

January 04, 2005

*MGAM's well-deserved demise appears imminent.*

Multimedia Games, Inc.'s (NASDAQ: MGAM, \$14.25) legal woes worsened and its operational results and financial condition continued their steep decline in its fourth fiscal quarter ended September 30, 2004. Using more than double the number player stations and more than triple the total assets in its fourth quarter than in its peak quarter ended March 31, 2002, Multimedia Games' reported net income was just \$277,000 more than during its peak quarter.

On December 14, 2004 Multimedia Games filed its annual report with the Securities and Exchange Commission. In that filing Multimedia Games disclosed that it has been notified by the State of California that its Video Lottery systems are illegal and must be removed from California casinos. Multimedia Games also disclosed in the same filing that the National Indian Gaming Commission ("NIGC") had notified it in "a series of letters" that its so-called "development agreement" covering Multimedia Games' most profitable venture, the Chickasaw Nation's Winstar Casino in Oklahoma, constituted an illegal proprietary interest by Multimedia Games in Winstar. As a result, Multimedia Games' development fees, rights to floor space, and share in gaming revenues are the subject of an NIGC intensified investigation and challenge.

On March 1, 2004 with MGAM's stock trading at \$42 and Prudential Equity Group, CIBC and Roth Capital Partners predicting that MGAM stock will be trading as high as \$60 per share based on the U.S. Supreme Court's decision not to hear the U.S. Department of Justice's arguments against Class II gaming we predicted Multimedia Games would trade at less than \$5 per share. We found that Multimedia Games' highly irregular accounting grossly inflated its reported earnings and that the short-term success of its games was the result of highly questionable business practices. In our view, the U.S. Supreme Court's decision marked the end of the legal barriers of entry that Multimedia Games had exploited and that Multimedia Games had no product or service comparable, much less competitive, with those offered by the gaming industry's leaders.

Below find a link to a Press-Enterprise article published on January 2, 2005. The article quotes a Multimedia Games customer that is using Multimedia Games' Video Lottery games predicting that the State of California will initiate litigation to remove Multimedia Games' machines.

Also below find the language extracted from pages 16, 22 and 23 of Multimedia Games' annual report referred to above.

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<http://www.asensio.com/Report-images/MGAM/Issues.pdf>>Taxing casinos cited among issues for '05</a>

The Press-Enterprise

By Tim O'Leary

January 2, 2005

Page 16 of Multimedia Games' form 10-K filed on December 14, 2004:

"In addition, the state of California has recently notified us that the state has determined that our TILG units constitute Class III gaming devices that are not permitted by the compacts between the state and tribes." California also asserts we may be obligated to cooperate with the state in removing or otherwise stopping the play of these games in California tribal facilities. We are currently working with our tribal customers in California and plan to communicate with California gaming authorities to attempt to resolve the current regulatory uncertainty in that state. Regulatory interpretations and enforcement actions by state regulators, including without limitation, actions by California authorities regarding our TILG product, could have significant and immediate adverse impacts on our business and operating results."

Pages 22 and 23 of Multimedia Games' form 10-K filed on December 14, 2004:

"On December 1, 2004 we received a series of letters from the NIGC expressing the commission's concern that certain of our agreements violate the requirements of IGRA and tribal gaming regulations, which state that the Native American tribes hold the "sole proprietary interest" in the tribe's gaming operations. In particular, the NIGC is concerned that our development agreements, whereby we advance development funds to our tribal customers in exchange for allocated floor space and a share of gaming revenue, create a "proprietary interest" of ours in the tribe's gaming operations. As a result of its concern, the NIGC has requested we and our tribal customers provide a written justification for the percentage of shared revenue specified in the subject agreements, which in the view of the NIGC exceeds the level permissible under a management agreement. The NIGC has also asked that we and our tribal customers provide an explanation why our arrangements do not result in our holding a proprietary interest in our tribal customer's gaming operations. In addition, on December 1, 2004, we received a letter from the NIGC expressing the commission's concern that an Integrated Electronic Gaming Services Agreement, dated January 2000 with one of our customers, covering one of our Legacy games constituted a management agreement. According to the acting general counsel, the performance of any planning, organizing, directing, coordinating or controlling, with respect to any part of a gaming operation, constitutes "management" for purposes of determining whether an agreement is a management contract, which requires NIGC approval. We are currently preparing our response to the NIGC's requests.

If certain of our development agreements are finally determined to be management contracts or to create a "proprietary" interest of us in tribal gaming operations, there could be material adverse consequences to us. In that event, we may be required, among other things, to modify the terms of such agreements. Such modification may adversely affect the terms on which we conduct business and significantly impact our financial condition and results of operations from such agreement and from other development agreements that may be similarly interpreted by the NIGC."