

March 29, 2004

MGAM's analysts admit astonishing earnings decline.

At least five Wall Street analysts publish earnings estimates for Multimedia Games, Inc.'s (NASDAQ: MGAM, \$25.52) second quarter ending March 31, 2004. The analyst's estimates are all basically the same. They are either \$0.25 per share or \$0.26 per share. These estimates represent a drop in Multimedia's core earnings of at least 30% from last year's second quarter.

According to the analysts, the steep earnings decline will entirely wipe out any added earnings from Multimedia's new businesses (New York Lottery, Winstar, California tribal instant lottery, and Alabama charity bingo did not exist last year). In fact, the estimated core earnings decline is expected to occur despite at least 3,000 more player stations and \$45 million in additional assets.

Multimedia's earnings decline has commenced even before the onslaught of new well financed competition with better themes, games, and platforms.

As the attached four financial tables demonstrate, Multimedia's core earnings have been declining precipitously since reaching their peak profitability in the second quarter of fiscal 2002.

For the peak quarter, which ended March 31, 2002, Multimedia reported net income of \$6.8 million with 6,449 installed Class II games and \$37.7 million in operating assets (**Table I**). A comparison of this peak quarter with Multimedia's most recent quarter shows a decline in core earnings of up to 75% despite a 47% increase in installed player stations and a 176% increase in operating assets (**Tables II and III**). The earnings decline occurred not only despite the sharp increases in games and assets but also Multimedia's highly aggressive cost and expense capitalization policy.

The above referenced cost and expense capitalization policy has the effect of inflating earnings. **Table IV** shows that during fiscal 2003 Multimedia installed 3,335 player stations at a cost of \$37 million, or \$11,089 per player station. During fiscal 2002 Multimedia installed 3,324 player stations at a cost of \$24.4 million, or \$7,326 per player station. This is a 51% increase in cost per player station in fiscal 2003 over fiscal 2002. Just this item could have inflated Multimedia's fiscal 2003 pre-tax earnings by an estimated \$12.5 million or 65%.

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.

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Multimedia Games, Inc.

Table I: Comparison of Historical Peak Earnings Quarter to Most Recent Quarter

(amounts in thousands of U. S. Dollars, except number of player stations)

Note: Company's revenues and earnings are claimed to be ramping-up (assets have markedly risen) and have not shown any seasonality.

	<u>First Quarter Fiscal 2004 ended December 31, 2003</u>	<u>Second Quarter Fiscal 2002 ended March 31, 2002</u>
Net Income¹	7,270 ²	6,889
Installed Player Stations at End of Each Period:		
Number of Class II, charity bingo and lottery terminals	10,721	6,449
Number of Class III VLTs in Washington State ³	<u>3,005</u>	<u>1,873</u>
Total number of player stations	13,726	8,322
Operating Assets:		
Property and equipment, net	73,083 ⁴	29,400
Inventories	18,153	6,395
Other assets	<u>12,859</u>	<u>1,938</u>
Total Operating Assets	104,095 ⁵	37,733

1. Based on actual expense and cost capitalization policies, which decrease reported expenses and increase earnings.
2. December 2003 includes revenues from 880 player stations installed at the Winstar Casino and 589 player stations for charity bingo and the California tribal instant lottery game.
3. In the Class III market Multimedia receives back-office fees based on a share of the hold per day from both leased and sold Class III VLTs. Multimedia also provides an undisclosed number of Class III VLTs under participation arrangements with gaming tribes in Washington State.
4. Excludes \$8,547,000 in disclosed capital expenditures for NY Lottery.
5. Does not include \$20.8 million in loans to the Lytton Rancheria (which generated interest income) and does not include any amount for committed development obligations.

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Table II: Adjustments to the Most Recent Quarter's Net Income to Compare with the March 2002 Historical Peak Earnings Quarter
(amounts in thousands of U.S. Dollars, except number of player stations)

	<u>First Quarter Fiscal 2004</u> <u>Highest adjusted net income</u>	<u>First Quarter Fiscal 2004</u> <u>Median adjusted net income</u>	<u>First Quarter Fiscal 2004</u> <u>Lowest adjusted net income</u>	<u>Second Quarter Fiscal 2002</u> <u>Adjusted net income</u>
Number of Class II player stations installed at the end of the quarter	9,252 ¹	9,252 ¹	9,252 ¹	6,449
Reported income before income taxes	11,691	11,691	11,691	11,198
Deductions of Non-Comparable Income				
Estimated Winstar net revenues ²	3,157	4,858	7,286	-
Estimated Alabama Charity and California lottery net revenue ³	99	198	297	-
Reported Gross profit from player terminal sales ⁴	<u>1,441</u>	<u>1,441</u>	<u>1,441</u>	<u>572</u>
Sub-total Deductions of Non-Comparable Income	4,698	6,497	9,025	572
Adjusted income before income taxes	6,993	5,194	2,666	10,626
Less adjusted income tax expense	<u>2,644</u> ⁵	<u>1,963</u> ⁵	<u>1,008</u> ⁵	<u>4,091</u> ⁶
Adjusted net income	4,350	3,231	1,658	6,535

1. Excludes 880 player stations at the Winstar Casino and 589 charity bingo player stations and tribal instant lottery game point of sale terminals. Multimedia disclosed a composite number of 589 units for its charity and tribal lottery installations.

2. Calculated based on 880 player stations in operation for 92 days earning an average hold of \$130, \$200 and \$300 per day.

3. Calculated based on 10%, 20% and 30% participation of \$991,000 in gaming revenue earned during the quarter. Multimedia did not disclose its participation payments or a breakdown of revenues.

4. Calculation: "Player terminal and license sale and lease revenue" less "Cost of player terminals and licenses sold."

5. Tax rate in the quarter was 37.8%.

6. Tax rate in the quarter was 38.5%.

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Table III: Percentage change in selected items

(amounts in thousands of U.S. Dollars, except number of player stations)

	<u>First Quarter Fiscal 2004 Highest adjusted net income</u>	<u>First Quarter Fiscal 2004 Median adjusted net income</u>	<u>First Quarter Fiscal 2004 Lowest adjusted net income</u>	<u>Data Used for Comparison and Calculation of % Change Second Quarter Fiscal 2002</u>
Total operating assets	176%	176%	176%	37,733
Number of Class II player stations installed at the end of the quarter	43% ¹	43% ¹	43% ¹	6,449
Total number of player stations	47% ¹	47% ¹	47% ¹	8,322
Adjusted net income	-33%	-51%	-75%	6,535

1. Excludes 880 player stations at the Winstar Casino and 589 charity bingo player stations and tribal instant lottery game point of sale terminals. Multimedia disclosed a composite number of 589 units for its charity and tribal lottery installations.

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Table IV: Cost of Player Stations in Property and equipment

	Fiscal Year 2003	Fiscal Year 2002
Investment in gaming equipment before depreciation¹	\$ 105,538,000	\$ 61,771,000
Less capital expenditures for NY Lottery	6,784,000	-
Less Investment in gaming equipment before depreciation in previous year	<u>61,771,000</u>	<u>37,421,000</u> ²
Net investment in gaming equipment during the year	\$ 36,983,000	\$ 24,350,000
Divided by the number of player stations installed during the year	3,335	3,324
Net investment per player station installed during the year	\$ 11,089	\$ 7,326 ²

1. Gaming equipment is a component of Property and equipment disclosed in Multimedia's Form 10-K.
2. Includes an undisclosed amount for satellite dishes and monitoring equipment for MegaBingo that was discontinued. As a result investment per installed player station is actually lower than shown below.
3. Includes all player stations (Class II, Class III, Charity Bingo and Point-of-Sale Terminals).

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