timetable proposed in New York, license awards are expected to be made in the late fall and they have so far been keeping very much up to date with their aggressive timetable.

If there wasn't enough going on, we remain extremely focused on addressing the need for additional rooms at Mohegan Sun. We hope to be in a position to break ground in the coming months. This hotel will capture the literally hundreds of thousands of room night requests that we turn away on an annual basis and will add greatly to the attraction factor of the destination.

In June, the Cowlitz Tribe entered into a compact with the State Washington. Beginning next month, this is expected to give the Cowlitz Tribe the ability to lease their share of devices in that state. We're also optimistic that the federal lawsuit challenging the Record of Decision in favor of the Cowlitz Tribe land in trust petition will advance this fall.

There are pending motions that would potentially dispose of that challenge, but we have not yet been scheduled for argument or ruled upon. This is a very exciting project in the State of Washington for both us and, particularly, for the Cowlitz Tribe, who are so desperately in need of this economic stimulus.

And, in closing, we believe we fared relatively well, especially as compared to other regional operators and other gaming jurisdictions. We have a promising future, given our development pipeline. All these efforts are key in positioning ourselves for, not just the next few quarter, but for the future of the company.

We remain steadfast in seeking out new and profitable revenue streams and identifying additional cost-savings opportunities, while maintaining the excellent guest service, product and hospitality experience that has made Mohegan Sun at Pocono Downs premier gaming and entertainment destinations.

And with that, I'll turn things over to Mario, assuming you can still hear me.

Mario Kontomerko: Thank you, Mitchell. Assuming you can still hear me, I'll start off by saying that, with the expiration of the relinquishment agreement payment now only 5 months away, we have put ourselves in great position to seek further balance sheet enhancements and to begin to deleverage even more quickly in very short order.

I'll now give you a brief update regarding certain balance sheet-related items. For the quarter ended June 30th, 2014, the Mohegan Tribal Gaming Authority was in compliance with all of its covenants. Total leverage as of 6/30 was 5.99 times. Total debt, as defined under the bank credit facility, was $1.73 billion. $20 million was drawn on $100 million revolver, as of June 30th, 2014.

After factoring in outstanding Letters of Credit and restrictive covenants, we had approximately $76.2 million available for borrowing under our Bank Credit Facility and line of credit, as of the end of the quarter. Cash and Cash Equivalents at the end of the quarter totaled $71.7 million, including $25.8 million of excess cash.

Liquidity totaled $101.9 million net of Bankroll and Restricted Cash. The Distributions to the Tribe totaled $12.5 million for the quarter and are forecasted, as usual, to total $50 million for the fiscal 2014.

Capital Expenditures totaled $7.8 million for the quarter, comprising primarily of maintenance capital expenditures at our operating units and CAPEX is forecasted to be $34.1 million for the remainder of fiscal 2014, again, comprised mainly of maintenance capital expenditures at our operating units.

So, having said all of that, at this point I'll now turn it back to Kerry for Q&A.

Operator: At this time, I would like to remind everyone, if you would like to ask a question, please press star then the number one on your telephone keypad. Again, for any questions or comments, please press star 1 now.

Your first question will come from John Maxwell.

John Maxwell: Hey, good morning, guys; didn't think it would be that quick. But, hey, Mitchell, the only question I have is just wondering what your thoughts were on the wording of the Massachusetts referendum. Does that concern you at all; the way it – it just seems to be a little confusing.

Mitchell Etess: Well, look, I mean I guess everybody agrees it's confusing. My gut reaction will be that probably, by the time, it – when you get around the election, there'll be enough education on that that people will know what they are or are not voting for.

But you know I mean, I think, clearly, it could be clearer, but it's going to be a very big deal in Massachusetts and I'm pretty sure we'll be able to get that message out of what you're voting for.

John Maxwell: Is there a concentrated effort between you know you, MGM and you know any – or is – or is everybody kind of funding things on their own?

Mitchell Etess: No, there's a group that has gotten together. I believe everybody but Wynn actually is part of it and we'll be working to educate the population and really explain what the great benefits of this gaming bill are and why it's a good idea.

You know we believe there may be even – maybe some of the supporters there's definitely support for the gaming act, overall, for it to stay legal. And, interestingly enough, the polls seem to indicate that the chances of gaming remaining legal are much better if we are the selected applicant.

John Maxwell: OK. And then, just lastly, Mario or Mitch, do you have a budget; what you plan on spending in Massachusetts, through the election?

Mario Kontomerko: Through the election?

Mitchell Etess: You mean for the campaign or just in general?

John Maxwell: Right, for the campaign; yes, not on the construction, just …

Mario Kontomerko: Oh, no, we haven't –we don't have a budget that we're ready to discuss at this time, John.

John Maxwell: OK. That's all I had; thanks, guys.

Mario Kontomerko: Sure thing.

Operator: Your next question will come from Susan Berliner from JPMorgan.

Susan Berliner: Hi, good morning.

Mario Kontomerko: Hi, Sue.

Susan Berliner: I guess the first question I had was with regards to July being up, year-over-year on EBITDA, I was wondering where the strength is coming from.

Mitchell Etess: Well, they're – it's coming from a few places and Bobby can chip in as well. I mean one is we're seeing some efficiencies that we've been working on. We have a slight increase in hold percentage and I think, in general, the trends we're seeing are that you know the $300 Theo and up is coming back a lot better and we're seeing some actual strength, and even growth in those areas. And that's kind of where it's coming from.

Bobby?

Bobby Soper: Yes, yes. On the table game side, if you look at the hold year-to-date, it's held its own and you know the fourth quarter, we certainly – it's no exception to that. On the slot side you know we're starting to see a lot of stabilization and the trends are definitely improving, at least you know through July.

Susan Berliner: OK, great. And then, I guess with regards to, I guess some notables in the quarter; at the arena, why were ticket prices down, considering some of the acts you identified?

Mitchell Etess: It all basically depends. I mean you know the Springsteen – well, first of all, Springsteen was two shows and then his ticket price was only $119, so you might have thought that was higher.

You know you have to realize that – I looked through the acts, but you get some high ticket prices, but you know Brantley Gilbert is $39 and you might have – the Boston show was $39. So, when you kind of average it all out, that's what happens.

Susan Berliner: Got that, then I guess, with regards to expenses, I know you guys kind of highlighted that you're working on additional expense cuts. Any kind of guidance you can give us as to the potential?

Mario Kontomerkos: I think what we can say – I'll give you some kind of numerical guidance, Sue, and then maybe we can have some of the folks here talk about what's actually going on.

We talked about a $13 million program last quarter, which is still in place and you're – and we're starting to see the benefits of that in this quarter that we're in right now. I don't think we're ready to talk about putting exact numbers on programs that we're looking at right now, but I think we'll be in the position to do that in the near future.

I don't know if, in general, anybody wants to speak to what we're looking at, but I mean we're – I think what Mitchell said in his prepared remarks, where that – it's basically a wholesale review of everything at both properties and that's the way we're going about it.

Susan Berliner: OK, great. And my last question is, can you just remind us; I know, I think in Philly, you said you would potentially spend only about $20 million and you get a stake in the property. Can you remind us, with regards to, I guess Massachusetts or New York, how much you guys would be willing to spend? And then also on Cowlitz; how much you have lent them thus far?

Mario Kontomerkos: Yes. Let me see if we can go through those one-by-one. I think, in Massachusetts; Massachusetts, really, the deal there is that we're rolling all of our expenses that you see hitting the corporate expense line into the equity for that project. So there's not going to be a significant capital investment, if and when we're awarded that license. So, really, what you see on the corporate expense line, over the past years and then going forward from now till license award is really the equity investment for us.

From a Philadelphia perspective, that one does require a capital investment. That's really the only one. When you think about the four or five major projects that we talk about, that's a $20 million investment, in return for kind of a mid-teens ownership stake in the project, plus a management fee.

On Cowlitz you know this is going back now over 10 years. We've got about $42 million invested in that. And obviously the benefit there would be that if we could move ahead with the financing of that project, we think a lot of that $42 million might be able to come back to us through financing.

And in New York, we actually anticipate that the – that a capital investment on our – on our part would be actually very minimal.

Susan Berliner: Thanks very much.

Mario Kontomerkos: Sure thing.

Operator: Your next question will come from James Kayler with Bank of America.

James Kayler: Hey, guys; how you doing?

Male: Good.

James Kayler: Good. I sounded a little bit like a broken record, but just on the, you know going back to this sort of top-line trends and slot trends, can you just dig in a little more on sort of what the breakdown is? I mean obviously the slot revenues in Connecticut, I think have been weaker for longer than almost any of us would have expected.

Can you maybe just try to break it down a little bit? And I guess what I'm really trying to figure out is what we – what might signal or what might help to cause this sort of flattening of those flat trends.

Mitchell Etess: Well, I think what we're seeing – and, again, I'll go back; is that the recovery on both slots and tables is happening you know $300 Theo level and up. So the people who you know who are more comfortable seem to be recovering quicker.

I think, from an economic standpoint you know the more the lower level customer becomes more comfortable with the economy and with things maybe improving and you know unless world crises and the thing that they're worried about, you'll see that.

I mean and that's what we're seeing. I mean it seems like sometimes, when the economic news isn't so bad, the slots flatten out a little bit more and that's what we're seeing. I mean you things are – again, as Bobby said, in July, it's a little less worse and we've had some periods where you know it has almost gotten flat.

But it's really recovering on the higher end and the more we get that to seep down lower on a theoretical level, the better we'll be.

Bobby Soper: Yes, no. I agree and I think July; we had had a couple months where we've seen stabilization and July is you know through almost the full month, does appear to be another example where we're you know we're starting to see some progress on the slot side.

James Kayler: All right. And then I guess, just from you know when you – that's very helpful in terms of the type of customer. I guess, what is your level of confidence and what is your view on – is this just people reducing their budgets completely or is there a competitive impact in here also?

Are people you know maybe gaming closer to New York and then their whole budget's down a little bit, but they're also sort of staying closer to home?

Mitchell Etess: No, I mean I think for us and our properties, that's – at least in Connecticut; that's leveled off. You've seen the impact of people changing their trip patterns to go Aqueduct in Yonkers and so forth and so on.

I mean I think what we're seeing is people spending a little less money when they come and it's across the board and that's what you're seeing. And you know I don't know that they're ever going to go back up to what they once did, prior you know.

I think they may be readjusting, but we're still see – there are still a lot of people here you know. There are still a lot of people coming. It's just it seems that people have adjusted their spending habits, based on their disposable income and their feelings about the economy.

James Kayler: OK. That's helpful. Moving to New York you know there's obviously a growing debate over Orange County versus the Catskills. I guess I sort of know what your guys' preference or view is. I guess, how should we think about how that decision's going to be made, A.

And, B, have you thought about what the risk to your business is, if an Orange County casino – I guess the differential between the risk of an Orange County and a Catskills casino.

Mitchell Etess: OK, Well, as far as the decision itself, look; we believe it's very clear that this was the Upstate Development Act and that what people thought they were voting on was upstate casinos and using casinos to stimulate the economy in areas that needed stimulus. And you know it wasn't really set to be, let's put them in a place where we'll get a higher tax rate and what will happen.

You know so we believe, at the end of the day, that by the time you look at that and then you see that you know what not only the Orange County does, but the fact that it basically will eliminate stimulus in Sullivan County, which was probably the whole reason there's actually even a law, what it's going to do to Yonkers, because it's going to have a significant impact on their business and they could tell you that; ask them on their call.

And that's a net negative to the state to get a – they're trading a higher tax rate for a lower tax rate. So I think, what we're hoping is that by the time this whole process is offer, we will be able to show the Gaming Commission that the best thing, really, is one or two casinos in Sullivan County and that would be really creating an economic stimulus and seeing what could happen. And we, of course, think we'd be a good person for that.

As far as you know a new – Orange County versus Sullivan County, I mean the casino in Sullivan County will probably impact Pocono Down a little bit. I think the Orange County casino; you could make the case that those customers fall into the double-jeopardy thing.

You know you can only lose one customer once and you know we probably lost a lot of those customers that would be frequenting that Orange County casino from Connecticut; we've already lost them to Yonkers.

So you know you can't lose a customer two times, so that's kind of you know I would – obviously, can't sit here and tell you there'd be no impact, but I don't think it's going to be a real big problem. Mario, I don't know if you want answer that.

Mario Kontomerko: I think that's right. I think it's exactly right.

James Kayler: OK. That's helpful. Maybe a little bit of a curveball here; obviously, Resorts seems to be doing pretty well. There is this process going on for Revel. Are – is that something – you guys are focused on diversification. Is that something that you guys would look at or have looked at?

Mario Kontomerkos: We look at everything, James.

James Kayler: Very good. I think you learned that from Bill Clifford.

Mario Kontomerkos: Yes, we did.

Mario Kontomerkos: How about this? I'll give you a little more – I'll give you a little more color there. We do look at everything and we're involved in a lot of things right now.

In that particular instance you know we are already in the market. And so to kind of go down that path in a serious way, we would have to obviously include, for some consideration – or have some consideration around our existing asset there and so that makes it a little more – adds a little more of a hurdle, if we were going to participate on that.

James Kayler: OK, very good. Just one last housekeeping thing; the corporate expense obviously is a little hard to predict. It's been bouncing around. I mean, what's a good number to use? And I guess maybe just a little color on what you guys are spending money on.

I mean, so this is just expenses around Massachusetts; having an office and doing these presentations and legal stuff; is that a correct assumption? I guess, if you were to win a license, is that number going to go up?

Mario Kontomerkos: No, in fact, it'll go the other way. So, look, I think historically, you can probably count on – when – in an environment where we don't – we're not working on you know a number of expansion opportunities in different jurisdictions, corporate expense is usually in that $4 to $5 million per range per quarter. And you can see the difference now is you know it was seven – approximately seven in this quarter. It was higher in the previous quarters.

Most of that is due to Massachusetts. There's a little bit in there for New York and some other jurisdictions; certainly Cowlitz is in there. But it's primarily Massachusetts-oriented.

You know going forward, if we're lucky enough to be awarded the license, I would say that that number would go down pretty much to the historical levels and then any expenses that were incurred related to that project would actually go toward the project.

James Kayler: OK, great. Thank you very much.

Operator: Your next question will come from Dennis Farrell with Wells Fargo.

Dennis Farrell: Thank you. Good afternoon, everyone. I was wondering, on another gaming company today was talking about how they're focused on the slot floor has really yielded some strong results.

And I was wondering if you could maybe opine on that, in regards to maybe kind of moving the floor away from kind of a lower-end slot machine to kind of more of that $300-plus Theo customer and if you've done that already or is that an opportunity that you see in the future?

Bobby Soper: Yes, this is Bobby.

So we actually do have a pretty strong market, as it relates to higher-denom games; $5 and above, especially in this existing market. We you know more than our fair share of that market and has, consistent with what Mitchell said regarding the softness on the lower end has held its own.

So we have – we have more than one high-limit gaming area. The games have performed well and you now we continue to monitor and shift you know our game mix, based on demand. We haven't had to add any more high-end, but the performance of our high-end games you know have certainly outperformed the performance of the other games.

And you know if that trend continues you know we'll consider shifting the mix, but again, July has indicated that you know some of those lower end customers or lower ADT customers, I should say, are bouncing back a bit and hopefully we will see that trend to continue.

Dennis Farrell: And this is just a question on the same theme, on the slot side. I get this question a lot from investors, is have the demographics of your customer base, especially in – where you are in your region, in the northeast; do you see the customer base – the demographics continuing to age-increase or are you seeing any younger generation of slot players coming in or you know I guess that – that would be a question.

And then, also, what is your outlook for potentially generating new customers on kind of a – of – on a younger basis?

Mitchell Etess: I'll let Bobby handle that, because he's got a lot efforts here in, same with Pocono Downs, to do that.

Bobby Soper: Yes. So you know historically, obviously the slot customer tended to be female and you know 60-plus or 55-plus and the table game customer, male-oriented, 40 – 30 to 40 - 50 range. There has been a shift in both areas you know both in gender and age.

Clearly, it's still a more mature audience on the slot customer, but I think you know it's indicative of the product that the slot managers are putting out; themes that are geared towards a younger demographic. Also, the type of games, more video-oriented are geared towards the younger demographic.

And in fact you know they are – that is probably the age segment that's growing faster you know from a slot perspective. That being said, it's still dominated by, again, a higher age demographic, but the trends are you know geared towards the younger demographic.

And on the table game side, I think the same holds true as it relates to age you know a younger demographic. Part of it is brought on by the poker craze, which is dying a little bit but you know I think it's generated interested amongst the younger demographic and we are, again, seeing that as well.

That being said you know our strongest suit right now is the high end, both on the slots and table side, which is certainly not the younger demographic. So, we're seeing growth you know from a revenue perspective on the high end, which is not geared towards age, but as it relates to patron visits you know probably our biggest growth from an age standpoints is, on both slots and tables, the younger age demographic.

Dennis Farrell: OK. And then just moving to non-gaming for a second; the hotel development. I was wondering if you would just think about the timeframe there. Potentially, when could you get that open, the total cost, if you – I'm not sure if you mentioned that already, and kind of the you know your commitment, in terms of what financial commitment to that project would be?

Mario Kontomerkos: Yes, it's a good question, Dennis. I mean, look; we are still – we've kind of said in the past that we'd like to get the – break ground on that hotel by the end of the year. I think we're still on that path.

I think we've made a lot of progress on defining the exterior and now we're into the interiors of this – of this hotel. It's a 400-room, $110 million hotel. The financial structure will be very similar to what we saw at Pocono Downs, where there'll be really no significant, of any kind, really, capital investment.

From MTGA it'll be sort of a – it'll be built – constructed and financed by a third party and leased back to MTGA And so that's kind of the path we're going down and we – like I say, we're sort of in the final stages of being able to break ground.

Once we do – I can't tell you exactly when, but it should be in the next few months. Once we do, we think it's 18 to 20 months to open.

Dennis Farrell: OK. Will that be a separately flagged hotel or will it be a Mohegan flagged hotel.

Mario Kontomerkos: It'll be Mohegan.

Mitchell Etess: Mohegan flagged.

Mario Kontomerkos: Mohegan flagged.

Dennis Farrell: All right. And then, last question; in regards to – oh you know the recent craze, Op-Go – Op-Go/Prop-Go; wondering what your thoughts are on potentially bidding for the Meadows and then also potentially selling Pocono into a REIT structure?

Mario Kontomerkos: Well, look; I think I can – I can give you some general comments around it. Look, I think you know as you know we're very focused on our capital asset allocation strategy and so you know the emergence of the REIT structure in the gaming industry is a good thing for companies like us, in that you know when you have companies that have the operational expertise, but also, not just in gaming, but in non-gaming and entertainment and elsewhere.

And operators are looking for improvement or looking to sell and, potentially, REITs are looking for operators; we tend to be a very good fit for those type of transactions. And so, on a lot of those transactions we're looking at – can't speak to any in particular, but you know we think it kind of fits well into our asset-light capital allocation strategy.

Yes, I mean – yes; that's a good point. Mitchell mentions Florida. I mean I think Florida was a joint venture between us and GLPI. We you know unfortunately we finished second in the bidding on that; might be an opportunity for us in the future.

But I mean, it's a – it's a – it's a model that you know from our perspective, works, if it's the right rent coverage and the right asset. So you know it's – I don't see is really participating from an asset-sale perspective, but I do see us participating from being an operator in some of those transactions perspective.

Dennis Farrell: And then, just to follow up on that; how would the – how would the math work on that? Let's just say you know for a company that does, like 10 million of EBITDA you know how would that – what kind of commitment would you have to put up? I mean would you be buying it, at what multiple? I'm just trying to get an idea for the future.

Mario Kontomerkos: Yes, no, I – the way it works is that if it does 10 million of EBITDA you know you're generally starting at a two-times coverage ratio on the rent, so you assume the REIT would take half of that as rent and pay some multiple that you're probably more familiar with than I am, but it's probably a – kind of a double-digit – low double-digit multiple.

And then the – and then the question is how much do you buy the remaining 10 million for on the Op-Go side and you know generally that's going to be a lot lower, right, than – clearly than the REIT multiple and probably lower than your average acquisition multiples in gaming, because it is, in fact, just an Op-Go. So that's kind of the way we think about it.

Dennis Farrell: OK. Thank you very much.

Mario Kontomerkos: Sure.

Operator: And once again, ladies and gentlemen, for any questions or comments, please press star then the number one on your telephone keypad.

Your next question will come from Howard Goldberg with Credit Agricole.

Howard Goldberg: Thank you and good afternoon.

Mitchell, I was hoping you could give us your thoughts on how you feel this repeal process playing out in Massachusetts; do you have an early read on where the likely voters are leaning in Massachusetts to possibly repeal the casino bill?

Mitchell Etess: Well, look, I kind of – I might have said before, we believe right now, though perhaps it has diminished somewhat, there is still definitely support for legalized gaming in the Commonwealth and our polls and in polls that were published; not just our polls, but other polls indicate that the chance of the – of gaming staying legal are improved by us receiving the license over in Eastern Massachusetts, based on people's perceptions of some of the issues regarding the other person's property.

But – so we still believe the support's there. You know obviously, as the project and experience keeps on giving you know in terms of one thing being thrown in the road after another. But we're hopeful to get that license awarded to us, September, and then you know then actively share with the people of Massachusetts, what the true the benefits of this law are that they passed to begin with.

Howard Goldberg: Good. And a couple of questions, more for Mario. First, and I'm sorry if I missed this earlier, but the line item on your P&L that shows advertising in general and administrative expenses has been pretty sticky at a time when the top line has been going down.

I wonder if you could delve into the main things that are driving the you know flatness, if you will, in the total advertising general and administrative categories, if there's anything you can shed some light on there.

Mario Kontomerko: Yes, I mean there's not going to be a lot of detail we can share with you on that, Howard. But I mean, look; going back to what we said earlier, I think you know really, everything's on the table you know in terms of you know all the costs and expenses that are expended here, at the corporate entity.

And I think, look; advertising is one of those, just like everything else. Now there are certain – there are certain expenditures that you know you always want to be careful that you're not you know throwing out the baby with the bathwater, for lack of a better term, so you got to be careful with certain expenditures and I think advertising is one of those.

But on the – on the whole, I think that – I think that we are – we're reviewing every single line item that there is.

Howard Goldberg: OK. And, finally, Mario, if you can mention the non-recourse debt, if you have that figure, at the end of the second – at the end of the June quarter; excuse me.

Mario Kontomerko: Yes. What we can do, Howard, is we can get you the breakdown, but it's – it really is comprised of – the two biggest things are the Pocono Downs hotel piece, which is just slightly north of $45 million is my guess.

Howard Goldberg: Right.

Mario Kontomerko: And there's a couple of loans related to Cowlitz that are with the Tribe. And we can – we can get you that detail.

Howard Goldberg: OK, very good; thanks.

Operator: There are no – there are no further questions.

Mario Kontomerkos: OK, great. Well, thank you, everybody. Thank you for participating and we look forward to our next conference call with you in about three months. Thanks a lot.

Operator: Thank you for your participation. This does conclude today's conference. You may now disconnect.

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