

November 04, 2003

MGAM's San Pablo deal grossly over hyped.

The Seidler Companies has published a calculation of Multimedia Games, Inc.'s (NASDAQ: MGAM, \$38.64) potential annual gross earnings at Casino San Pablo, which is located on Indian land 20 miles from downtown San Francisco, of up to \$21.9 million. Given Multimedia's regulatory problems and the competition's superior technology, we see no reason for the Lytton Band of Pomo Indians to contract with Multimedia other than based on price and their indebtedness to Multimedia. However, even assuming Multimedia gets 100% of the Lytton's Class II business, and that the Lytton agree to play Multimedia's New Generation not-NIGC-classified machines instead of the approved but slower-playing version of Reel Time Bingo, we believe that San Pablo's contribution will be between \$2.5 million and \$4.4 million before capital and operating costs. Furthermore we question the credit worthiness of Multimedia's \$21 million loan and the wisdom of investing additional millions placing Class II machines at Casino San Pablo when the Lytton can pursue Class III gaming. We are not alone. Sonoma Investors General Partnership ("Sonoma"), the Lytton's long time financial partners, and the Rumsey Tribe, which operates the Cache Creek Indian Class III casino located 90 miles north of San Francisco, did not make the loan. In fact, Sonoma sold out completely.

Proceeds from Multimedia's loan to the Lytton were used to pay-off Sonoma. Simultaneously with Multimedia's loan the land was transferred to the Secretary of the Interior to hold in trust for the Lytton thereby converting the property into sovereign Indian land. Sam Katz, the Philadelphia Republican mayoral candidate and the leader of Sonoma, sold out. He has been involved with this controversial land deal since at least 1996. Mr. Katz's group had not allowed the land to be converted to Indian Territory.

The acceptance of the Lytton's land into trust that occurred on October 9, 2003 was backdated to before October 17, 1988. This backdating is necessary to allow the Lytton to avoid the difficult and expensive process of complying with current laws restricting "reservation shopping," which is exactly what the Lytton have done. Legislation has been introduced that, if passed, would reverse the backdating and subject the Lytton to existing regulations.

Multimedia used all its available cash and some borrowings to fund the Lytton loan. The Lytton's creditworthiness and land status is questionable. We believe that Multimedia's willingness to resort to this irregular scheme is indicative of its poor circumstances. Namely Multimedia's business is reliant on illegal gaming, has failed to convert all its games in the field to legal models, and faces new technically superior competition, which unlike Multimedia is unencumbered by regulatory problems.

We believe investors do not serve themselves by playing down the importance of Multimedia's serious regulatory problems and International Game Technology's (NYSE: IGT, \$33.06) entry into the small Class II market. As we have stated, we believe Multimedia's competitive advantage was its willingness to assume regulatory risks. We believe that the market and regulatory environment has changed in a manner adverse to Multimedia and that investors have been told the exact opposite.

Asensio & Company, Inc. covers Multimedia Games, Inc. and maintains a Strong Sell and Short Sell opinion. A summary of the basis of our opinion is found in our October 2, 2003 report published on www.asensio.com.

Asensio & Company, Inc. reports are published and distributed solely and exclusively to registered asensio.com subscribers who have read and agreed to the Terms of Use and Mandatory User Agreement located at <http://www.asensio.com/TermsOfUse.aspx> and included herein in its entirety by reference and by the provision of its availability.