

OFFICE OF THE GOVERNOR

November 16, 2004

Mr. Clifton Lind
CEO, President, Director
Multimedia Games, Inc.
206 Wild Basin Road
Building B, Fourth Floor
Austin, Texas 78746

Re: Video Lottery Terminals

Dear Mr. Lind:

The California Governor's Office of Legal Affairs has been advised by the California Division of Gambling Control (Division) that your company has recently conveyed so-called Video Lottery Terminals (VLT) to both the Pechanga Band of Mission Indians (Pechanga) and the Morongo Band of Cahuilla Mission Indians (Morongo). Our understanding is that, from all sources, approximately 2,025 devices have been transported to Morongo and approximately 1,671 machines have been transported to Pechanga.

The State of California (State) has determined that these VLTs constitute class III gaming that is not permitted by the tribal-state class III gaming compacts (Compacts) executed by Pechanga and Morongo with the State. Both tribes have been notified in writing of the State's determination. Moreover, both have been requested to take no more VLT deliveries, to cease operating these devices and to return them to you as soon as possible. (See, attached copies of those letters.)

It is our view that Multimedia Games, Inc., as a licensed gaming resource supplier, has an obligation to cooperate with the State in securing the removal of these VLTs from the casinos operated by Pechanga and Morongo in order to assure that it is not abetting a violation of state and federal law. As you know, federally recognized Indian tribes may not conduct class III gaming either in the absence of a Compact or in violation of the terms of a Compact. (25 U.S.C. § 2710(d)(1)(C).) As discussed in the attached letters, these VLTs are not games authorized to

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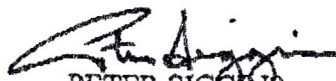
the California State Lottery and, even were they considered to be "Gaming Devices" within the meaning of their Compacts, they may not be operated by either Pechanga and Morongo because both tribes are already operating the maximum number of such devices permitted under those Compacts. Thus, the operation by these tribes of these VLTs violates the terms of their Compacts and is contrary to law.

Any failure on your part to cooperate with the State in this regard could be considered a threat to the "effective regulation and control of controlled gambling in this State" as well as conduct that would "create or enhance the dangers of unsuitable, unfair, or illegal practices, methods, and activities in the conduct of controlled gambling or in the carrying on of the business and financial arrangements incidental thereto." (See, Cal. Bus. & Prof. Code, § 19857, subd. (b).)

Your cooperation in this regard can be demonstrated by your active pursuit and accommodation of the return of these devices, a refusal to provide any and all services related to the operation and maintenance of these VLTs and a commitment not to convey any more VLTs to Morongo or Pechanga or to any other tribes in this State whose Compacts do not permit their operation.

Please advise the undersigned at your earliest convenience or within the next 10 days of your willingness to cooperate with the State in this regard.

Sincerely,


PETER SIGGINS
Legal Affairs Secretary

Attachments

cc: Eugene Balonon, Executive Director
California Gambling Control Commission
Robert Lytle, Director
California Division of Gambling Control, Office of the Attorney General
Robert Mukai, Senior Assistant Attorney General
Indian Gaming and Law Section, Office of the Attorney General