

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

NTN BUZZTIME INC
Form 10-Q
May 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

Commission file number 1-11460

NTN BUZZTIME, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State of incorporation)

31-1103425
(I.R.S. Employer
Identification No.)

5966 LA PLACE COURT, CARLSBAD, CALIFORNIA
(Address of principal executive offices)

92008
(Zip Code)

(760) 438-7400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

At May 1, 2006, the registrant had outstanding 54,138,632 shares of common stock, \$.005 par value.

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

NTN BUZZTIME, INC. AND SUBSIDIARIES FORM 10-Q INDEX

	PAGE
PART 1. FINANCIAL INFORMATION	
ITEM 1. Financial Statements.....	3
Condensed Consolidated Balance Sheets as of March 31, 2006 (unaudited) and December 31, 2005	3
Condensed Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005 (unaudited).....	4
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and 2005 (unaudited).....	5
Notes to Condensed Consolidated Financial Statements.....	7
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.....	26
ITEM 4. Controls and Procedures.....	26
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings.....	27
ITEM 1A. Risk Factors	27
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.....	27
ITEM 3. Defaults Upon Senior Securities.....	27
ITEM 4. Submission of Matters to a Vote of Security Holders.....	27
ITEM 5. Other Information.....	27
ITEM 6. Exhibits and Reports on Form 8-K.....	27
Signatures.....	28

2

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

NTN BUZZTIME, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (THOUSANDS, EXCEPT SHARE DATA)

	MARCH 31, 2006 ----- (Unaudited)	DECEMBER 31, 2005 -----
ASSETS (Pledged)		
Current Assets:		
Cash and cash equivalents	\$ 6,032	\$ 5,982
Restricted cash	69	69
Accounts receivable, net	3,575	3,630

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

Inventory	328	371
Investments available-for-sale	215	258
Deposits on broadcast equipment	557	799
Deferred costs	1,159	1,118
Prepaid expenses and other current assets	965	955
	-----	-----
Total current assets	12,900	13,182
 Broadcast equipment and fixed assets, net	8,091	8,085
Software development costs, net	783	706
Deferred costs	1,203	1,256
Goodwill	3,658	3,658
Intangible assets, net	2,761	2,946
Other assets	185	185
	-----	-----
Total assets	\$ 29,581	\$ 30,018
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 657	\$ 725
Accrued expenses	2,126	1,799
Sales tax payable	204	714
Accrued salaries	89	643
Accrued vacation	613	619
Income taxes payable	58	147
Obligations under capital leases - current portion	422	436
Revolving line of credit	700	700
Deferred revenue	1,701	2,024
Deferred revenue-Buzztime	663	632
	-----	-----
Total current liabilities	7,233	8,439
 Obligations under capital leases, excluding current portion	271	366
Deferred revenue	689	321
	-----	-----
Total liabilities	8,193	9,126
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Series A 10% cumulative convertible preferred stock, \$.005 par value, \$161,000 liquidation preference, 5,000,000 shares authorized; 161,000 shares issued and outstanding at March 31, 2006 and December 31, 2005	1	1
Common stock, \$.005 par value, 84,000,000 shares authorized; 53,985,000 and 53,877,000 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively	269	268
Additional paid-in capital	110,346	109,860
Accumulated deficit	(88,712)	(88,788)
Accumulated other comprehensive loss	(516)	(449)
	-----	-----
Total shareholders' equity	21,388	20,892
	-----	-----
Total liabilities and shareholders' equity	\$ 29,581	\$ 30,018
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

3

NTN BUZZTIME, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED MARCH 31	
	2006	2005
Revenues	\$ 11,062	\$ 9,507
Operating expenses:		
Direct operating costs (includes depreciation of \$948 and \$764 for the three months ended March 31, 2006 and 2005, respectively).....	3,501	3,456
Non-cash charge related to software product sale	--	276
Selling, general and administrative	6,817	6,433
Litigation, legal and professional fees	346	380
Depreciation and amortization	209	219
Research and development	66	59
Total operating expenses	10,939	10,823
Operating income (loss)	123	(1,316)
Other income (expense):		
Interest income	31	26
Interest expense	(46)	(24)
Total other income (expense)	(15)	2
Net income (loss) before income taxes	108	(1,314)
Provision for income taxes	32	33
Net income (loss)	\$ 76	\$ (1,347)
Net income (loss) per common share - basic	\$ 0.00	\$ (0.03)
Net income (loss) per common share - diluted	\$ 0.00	\$ (0.03)
Weighted average shares outstanding - basic	53,928	53,222
Weighted average shares outstanding - diluted	60,931	53,222

NTN BUZZTIME, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME / (LOSS) (UNAUDITED)
(THOUSANDS)

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

THREE MONTHS ENDED MARCH 31,

	2006	2005
	-----	-----
Net income (loss)	\$ 76	\$ (1,347)
	-----	-----
Other comprehensive income, net of tax:		

Foreign currency translation adjustments	(24)	--
Unrealized holding gain (loss) in investment available for sale	(43)	181
	-----	-----
Other comprehensive income (loss)	(67)	181
	-----	-----
Comprehensive income (loss)	\$ 9	\$ (1,166)
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements

4

NTN BUZZTIME, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (THOUSANDS)

FOR THE THREE MONTHS ENDED MARCH 31,

	2006	2005
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ 76	\$ (1,347)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,157	983
Provision for doubtful accounts	269	278
Non-cash stock-based compensation	408	107
Non-cash charge related to software product sale....	--	276
Provision for warranties	--	2
Provision for sales returns	--	1
Loss from disposition of equipment	17	30
Changes in assets and liabilities:		
Accounts receivable	(199)	(328)
Inventory	43	(44)
Deferred costs	13	(147)
Prepaid expenses and other assets	(11)	(196)
Accounts payable and accrued expenses	(763)	444
Provision for income tax	(129)	(69)
Deferred revenue	76	252
	-----	-----
Net cash provided by operating activities	957	242
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(429)	(725)
Software development expenditures	(132)	(151)

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

Deposits on broadcast equipment	(271)	(609)
	-----	-----
Net cash used in investing activities	(832)	(1,485)
	-----	-----
Cash flows from financing activities:		
Principal payments on capital leases	(108)	(59)
Principal payments on equipment notes payable	--	(384)
Borrowings from revolving line of credit	--	500
Proceeds from exercise of stock options and warrants	79	156
	-----	-----
Net cash (used in) provided by financing activities	(29)	213
	-----	-----
Net increase (decrease) in cash and cash equivalents	96	(1,030)
Effect of exchange rate on cash	(46)	(2)
Cash and cash equivalents at beginning of period	5,982	6,710
	-----	-----
Cash and cash equivalents at end of period	\$ 6,032	\$ 5,678
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements

5

NTN BUZZTIME, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED) (THOUSANDS)

	FOR THE THREE MONTHS ENDED	
	2006	2005
	----	----
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 46	\$
	=====	=====
Income taxes	\$ 185	\$ 1
	=====	=====
Supplemental disclosure of non-cash investing and financing activities:		
Equipment acquired under capital leases and notes payable	\$ --	\$ 2
	=====	=====
Reclass of deposits for equipment placed in service	\$ 513	\$ 5
	=====	=====
Unrealized holding loss on investments available for sale....	\$ (43)	\$ (1)
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements

NTN BUZZTIME, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
March 31, 2006

(1) BASIS OF PRESENTATION

In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments (consisting of only normal, recurring adjustments) that are necessary for a fair presentation of the financial position of NTN Buzztime, Inc. and its wholly-owned subsidiaries (collectively, "we", "our" or "NTN") and the results of operations and cash flows of NTN for the interim periods presented. Management has elected to omit substantially all notes to our condensed consolidated financial statements as permitted by the rules and regulations of the Securities and Exchange Commission. The results of operations for the interim periods are not necessarily indicative of results to be expected for any other interim period or for the year ending December 31, 2006.

The condensed consolidated financial statements for the three months ended March 31, 2006 and 2005 are unaudited and should be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2005.

We have reclassified depreciation and amortization expense to direct operating costs for certain assets from selling, general and administrative expenses in the prior period condensed consolidated financial statements to conform to the current period presentation.

(2) STOCK-BASED COMPENSATION

STOCK-BASED COMPENSATION VALUATION ASSUMPTIONS

We estimate the fair value of our stock options using a Black-Scholes option pricing model, consistent with the provisions of SFAS No. 123R, Securities and Exchange Commission Staff Accounting Bulletin No. 107 ("SAB 107") and our prior period pro forma disclosures of net income (loss), including stock-based compensation as required by SFAS No. 123. The fair value of stock options granted is recognized to expense over the requisite service period. Compensation expense for all share-based payment awards is recognized using the straight-line single-option method. Compensation expense related to stock-based compensation is reported as general and administrative based upon the department to which materially all of the associated employees report.

We used the historical stock price volatility to value our stock options under SFAS 123R and in accordance with SFAS 123 for purposes of its pro forma information. The expected term of our stock options represents the period of time options are expected to be outstanding and is based on observed historical exercise patterns for our company which we believe are indicative of future exercise behavior. For the risk free interest rate, we use the observed interest rates appropriate for the term of time options are expected to be outstanding. The dividend yield assumption is based on NTN's history and expectation of dividend payouts.

The following weighted average assumptions were used for grants issued in the

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

three months ended March 31, 2005 under the SFAS No. 123 requirements and in the three months ended March 31, 2006 under the SFAS No. 123R requirements:

	MARCH 31,	
	2006	2005
Risk-free interest rate	4.65%	3.73%
Dividend yield	0.0%	0.0%
Volatility	67.34%	71.1%
Expected Life	4.9 years	4.0 years

In our pro forma disclosures prior to the adoption of SFAS No. 123R, we accounted for forfeitures as they occurred. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised if necessary in subsequent periods if actual forfeiture rates differ from those estimates. Forfeitures were estimated based on historical activity for our company. For the three months ended March 31, 2006, we estimated a 13% annual forfeiture rate.

7

IMPACT OF SFAS NO. 123R

The following table presents the impact to our consolidated financial statements as a result of our adoption of SFAS No. 123R for the three months ended March 31, 2006 (in thousands, except per share amounts):

	THREE MONTHS ENDED MARCH 31, 2006
Stock-based compensation expense	\$ 283
Effect on earnings per share:	
Basic	\$ 0.01
Diluted	\$ 0.01

As of March 31, 2006, the unamortized compensation expense related to outstanding unvested options was approximately \$1,795,000 with a weighted average remaining vesting period of 1.9 years. We expect to amortize this expense over the remaining vesting period of these stock options.

Prior to the adoption of SFAS No. 123R, for options granted to employees, we applied Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" and provided the pro forma disclosures of SFAS No. 123 as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure". No compensation expense has been recognized for options granted unless the grants were issued at exercise prices below market value prior to the adoption of SFAS No. 123R.

We account for options and warrants granted to non-employees under SFAS No. 123 and Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments that are Issued to other than Employees for Acquiring or in Conjunction with Selling Goods or Services". We measure the fair value of such options using the Black-Scholes option pricing model at each financial reporting date. We account for changes in fair values between reporting dates in accordance with FIN 28. Stock-based compensation expense for options and warrants granted to nonemployees during the three months ended March 31, 2006

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

and 2005 was \$13,000 and \$33,000 respectively.

PRO FORMA FOR 2005 UNDER SFAS NO. 123

The following table compares the earnings (loss) per share that we reported to the pro forma amounts that we would have reported for the three months ended March 31, 2005 had we recognized compensation expense for our stock-based compensation plans in accordance with SFAS No. 123 (in thousands, except per share amounts):

	THREE MONTHS ----- ENDED MARCH 31, ----- 2005 ----
Net income (loss) as reported.....	\$ (1,347)
Add: stock option-based employee compensation expense included in reported net loss, net of related tax effects.....	75
Deduct: stock-based employee compensation expense, net of related tax effects.....	(558)
Pro forma.....	\$ (1,830) =====
Basic and diluted net loss per share, as reported.	\$ (0.03)
Basic and diluted net loss per share, pro forma...	\$ (0.03)

8

STOCK OPTION PLANS

2004 PERFORMANCE INCENTIVE PLAN

We have two active stock option plans. The 2004 Performance Incentive Plan (the "2004 Plan") was approved by our shareholders in September 2004 in a Special Meeting of Shareholders (Special Meeting). Our previous plan (the 1995 Plan) had approximately 77,000 options available for grant in September 2004. As noted in our Proxy for the Special Meeting, the number of shares of common stock that remained available for award grants under the 1995 Plan immediately prior to the Special Meeting became available for award grants under the 2004 Plan. Under the 2004 Plan, options for the purchase of our common stock or other instruments such as deferred stock units may be granted to officers, directors and employees. Options may be designated as incentive stock options or as nonqualified stock options, and generally vest over four years. At its discretion, the Board of Directors can authorize acceleration of vesting periods. Options under both the 1995 Plan and the 2004 Plan, which have a term of up to ten years, are exercisable at a price per share not less than the fair market value on the date of grant. The aggregate number of shares authorized for issuance under the 2004 Plan as of December 31, 2005 was 2,577,000. As of the effective date of the 2004 Plan, a total of 9,946,000 shares of common stock were then subject to outstanding awards granted under the 1995 Plan and any such awards that expire, are cancelled or otherwise terminate after will also be available for award grant purposes under the 2004 Plan. At March 31, 2006, a total of 10,200,000 options were outstanding, options to purchase 8,412,000 shares were exercisable, and 938,000 shares were available for future grant.

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

SPECIAL STOCK OPTION PLAN

In 1996, NTN adopted a Special Stock Option Plan (Special Plan). Options issued under the Special Plan are made at the discretion of the Board of Directors and are designated only as nonqualified options. The options generally have a term of up to ten years, are exercisable at a price per share not less than the fair market value on the date of grant and vest over various terms. The aggregate number of shares issued and outstanding under the Special Plan as of December 31, 2005 is 500,000. At March 31, 2006, a total of 500,000 options were outstanding, 500,000 shares were exercisable, and zero shares were available for future grant.

BUZZTIME INC. STOCK INCENTIVE PLAN

On May 31, 2001, Buzztime Entertainment, Inc. adopted an incentive stock option plan. Pursuant to the plan, Buzztime may grant options to purchase Buzztime common stock, subject to applicable share limits, upon terms and conditions specified in the plan. There are 300,000 shares authorized under this plan. To date, no options have been granted under the plan.

STOCK OPTIONS

The following table summarizes stock option activity for the three months ended March 31, 2005 and March 31, 2006 (in thousands, except per share data):

	SPECIAL PLAN		OPTION PLAN	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
BALANCE AT JANUARY 1, 2006.....	500,000	\$ 2.81	10,428,000	\$ 1.00
Granted.....	---	---	86,000	1.00
Exercised.....	---	---	(99,000)	0.00
Forfeited or expired.....	---	---	(215,000)	2.00
OUTSTANDING MARCH 31, 2005.....	500,000	\$ 2.81	10,200,000	\$ 1.00

The following table summarizes information concerning currently outstanding and exercisable options (in thousands, except contractual life and exercise price data):

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
Special Plan:					
\$2.81	500,000	.38 year	\$ 2.81	500,000	\$ 2.81
Option Plan:					
\$0.45-\$1.50	6,345,000	4.68	\$0.95	5,700,000	\$0.95
\$1.51-\$3.00	3,757,000	5.74	\$2.31	2,623,000	\$2.40
\$3.01-\$4.94	98,000	2.10	\$3.49	89,000	\$3.50
	10,700,000			8,912,000	

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on a per share price of \$1.44 the closing price of our common stock on March 31, 2006 as reported by the American Stock Exchange, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money stock options exercisable as of March 31, 2006 was 5,700,000 million.

The per share weighted-average fair value of stock options granted during the three months ended March 31, 2006 and 2005 was \$0.84 and \$1.78, respectively.

The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005 was \$48,000 and \$45,000, respectively.

The total cash received from employees as a result of employee stock option exercises during the three months ended March 31, 2006 was approximately \$79,000.

(3) INCOME (LOSS) PER SHARE

For the three months ended March 31, 2006 and 2005, the weighted average of options, warrants and convertible preferred stock representing approximately 5,423,000 and 12,623,000 potential common shares, respectively, have been excluded from the computation of net income and net loss per share, respectively, as their effect was anti-dilutive.

(4) SEGMENT INFORMATION

We produce and distribute interactive entertainment and hospitality communications products, and manage our business via two operating divisions: Entertainment and Hospitality. Our reportable segments have been determined based upon the information provided to our chief decision makers.

The Entertainment Division is comprised of the Buzztime Interactive Television Network (Buzztime iTV Network or iTV Network) and Buzztime Distribution.

In the past year, we have completed the re-branding of our entertainment product offerings under the Buzztime brand, including the re-naming of the NTN iTV Network as the Buzztime iTV Network. With this 2006 first quarter report, we have modified our segment reporting by moving the Buzztime iTV Network segment out of the Hospitality Division and into the newly created Entertainment Division.

Additionally, the segment formerly known as Buzztime Entertainment, Inc., is now presented as Buzztime Distribution segment. The Buzztime Entertainment, Inc. segment formerly absorbed all of the costs to produce and manage our game content. The newly designated Buzztime Distribution will now include only 10% of the costs of producing and managing the content, as this better matches the nature of the services provided to the segment. The remaining 90% of content costs are charged to the iTV Network segment.

The Buzztime iTV Network generates revenue from providing an interactive television promotional game network to restaurants, sportsbars, taverns and pubs

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

in North America and the UK and from selling third-party advertising on the Network. Buzztime Distribution generates revenue from distributing and licensing the company's game content to other interactive consumer platforms, including cable and satellite television, mobile phones, retail games, airlines and books.

The Hospitality Division is comprised of NTN Wireless Communications (NTN Wireless) and NTN Software Solutions (Software Solutions). NTN Wireless earns revenue from producing and distributing guest and server paging systems to restaurants and other markets. NTN Software Solutions generates revenue from licensing, support and maintenance of our restaurant management and enterprise solutions software used to manage reservations and table service in restaurants and the sale of hardware required to operate these management solutions.

Included in the operating income (loss) for the segments is an allocation of corporate expenses, while the related corporate assets are not allocated to the segments. The segment results for March 31, 2005, below were prepared to conform to the 2006 presentation.

10

The following tables set forth certain information regarding our segments and other operations (in thousands):

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
	----	----
Revenues		
Entertainment Division		
Buzztime TV Network	\$ 8,089	\$ 6,793
Buzztime Distribution	180	294
	-----	-----
Total Entertainment Division	8,269	7,087
	-----	-----
Hospitality Division		
NTN Wireless	1,529	1,466
Software Solutions	1,264	954
	-----	-----
Hospitality Division	2,793	2,420
	-----	-----
Total revenue	\$ 11,062	\$ 9,507
	=====	=====

Operating income (loss)		
Entertainment Division		
Buzztime iTV Network	\$ 570	\$ (311)
Buzztime Distribution	(220)	(384)
	-----	-----
Total Entertainment Division	350	(695)
	-----	-----
Hospitality Division		
NTN Wireless	155	49

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

Software Solutions	(382)	(670)
	-----	-----
Hospitality Division	(227)	(621)
	-----	-----
Total operating income (loss)	\$ 123	\$ (1,316)
	=====	=====

Net income (loss)		
Entertainment Division		
Buzztime iTV Network	\$ 525	\$ (340)
Buzztime Distribution	(222)	(386)
	-----	-----
Total Entertainment Division	303	(726)
	-----	-----
Hospitality Division		
NTN Wireless	155	49
Software Solutions	(382)	(670)
	-----	-----
Hospitality Division	(227)	(621)
	-----	-----
Net income (loss)	\$ 76	\$ (1,347)
	=====	=====

	AS OF	AS OF
	MARCH 31,	DECEMBER 31,
	2006	2005
Goodwill		
Entertainment Division		
Buzztime iTV Network	\$ 974	\$ 974
Buzztime Distribution	--	--
	-----	-----
Total Entertainment Division	974	974
	-----	-----
Hospitality Division		
NTN Wireless	449	449
Software Solutions	2,235	2,235
	-----	-----
Hospitality Division	2,684	2,684
	-----	-----
Total Goodwill	\$ 3,658	\$ 3,658
	=====	=====

11

	As of March 31	
	2006	2005
	-----	-----
Total assets		
Entertainment Division		
Buzztime iTV Network	\$ 18,555	\$ 14,490
Buzztime Distribution	2,569	2,867
	-----	-----
Total Entertainment Division	21,124	17,357
	-----	-----
Hospitality Division		
NTN Wireless	1,929	1,915

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

Software Solutions	4,283	4,368
	-----	-----
Total Hospitality Division	6,212	6,283
	-----	-----
Corporate	2,245	5,762
	-----	-----
Total assets	\$ 29,581	\$ 29,402
	=====	=====

(5) CONTINGENCIES

From time to time, state tax authorities will make inquiries as to whether or not a portion of our services might require the collection of sales and use taxes from customers in those states. Today many states are expanding their interpretation of their sales and use tax statutes to derive additional revenue. While in the past our sales and use tax assessments have not been significant to our operations, it is likely that such expenses will grow in the future.

11

We evaluate such inquiries on a case-by-case basis and have favorably resolved these tax issues in the past without any material adverse consequences. During 2003, the state of Texas, our largest state in terms of Buzztime iTV Network sites, began a sales tax audit. They concluded that our services are subject to sales taxes on an amusement services basis. On January 12, 2004, the state assessed us for approximately \$1,115,000 for the five year audit period ended December 31, 2002. We have objected to this approach since our services are provided to the consumers for free as a promotional service, which we believe falls outside the definition of amusement services as defined by the Texas tax code. We have successfully argued this position regarding amusement services with other states. We have appealed the assessment and the matter is currently at the administrative appeals level. We have retained a team of sales and use tax specialists in Texas to assist us in this matter. If we are able to reach a mutually agreeable conclusion at the administrative appeals level, we expect that a conclusion may be reached by the end of 2006. In the event the matter is not resolved at administrative appeals, we would likely take the matter before the District Court. At the District Court level, we would anticipate a resolution no earlier than 2007. While we believe that we have a strong position in this matter, there can be no assurance that we will resolve this matter in our favor.

We are involved in various other claims and legal actions arising in the ordinary course of business. In our opinion, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

(6) DEFERRED REVENUE - BUZZTIME DISTRIBUTION

In February 2003, we entered into a Trial Agreement with a major cable operator that involves developing the Buzztime Trivia Channel for potential deployment on two different cable technology platforms within their system. Under the Trial Agreement, the cable operator has the right to apply 50% of any amount they pay us related to the Trial Agreement against future development and/or license fees paid for the carriage of the Buzztime Trivia Channel. In 2005, we amended this Trial Agreement by adding license option rights to new game applications (in addition to the Buzztime Trivia Channel) and new development platforms. We extended the expiration date of this Trial Agreement

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

through December 2006 and have also extended the right for the cable operator to use their 50% credit per the original agreement.

At March 31, 2006 and December 31, 2005, we carried \$598,000 and \$632,000, respectively, in Deferred Revenue-Buzztime Distribution related to the Trial Agreement and Amendment.

(7) SALE OF SOFTWARE PRODUCTS

On February 4, 2005, we entered into an Asset Purchase Agreement with Intura Solutions LP (Intura), a Texas limited partnership, pursuant to which we sold the point-of-sale software products developed and maintained by our Software Solutions segment. In accordance with the asset purchase transaction, Gary Peek terminated his position as vice president and general manager of our Software Solutions segment and immediately thereafter commenced his position with Intura to oversee business operations.

The primary software products sold by us to Intura were Vision, Relief Manager Plus (RMP), Store Link Plus (SLP), Sell More Pizzas and other legacy products as well as a non-exclusive right to develop and market the Enterprise software. We received a non-dilutable 10% partnership interest in Intura in the transaction and will receive a royalty representing 20% of Intura's revenues during the two years after February 4, 2005, up to a maximum of \$100,000. Further, Intura will provide software development maintenance services for the RMP and SLP software for two years (we continue to retain the rights to the maintenance and support revenue from legacy products).

We engaged a third-party valuation firm to assist in determining the fair value of our 10% ownership interest in Intura. Based on this analysis, we concluded that the fair value of our investment in Intura was approximately \$69,000. Additionally, based on this analysis, we considered whether this transaction resulted in any impairment of the goodwill in the Software Solutions segment and we concluded that it did not result in any such impairment. The sale of the software products, which we carried as part of our intangible assets, resulted in a one-time, non-cash charge of \$276,000. That amount would have been amortized over the remaining four-year life of those assets if we had retained them.

(8) ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss is the combination of accumulated net unrealized losses on investment available for sale and the accumulated gains or losses from foreign currency translation adjustments. We translated the assets and liabilities of NTN Canada and of our United Kingdom operations into U.S. dollars using the period end exchange rate. Revenue and expenses were translated using the average exchange rates for the reporting period.

12

For the three months ended March 31, 2006, and 2005, the components of accumulated other comprehensive loss were as follows (in thousands):

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
	----	----
Beginning balance.....	\$ (449)	\$ (469)
Unrealized gain (loss) during period		

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

in investment available-for-sale.	(43)	181
Foreign currency translation		
adjustments.....	(24)	---
	-----	-----
Ending balance.....	\$ (516)	\$ (288)
	=====	=====

(9) LINE OF CREDIT

In March 2006, we signed a one-year \$2.0 million credit facility agreement with Discovery Bank. Interest on the line is based on an independent index which is the highest rate on corporate loans posted by at least 75% of the thirty largest U.S. banks known as the Wall Street Journal's Prime Rate. The interest rate to be applied to the unpaid principal balance is not to exceed the Wall Street Journal Prime rate plus 0.5%. The line is secured by all inventories, equipment, accounts receivable and various other assets of NTN.

In April 2006, we repaid in full the outstanding balance on the line of credit.

13

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

A. CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements reflect future events, results, performance, prospects and opportunities, including statements related to our strategic plans, capital expenditures, industry trends and financial position of NTN Buzztime, Inc. and its subsidiaries. Forward-looking statements are based on information currently available to us and our current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of management. Words such as "expects," "anticipates," "could," "targets," "projects," "intends," "plans," "believes," "seeks," "estimates," "may," "will," "would," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements which refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that may be difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, under the section entitled "Risk Factors," and in other reports we file with the Securities and Exchange Commission from time to time. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.

B. OVERVIEW

We produce and distribute interactive entertainment and hospitality communications products, and manage our business via two operating divisions:

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

Entertainment and Hospitality.

The Entertainment Division is comprised of the Buzztime Interactive Television Network (Buzztime iTV Network or iTV Network) and Buzztime Distribution (formerly Buzztime Entertainment, Inc.). The Buzztime iTV Network distributes an interactive television promotional game network to restaurants, sportsbars, taverns and pubs in North America and the UK. Buzztime Distribution distributes the company's game content to other interactive consumer platforms, including cable and satellite television, mobile phones, retail games, airlines and books.

The Hospitality Division is comprised of NTN Wireless Communications (NTN Wireless) and NTN Software Solutions (Software Solutions). NTN Wireless produces and distributes guest and server paging systems to restaurants and other markets. NTN Software Solutions develops and distributes customer management software to manage reservations and table service in restaurants.

In the third quarter of 2005 we were approached by a hospitality-focused company stating an interest in purchasing the assets of NTN Wireless and Software Solutions. In the fourth quarter of 2005 we disclosed our interest in considering the sale of these businesses. This interest continues; and, as of the date of this filing, we have several interested parties for each of the two segments. Discussions with potential buyers are currently on hold, however, pending the assignment of certain contracts. If we cannot find buyers willing to pay what we believe are the market values for the assets, we may decide to maintain their operations. Until a transaction is completed, we will continue to grow these two business segments, which recently have experienced increased success in the hospitality industry.

14

ENTERTAINMENT DIVISION

BUZZTIME iTV NETWORK SEGMENT

The Buzztime iTV Network (iTV Network; formerly the "NTN iTV Hospitality Network") has maintained a unique and preemptive position in the hospitality industry for over 20 years as a promotional platform providing interactive entertainment to restaurants and sportsbars. Approximately 73% of our current consolidated revenues come from the operations of this segment as we receive recurring service fees from hospitality venues that receive the transmission of our interactive entertainment.

The iTV Network transmits a wide variety of engaging interactive multiplayer games, including trivia quiz shows, play-along sports programming, casino and casual games to hospitality locations. Patrons use our wireless game devices to interact with games displayed on television screens and compete locally and nationally with real-time scoring. After nearly 20 years of displaying only trivia and sports games, recent new content concepts such as Texas Hold'em have created strong demand for our product. During the past 7 quarters, we have experienced the most significant increase in domestic iTV site sales in over 8 years.

We target national and regional hospitality chains as well as local independent venues that are looking for a competitive point-of-difference to attract and retain customers. We ended the quarter with 3,626 United States subscribers, 381 Canadian subscribers and 29 UK subscribers. Approximately 25% of our sites come from leading national chains in the casual-dining restaurant segment such as Buffalo Wild Wings, TGIFriday's, Bennigan's Irish Grill,

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

Applebee's and Damon's Grill.

Through the transmission of engaging interactive content, stored on a site server at each location, our Buzztime iTV Network enables single- and multi-player participation as part of local, regional, national or international competitions supported with prizing and player recognition. Unlike coin-operated games, live entertainment and themed events which are either single-player based, expensive and/or require effort to coordinate and conduct, the Buzztime iTV Network offers a turnkey solution of unique multi-player, multi-venue entertainment requiring virtually no site staff involvement at a fraction of the comparable cost.

Our Buzztime iTV Network also earns revenues from advertising and marketing communications services to companies seeking to reach the over six million unique out-of-home consumers each month that visit the iTV Network's 4,036 venues. With an average of four dedicated television screens per location, we provide advertisers with a targeted, cost-effective way to communicate their brand message, obtain consumer feedback, and stimulate product trial. Unlike current out-of-home advertising vehicles which are either static or lack multiple consumer exposure, we provide, as part of our game show formats, an end-to-end marketing communications solution comprised of full-motion video commercials, promotional messages, "advergaming" contextual opportunities and real-time interactive research capabilities at costs well below current media and research alternatives.

VALUE PROPOSITION

The Buzztime iTV Network has established itself as a cost-effective means of generating traffic to our hospitality locations, creating loyalty and return on investment based on the ability to positively impact venue revenue. According to a May 2000 report by Actionable Marketing Research, players stay longer (39% compared to non-players); spend more money (47% more than non-players); return more often (72% more than non-players); and demonstrate positive word-of-mouth (90% have or will recommend a Buzztime subscriber venue to a friend).

We manage one of the world's largest trivia game show libraries from our interactive broadcast studio where we also produce multi-player Texas Hold'em and Buzztime Billiards competitions, Predict the Play interactive television sports prediction games, real-time viewer polls and advertising.

By distributing turnkey promotional and marketing support to these venues, we provide a competitive advantage, as well as provide a cost-effective entertainment option when compared to other alternatives such as live entertainment, karaoke and food and drink discounts.

In 2005, Buzztime iTV Network's domestic hospitality customers paid us an average of \$567 per month per venue to use our interactive technology, and to offer our game transmissions to their patrons. Buzztime iTV Network venues enter into one- and two-year service agreements, with the average customer life of an Buzztime iTV Network site/venue of approximately three years.

For more information on the Buzztime iTV Network, please see our 2005 Form 10-K or visit our website at www.buzztime.com.

UNITED KINGDOM NETWORK LAUNCH

In March 2005, we launched our iTV hospitality network product in the United

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

Kingdom under the brand "Buzztime Network." In the late fall of 2005, we began our first broad marketing programs with a target of driving sales growth early in 2006. The year ended with 13 sites in operation. These sales are made through our exclusive United Kingdom independent representatives, Q109 Limited. In January 2006, we had sales of 8 site subscriptions, and in February 2006, we sold 18 sites. At March 31, 2006 we had 29 sites installed and 11 sold sites awaiting installation.

In early May 2006, Greene King PLC., the third largest managed pub company in the UK, committed to increasing the number of locations offering the Buzztime iTV Network to nineteen of its UK pubs. The decision follows a three month period of testing the new Buzztime Network in two Green King pubs. The increase in sites offering the Buzztime iTV Network will enable Greene King to evaluate the impact on a wider scale. Locations joining the network are from Greene King's Hungry Horse brand, Real Pubs North, Town Locals and Real Pubs South.

There are over 60,000 pubs in the United Kingdom and "Pub quizzes," presented verbally by the manager or a host, are a popular pub activity. Texas Hold'em is also popular, and represents a high proportion of our current game play. Buzztime Billiards was added in the United Kingdom and in North America in early May 2006. With our recent momentum, we believe that our network product may become very successful in this market.

We also have granted an exclusive license to eBet Limited, an Australian gaming technology corporation, to distribute our games in commercial establishments and other public places throughout Australia and New Zealand via eBet Limited's own licensed network.

BUZZTIME DISTRIBUTION SEGMENT (FORMERLY PRESENTED AS BUZZTIME ENTERTAINMENT, INC. SUBSIDIARY)

NOTE - BEGINNING WITH THIS REPORT, THE SEGMENT FORMERLY KNOWN AS BUZZTIME ENTERTAINMENT, INC., IS BEING PRESENTED AS BUZZTIME DISTRIBUTION. REVENUES AND EXPENSES IN THIS SEGMENT FORMERLY REFLECTED BOTH OUR EFFORTS TO LICENSE OUR GAME CONTENT AND TECHNOLOGY TO EMERGING INTERACTIVE PLATFORMS AND ALL OF THE COSTS TO PRODUCE AND MANAGE THAT CONTENT. IT WILL NOW INCLUDE ALL COSTS OF LICENSING BUT ONLY 10% OF THE COST OF CREATING AND MANAGING THE CONTENT, AS THIS BETTER MATCHES CONTENT COSTS WITH REVENUES IN THE SEGMENT. THE REMAINING 90% OF CONTENT COSTS ARE CHARGED TO THE ITV NETWORK SEGMENT.

Buzztime Distribution generates revenue from distributing and licensing our Buzztime-branded Play Along TV(R) content and technology to interactive consumer platforms, with a primary focus on interactive cable television. Our distribution efforts focus on licensing real-time, mass-participation games and head-to-head multi-player games.

The company develops, produces and distributes single-player and multi-player games for both one-way and two-way consumer platforms with a primary focus on interactive television. The games are designed for general audiences and include trivia quiz shows, real-time sports prediction competitions that are played along with live sporting events, multi-player card and billiard games as well as single-player card, arcade, puzzle and board games. The games are distributed through several platforms including the Buzztime Network, cable television, satellite television, mobile phones, home electronic games, cards, books and airplanes.

The Buzztime Trivia Channel was launched on cable television in June 2002 to digital cable subscribers of Susquehanna Communications (SusCom), headquartered in York, Pennsylvania. We believe this was the first deployment of a real-time, two-way game channel via digital cable television in the United States that operates on commercially deployed digital set-top boxes in the home. The Buzztime Network is now available to over 300,000 Comcast, Time Warner, SusCom

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

and Blue Ridge digital cable subscribers within cable television systems in Pennsylvania, Virginia, Maryland, Maine and Louisiana. Buzztime Entertainment also has trivia games deployed on satellite television through Echostar DISH Network in the United States and Bell Canada ExpressVu in Canada, as well as to major North American wireless carriers through a licensing and development agreement with Airborne Entertainment. In addition, Buzztime Entertainment remains the primary content provider to the Buzztime Network in restaurants and sports bars in the United States, Canada and the United Kingdom. Buzztime currently works with leading companies such as Media General, Airborne Entertainment, Cadaco, DTI Software, Square One Publishers and others to bring consumers Buzztime game content.

Revenue for Buzztime Distribution is derived from license fees and royalties from third-party licensees who distribute Buzztime content to end-users, as well as from third-party development and production fees. It is also our plan to sell advertising when we achieve a critical mass of subscribers - particularly via cable television distribution.

16

THE HOSPITALITY DIVISION

NTN WIRELESS SEGMENT

NTN Wireless earns revenue from the sale of on-site wireless paging products to restaurants and other hospitality locations. These products are provided to customers waiting for a table and will activate to let them know when their table is ready, as well as to restaurant staff to alert them to certain issues, such as when hot food is ready to be served.

SOFTWARE SOLUTIONS SEGMENT

Software Solutions earns revenue from the licensing of seating management and reservation systems software as well as from providing professional services to Domino's Pizza LLC and to other customers. Software Solutions was formed in July 2003 when we acquired the assets and assumed certain liabilities of Breakaway International, Inc.

C. CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to deferred costs and revenues, depreciation of broadcast equipment, bad debts, investments, intangible assets, financing operations, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

financial statements.

- o We record deferred costs and revenues related to the costs and related installation revenue associated with installing new customer sites. Based on SEC Staff Accounting Bulletin (SAB) 104, REVENUE RECOGNITION, we amortize these amounts over an estimated three-year average life of a customer relationship.
- o We incur a relatively significant level of depreciation expense in relationship to our operating income. The amount of depreciation expense in any fiscal year is largely related to the estimated life of handheld wireless Playmaker devices, VSAT satellite dishes and associated electronics and the computers located at our customer sites. The Playmakers are depreciated over a four-year life, VSAT dishes and associated electronics over a four-year life and the computers over a three-year life. The depreciable life of these assets was determined based on their estimated useful life, which considers anticipated technology changes. If our Playmakers, VSAT dishes and associated electronics and the computers turn out to have longer lives, on average, than estimated, our depreciation expense would be significantly reduced in those future periods. Conversely, if the Playmakers, VSAT dishes and associated electronics and the computers turn out to have shorter lives, on average, than estimated, our depreciation expense would be significantly increased in those future periods.
- o We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We reserve for all accounts that have suspended or terminated our Buzztime iTV Network services, all auto debit customers with balances that are greater than 60 days past due, plus 5% of all outstanding balances for iTV customers and 5% of outstanding balances for NTN Wireless and Software Solutions' customers. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.
- o We assess our inventory for estimated obsolescence or unmarketable inventory and write down the difference between the cost of inventory and the estimated market value, based on assumptions about future sales and supply on-hand. If actual market conditions are less favorable than those we have projected, additional inventory write-downs may be required.

17

- o Revenues from sales of software generally contain multiple elements, and are recorded in accordance with Statement of Position (SOP) No. 97-2, SOFTWARE REVENUE RECOGNITION, as amended. Software license fee revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred at our customer's location, the fee is fixed or determinable and collection is probable, provided that vendor specific evidence exists for any undelivered elements, namely annual support and maintenance. Along with the basic software license, our customers have the option to elect post contract support (PCS) for an additional fee, which is based on a stipulated percentage of the license fee. PCS consists of technical support as well as unspecified software upgrades and releases when and if made available by us during the term of the support period.

If, at the outset of an arrangement, we determine that the arrangement

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

fee is not fixed or determinable, revenue is deferred until the arrangement fee becomes due. If, at the outset of an arrangement, we determine that collectibility is not probable, revenue is deferred until the earlier of when collectibility becomes probable or when payment is received. If an arrangement allows for customer acceptance, revenue is not recognized until the earlier of receipt of customer acceptance or expiration of the acceptance period.

Revenue from development services consists of customizations and, therefore, we recognize revenue from development services as the services are performed under the agreements. We recognize revenues from PCS, such as maintenance, on a straight-line basis over the term of the contract.

Additionally, we provide consulting and training services under both hourly-based time and materials and fixed-priced contracts. Revenues from these services are generally recognized as the services are performed.

- o We have a significant amount of goodwill and intangible assets on our balance sheet related to acquisitions. At March 31, 2006, the combined net amount of \$6,419,000 of goodwill and intangible assets represented 22% of total assets. Goodwill represents the excess of costs over fair value of assets of businesses acquired. As of January 1, 2002, we adopted the provisions of SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. Goodwill and intangible assets acquired in a purchase combination determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, ACCOUNTING FOR IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS.

We performed our annual test for goodwill impairment for Software Solutions and NTN Canada, Inc., as of September 30, 2005, and for NTN Wireless as of December 31, 2005, and concluded that there was no indication of impairment. We retained a third-party valuation firm to assist in calculating fair values. The analysis was based on consideration of (1) the market value of comparable publicly traded companies; (2) the market value of similar companies involved in business combinations; and (3) an income approach of discounting the projected cash flows of operations. The projections of those units involved a number of assumptions and estimates, including revenue growth and operating margins, which we believe are reasonable based on existing operations and prospective business opportunities. We completed our evaluation and concluded that goodwill was not impaired as the fair values exceeded carrying values, including goodwill. The amount of goodwill as of March 31, 2006 was \$3,658,000. Future events could cause us to conclude that impairment indicators exist and that goodwill and other intangible assets associated with our acquired businesses are impaired.

We continually monitor for any potential indicators of impairment of goodwill and intangible assets and we have determined that no such indicators have arisen to date. Any impairment loss could have a material adverse impact on our financial condition and results of operations.

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

- o SFAS No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES, and SEC SAB 59, ACCOUNTING FOR NONCURRENT MARKETABLE EQUITY SECURITIES, provide guidance on determining when an investment is other-than-temporarily impaired. Investments are reviewed quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment. In making this judgment, we employ a systematic methodology quarterly that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and our intent and ability to hold the investment. We also consider specific adverse conditions related to the financial health of, and business outlook for, the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. If market, industry and/or investee conditions deteriorate, we may incur future impairments.

As of March 31, 2006, we owned common stock of an Australian company that is subject to market risk. At March 31, 2006, the carrying value of this investment was \$215,000, which is net of a \$602,000 unrealized loss. This investment is exposed to further market risk in the future based on the operating results of the Australian company and stock market fluctuations.

We do not have any of the following:

- o Off-balance sheet arrangements except for purchase orders, purchase commitments and operating leases;
- o Certain trading activities that include non-exchange traded contracts accounted for at fair value or speculative or hedging instruments; or
- o Relationships and transactions with persons or entities that derive benefits from any non-independent relationship other than the related party transactions discussed in Note 16 - Related Parties in our Form 10-K for the year ended December 31, 2005, ITEM 13. CERTAIN RELATIONSHIPS AND RELATED Transactions, or which are so non-material to fall below the materiality threshold of such item.

ASSESSMENTS OF FUNCTIONAL CURRENCIES. The United States dollar is our functional currency, except for our operations in Canada and the United Kingdom.

D. RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2006 AND MARCH 31, 2005

CHANGE IN REPORTING FORMAT AND ALLOCATIONS

In the past year, we completed the re-branding of our entertainment product offerings under the Buzztime brand, including the re-naming of the NTN iTV Network as the Buzztime iTV Network.

With this report, NTN Buzztime initiates a new presentation format of four operating segments, reflecting a change of primary focus and a consolidation of entertainment operations under one entity, which reflects the information

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

provided to our chief decision makers. Formerly all costs of content development for all aspects of our entertainment operations were included in the Buzztime Entertainment operating results. With the consolidation of operations, 90% of content development costs are now expensed to the Buzztime iTV Network segment and 10% to Buzztime Distribution. The 2005 results conform to the 2006 presentation format.

Additionally, with this 2006 first quarter report, we have modified our reporting format by moving the Buzztime iTV Network segment out of the Hospitality Division and into the Entertainment Division. Thus the Buzztime iTV Network and Buzztime Distribution now comprise the Buzztime Entertainment Division. The segments of NTN Wireless and NTN Software Solutions represent Hospitality Division.

19

GENERAL

Operations for the three months ended March 31, 2006, resulted in a net income of \$76,000 compared to a net loss of \$1,347,000 for the three months ended March 31, 2005.

As a result of adopting SFAS 123(R), our net income for the three months ended March 31, 2006 is approximately \$283,000 lower than if we had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the three months ended March 31, 2006, would have been \$ 0.01 if we had not adopted SFAS 123 (R) compared to reported basic and diluted earnings per share of \$0.00, respectively.

REVENUES

The consolidated revenues of NTN Buzztime, Inc. increased \$1,555,000, or 16.4%, to \$11,062,000 for the three months ended March 31, 2006, from \$9,507,000 for the three months ended March 31, 2005. The revenue contribution from the two operating segments of the division for the three months ended March 31, 2006, and 2005 are shown in the following table (in thousands):

COMPONENTS OF REVENUE

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
	----	----
Entertainment Division		

Buzztime iTV Network.....	\$ 8,089	\$ 6,793
Buzztime Distribution.....	180	294
	-----	-----
Entertainment Division.....	8,269	7,087
	-----	-----
Hospitality Division		

NTN Wireless.....	1,529	1,466
Software Solutions.....	1,264	954

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

Hospitality Division.....	2,793	2,420
Consolidated revenue.....	\$ 11,062	\$ 9,507
	=====	=====

Within the Entertainment Division, we have several revenue contributors: Buzztime iTV Network (our core subscription revenue) and Buzztime Distribution.

As noted in the above table, our Buzztime iTV Network revenue from core subscription operations increased \$1,296,000, or 19% in the first quarter of 2006 due to a worldwide increase of 322 in net site count over March 31, 2005. As of March 31, 2006 the world wide customer site count was 4,036. This includes 29 sites in the U.K. as of March 31, 2006 compared to zero at March 31, 2005. The number of sites in North America was 4,007 as of March 31, 2006 compared to 3,714 as of March 31, 2005. We believe that a large portion of this site count and revenue growth can be attributed to our new programming content, including our Texas Hold'em card game.

Revenues from NTN Wireless increased \$63,000 to \$1,529,000 in the three months ended March 31, 2006, from \$1,466,000 in the three months ended March 31, 2005. This increase occurred because of increased replacement sales in 2006 compared to the prior year period.

Revenues from Software Solutions increased \$310,000 to \$1,264,000 in the three months ended March 31, 2006, from \$954,000 in the three months ended March 31, 2005. This increase was primarily the result of increases in development service revenue and installations of software for large clients.

Buzztime Distribution revenues decreased \$114,000 to \$180,000 in the three months ended March 31, 2006, from \$294,000 in the three months ended March 31, 2005. The primary reason for decreased revenue in 2006 was the lower development service revenue from the Trial Agreement with Comcast Cable compared to the prior year.

20

OPERATING EXPENSES

Consolidated direct operating costs increased only \$45,000, or 1%, to \$3,501,000 in the three months ended March 31, 2006, from \$3,456,000 in the three months ended March 31, 2005. The following table compares the direct costs for each of our operating segments between the three months ended March 31, 2006 and 2005, respectively (in thousands):

	DIRECT OPERATING COSTS THREE MONTHS ENDED MARCH 31,		CHANGE
	2006	2005	
	----	----	-----
Entertainment Division			

Buzztime iTV Network.....	\$ 2,364	\$ 2,255	\$ 109
Buzztime Distribution licensing.....	112	147	(35)
	-----	-----	-----
Entertainment Division	2,476	2,402	74
	-----	-----	-----
Hospitality Division			

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

NTN Wireless.....	939	910	
Software Solutions.....	86	144	(
	-----	-----	-----
Hospitality Division.....	1,025	1,054	(
	-----	-----	-----
Consolidated operating costs.....	\$ 3,501	\$ 3,456	\$
	=====	=====	=====

Consolidated direct operating costs were essentially unchanged from the prior year three month period, even though consolidated revenues increased 17%.

The \$109,000 increase in the Buzztime iTV Network's direct operating costs came from a variety of factors, including an increased level of depreciation expense resulting from the increased number of sites and continued deployment of new equipment to convert customers to ITV2 and increased salary expense associated with production of content and live studio.

The \$29,000 increase in the direct operating costs of NTN Wireless was largely related to the lower level of cost of goods sold associated with the NTN Wireless revenue decrease of \$63,000 noted above. Our gross margin in the NTN Wireless segment in the three months ended March 31, 2006, was 38.6%, a 0.7% increase over the 37.9% gross margin we recorded in the three months ended March 31, 2005.

The \$58,000 decrease in the direct operating costs of Software Solutions was largely related to lower hardware sales as compared to March 31, 2005. Our gross margin in the Software Solutions segment in the three months ended March 31, 2006, was 93.2%, a 8.3% increase over the 84.9% gross margin we recorded in the three months ended March 31, 2005.

The \$35,000 decrease in the direct operating costs of Buzztime Distribution was primarily due to a \$27,000 decrease of amortization expense associated with assets fully amortized and \$8,000 decrease in expense associated with hardware sales.

21

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses (SG&A) increased \$384,000, or 6%, to \$6,817,000 in the three months ended March 31, 2006, from \$6,433,000 in the three months ended March 31, 2005. The following table compares the selling, general and administrative expenses for each of our operating segments between the three months ended March 31, 2006, and 2005 (in thousands):

	SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
	THREE MONTHS ENDED MARCH 31,		
	2006	2005	CHANGE
	----	----	-----
Entertainment Division			

Buzztime iTV Network.....	\$ 4,636	\$ 4,331	\$
Buzztime Distribution.....	252	492	
	-----	-----	-----
Entertainment Division	4,888	4,823	
	-----	-----	-----

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

Hospitality Division

NTN Wireless.....	392	429	
Software Solutions.....	1,537	1,181	
	-----	-----	-----
Hospitality Division.....	1,929	1,610	
	-----	-----	-----
Consolidated selling, general and administrative expenses.....	\$ 6,817	\$ 6,433	\$
	=====	=====	=====

The \$305,000 SG&A increase in the Buzztime iTV Network segment was primarily due to \$217,000 of the total Company stock based compensation expense in the three months ended March 31, 2006, upon the implementation of FAS 123R effective January 1, 2006. In addition in the quarter ended March 31, 2006, we recorded a charge of \$134,000 (this includes \$99,000 that is a non-cash stock charge) related to an estimated settlement for a legal matter.

The \$37,000 SG&A decrease in the NTN Wireless segment was due to decreases in marketing and commission expense associated with the mix of products sold.

The \$356,000 SG&A increase in the Software Solutions segment was due to increased staffing and telephone expense resulting from increased subscribers for help desk services, increased commissions and selling expense associated with a higher level of software sales.

The \$240,000 SG&A decrease in Buzztime Distribution was due primarily to reduced staffing associated with completion of development projects in mid 2005.

NON-CASH CHARGE RELATED TO SOFTWARE PRODUCT SALE

On February 4, 2005, we entered into an Asset Purchase Agreement with Intura Solutions LP (Intura), a Texas limited partnership, pursuant to which we sold the point of sale software products developed and maintained by our Software Solutions segment. The primary software products sold by us to Intura were Vision, Relief Manager Plus (RMP), Store Link Plus (SLP), Sell More Pizzas and other legacy products as well as a non-exclusive right to develop and market the Enterprise software. We received a non-dilutable 10% partnership interest in Intura in the transaction and will receive 20% of Intura's revenues received during the next two years, up to a maximum of \$100,000. Further, Intura will provide software development maintenance services for the RMP and SLP software for two years (we continue to retain the rights to the maintenance and support revenue from the legacy products).

We engaged a third party valuation firm to estimate the value of our 10% ownership interest in Intura. They concluded that the fair value of our investment in Intura was approximately \$69,000. They also concluded that there was no impairment of the goodwill in the Software Solutions segment as a result of this transaction. The transfer of the software products, which we carried as part of our intangible assets, resulted in a one-time, non-cash charge of \$276,000.

LITIGATION, LEGAL AND PROFESSIONAL FEES

Litigation, legal and professional fees decreased \$35,000 to \$346,000 in the three months ended March 31, 2006, compared to \$380,000 in the three months ended March 31, 2005. The litigation, legal and professional fees in the three months ended March 31, 2006 included costs related to compliance with Sarbanes-Oxley requirements and audit fees.

DEPRECIATION AND AMORTIZATION EXPENSES

Depreciation and amortization not related to direct operating costs decreased by \$10,000, or 4.6%, to \$209,000 in the three months ended March 31, 2006 from \$219,000 in the three months ended March 31, 2005 due to certain assets becoming fully depreciated.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased \$7,000 to \$66,000 in the three months ended March 31, 2006, from \$59,000 in the three months ended March 31, 2005, due primarily to the completion of certain projects for the iTV Network.

OTHER INCOME (EXPENSE)

INTEREST INCOME AND EXPENSE

Interest income in the three months ended March 31, 2006 was \$31,000 compared to \$26,000 in the three months ended March 31, 2005. Interest expense increased \$22,000, or 91.7% to \$46,000 in the three months ended March 31, 2006, compared to \$24,000 in the three months ended March 31, 2005. The \$700,000 balance outstanding on the line of credit throughout the three months ended March 31, 2006, resulted in greater interest than in the prior year period when there were no outstanding credit facility borrowings.

INCOME TAXES

The NTN Hospitality Technologies Division is expected to report taxable income for the year ended December 31, 2006. For federal income tax reporting purposes and in unitary states where NTN may file on a combined basis, taxable losses incurred by Buzztime should be sufficient to offset the division's taxable income. In states where separate filing is required, the division will likely incur a state tax liability. We also expect to pay income taxes in Canada due to the profitability of NTN Canada. As a result, NTN Hospitality Technologies Division recorded a tax provision of \$32,000 in the three months ended March 31, 2006. This was a \$1,000 decrease compared to the \$33,000 provision for income taxes recorded in the three months ended March 31, 2005.

ADJUSTED EBITDA

Earnings before interest, taxes, depreciation and amortization, non-cash stock based compensation and payments and non-cash charge related to software product sale ("Adjusted EBITDA") is not intended to represent a measure of performance in accordance with accounting principles generally accepted in the United States ("GAAP"). Nor should adjusted EBITDA be considered as an alternative to statements of cash flows as a measure of liquidity. Adjusted EBITDA is included herein because we believe it is a measure of operating performance that financial analysts, lenders, investors and other interested parties find to be a useful tool for analyzing companies like NTN that carry significant levels of non-cash depreciation and amortization charges in comparison to their GAAP earnings.

Our adjusted EBITDA increased \$1,638,000 to \$1,688,000 in the three months ended March 31, 2006, from adjusted EBITDA of \$50,000 in the three months ended March 31, 2005. This adjusted EBITDA increase was primarily due to the net income of \$76,000 recorded in the three months ended March 31, 2006 compared to

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

the net loss of \$1,347,000 for the similar prior year period.

The following table reconciles our net income (loss) per GAAP to adjusted EBITDA, with the 2005 numbers conforming to the 2006 presentation format (in thousands):

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
	----	----
ADJUSTED EBITDA CALCULATION		
(IN 000'S)		
Net income (loss) per GAAP	\$ 76	\$ (1,347)
Interest expense (net)	15	(2)
Depreciation and amortization	1,157	983
Non-cash stock based compensation and payments	408	107
Non-cash charge related to software product sale	---	276
Income taxes	32	33
	-----	-----
ADJUSTED EBITDA	\$ 1,688	\$ 50
	=====	=====

23

On a segment basis, our segments generated adjusted EBITDA levels as follows (in thousands):

ADJUSTED EBITDA CALCULATION (IN 000'S)	THREE MONTHS ENDED MARCH 31, 2006				
	ENTERTAINMENT		HOSPITALITY		
	BUZZTIME ITV NETWORK	BUZZTIME DISTRIBUTION	SOFTWARE SOLUTIONS	NTN WIRELESS	CO
	-----	-----	-----	-----	-----
Net income (loss) per GAAP	\$ 525	\$ (222)	\$ (382)	\$ 155	\$
Interest expense (net)	14	1	--	--	
Depreciation and amortization	928	129	84	16	
Non-cash stock based compensation and payments	342	24	33	9	
Income taxes	32	--	--	--	
	-----	-----	-----	-----	-----
ADJUSTED EBITDA	\$ 1,841	\$ (68)	\$ (265)	\$ 180	\$
	=====	=====	=====	=====	=====
TOTAL ASSETS	\$ 18,555	\$ 1,569	\$ 4,283	\$ 1,924	\$
	=====	=====	=====	=====	=====

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

THREE MONTHS ENDED MARCH 31, 2005

ADJUSTED EBITDA CALCULATION (IN 000'S)	ENTERTAINMENT		HOSPITALITY		CO
	BUZZTIME ITV NETWORK	BUZZTIME DISTRIBUTION	SOFTWARE SOLUTIONS	NTN WIRELESS	
Net income (loss) per GAAP	\$ (340)	\$ (386)	\$ (670)	\$ 49	\$
Interest expense (net)	(3)	1	--	--	
Depreciation and amortization	709	156	92	26	
Non-cash stock based compensation and payments	107	--	--	--	
Non-cash charge related to software product sale	--	--	276	--	
Income taxes	33	--	--	--	
ADJUSTED EBITDA	\$ 506	\$ (229)	\$ (302)	\$ 75	\$
TOTAL ASSETS	\$ 14,490	\$ 2,867	\$ 4,368	\$ 1,915	\$

E. LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, we had cash and cash equivalents of \$6,032,000 and working capital (current assets in excess of current liabilities) of \$5,667,000 compared to cash and cash equivalents of \$5,982,000 and working capital of \$4,743,000 at December 31, 2005. For the three months period ending March 31, 2006 and 2005 net cash provided by operations was \$957,000 and \$242,000, respectively. This fluctuation in cash was primarily due to the \$1,423,000 improvement in operating results moving to net income of \$76,000 compared to a net loss of \$1,347,000 in the three month periods ending March 31, 2006 and 2005, respectively.

For the three months period ending March 31, 2006 and 2005 net cash used in investing activities was \$832,000 and \$1,485,000, respectively. Included in net cash used in investing activities in 2006 was approximately \$429,000 in capital expenditures, \$132,000 of software development, and \$271,000 of deposits made on broadcast equipment.

For the three months period ending March 31, 2006 and 2005 net cash used in financing activities was \$29,000 and \$213,000 provided by financing activities, respectively. Included in net cash used by financing activities in 2006 was \$79,000 in proceeds from the exercise of options and warrants. These cash inflows were offset by \$108,000 in principal payments on our capital leases.

SALE OF SOFTWARE PRODUCTS

On February 4, 2005, we entered into an Asset Purchase Agreement with Intura Solutions LP (Intura), a Texas limited partnership, pursuant to which we sold the point-of-sale software products developed and maintained by our Software Solutions segment. In accordance with the asset purchase transaction, Gary Peek

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

terminated his position as vice president and general manager of our Software Solutions segment and immediately thereafter commenced his position with Intura to oversee business operations.

The primary software products sold by us to Intura were Vision, Relief Manager Plus (RMP), Store Link Plus (SLP), Sell More Pizzas and other legacy products as well as a non-exclusive right to develop and market the Enterprise software. We received a non-dilutable 10% partnership interest in Intura in the transaction and will receive a royalty representing 20% of Intura's revenues during the two years after February 4, 2005, up to a maximum of \$100,000. Further, Intura will provide software development maintenance services for the RMP and SLP software for two years (we continue to retain the rights to the maintenance and support revenue from legacy products).

We engaged a third-party valuation firm to assist in determining the fair value of our 10% ownership interest in Intura. Based on this analysis, we concluded that the fair value of our investment in Intura was approximately \$69,000. Additionally, based on this analysis, we considered whether this transaction resulted in any impairment of the goodwill in the Software Solutions segment and we concluded that it did not result in any such impairment. The sale of the software products, which we carried as part of our intangible assets, resulted in a one-time, non-cash charge of \$276,000. That amount would have been amortized over the remaining four-year life of those assets if we had retained them.

FUTURE FINANCING NEEDS

Our liquidity and capital resources, while stronger now than in recent years, remain limited, which may constrain our ability to operate and grow our business. However, cash flows from operations have increased significantly during the third and fourth quarters of 2005.

In 2005, we experienced the most significant increase in iTV site sales in 8 years, with 359 site sales. We believe that this sales increase can be attributed in large part to our announcement in February 2004 of the planned deployment of a wireless electronic multi-player version of the popular poker game, Texas Hold'em, on our NTN iTV Network in 2005. Additionally, we are halfway through the conversion of approximately 350 Canadian NTN iTV Network sites to our newest iTV2 technology, which allows the play of Texas Hold'em, as well as other new game content.

On February 6, 2005, we announced the deployment of Texas Hold'em to all of our iTV2 sites, which numbered about 900 in North America. In 2005, we witnessed continued strong growth of sales for the Buzztime iTV Network. At the Nightclub and Bar Trade Show in early March 2005, which is one of our strongest trade shows, we had continued strong sales success. Each new site requires a capital investment of approximately \$5,000 when connected to the Buzztime iTV Network via VSAT satellite technology. We believe that we have sufficient cash to operate our businesses through 2006.

Capital requirements in 2006 will additionally depend upon two other growth initiatives. The first is the launch of our Buzztime iTV Network in the United Kingdom, beginning with an initial trial of 11 Buzztime iTV Network sites that began on March 1, 2005. We believe that a significant growth opportunity exists in the United Kingdom for our iTV product, and success in sales would require substantial capital for any level of significant deployments. The second is the intended broad distribution of the Buzztime Trivia Channel in digital cable television systems as sales efforts continue to focus on cable MSOs (the largest multiple system operators in the United States). With 8 current sites in operation, if this initiative succeeds as planned and we enter into national agreements with those cable operators, we intend to aggressively increase Buzztime sales and marketing efforts to more quickly advance our distribution

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

within the United States market.

A primary driver of capital use over the past three years has been the cost of deploying the VSAT technology in our Buzztime iTV Network. For more than 10 years, we transmitted our data through the FM2 satellite one-way platform. In 2003, we were informed that this platform would no longer be available to us after February 2005. After considering several alternative delivery channels, we entered into equipment purchase and satellite service agreements in 2003 to convert the Network to a much higher speed, two-way VSAT (Very Small Aperture Technology) satellite technology over the two-year period ending February 2005. These agreements were with the same reseller of satellite services that provided the FM2 satellite platform to us. The VSAT technology is more expensive than FM2, and, with our strong sales in 2005, our cash usage increased to fund the new installations.

25

On January 20, 2005, after learning that the FM2 platform life was being extended, we amended our agreements with our satellite services provider to push out the expiration date on the FM2 satellite platform to February 2007 and to modify our VSAT equipment purchase and satellite service agreements. The amendments will help us in three ways: First, the modification to the equipment purchase agreement eliminates the requirement to purchase and install a specific amount of VSAT equipment. Second, the flexibility will enable us to utilize non-satellite based data transmission platforms, such as digital subscriber lines (DSL), wireless connectivity or cable modems, for customer sites where such platforms may be appropriate. We have begun installing some sites with DSL connectivity in areas that cannot be reached by VSAT, which lowers the cost of the installations by a significant amount of approximately \$1,800 per site. Third, the amendment allows us to slow our rate of converting sites from the FM2 system to the new VSAT platform over the remainder of the amended FM2 satellite services agreement, which is now scheduled to end in February 2007. As of December 31, 2005, approximately 65% of our domestic sites had been converted from FM2 to DSL or VSAT. We anticipate that with the extension of FM2 sites, an increasing number of DSL installations and the revised VSAT agreement, North America installation costs overall and installation costs per site over the coming years will trend down from what was seen in 2003, 2004 and 2005.

We acquired the NTN Canada Network assets of our Canadian licensee in December 2003. The previous owner had not converted the Canadian customer base to DITV during the 1999 to 2001 period when our domestic sites were converted, and the Canadian Network had become antiquated and was rapidly losing customers. Following the purchase, we have been in the process of upgrading the technology for all 397 active sites there. Through December 31, 2005, approximately 91% of the Canadian sites had been converted to iTV2, our newest technology platform, and connected via either VSAT or DSL communication platforms. Over the next 12 months, we plan to convert the remaining 9% of our current customer base at a cost on the order of \$175,000. However, we believe that these Canadian capital expenditures will be financed through the operating cash flow we generate in Canada.

We also have taken actions to reduce operating losses in two of our segments that produced losses in 2005, as follows:

- o Software Solutions - In February 2005, we sold the Vision Point-of-Sale product line, which had produced losses, to a new venture formed by the former president of Breakaway International.

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

We retained a 10% ownership in that new venture.

- o NTN Wireless - This segment was profitable in 2005. We believe this segment should produce operating profits going forward, although this segment is very competitive and its gross margins remain under pressure.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to risks related to currency exchange rates, stock market fluctuations, and interest rates. As of March 31, 2006, we owned common stock of an Australian company that is subject to market risk. At March 31, 2006, the carrying value of this investment was \$215,000, which is net of a \$602,000 unrealized loss. This investment is exposed to further market risk in the future based on the operating results of the Australian company and stock market fluctuations. Additionally, the value of the investment is further subject to changes in Australian currency exchange rates. At March 31, 2006, a hypothetical 10% decline in the value of the Australian dollar would result in a reduction of \$22,000 in the carrying value of the investment.

We do not have any derivative financial instruments. Nor do we have any speculative or hedging instruments.

ITEM 4. CONTROLS AND PROCEDURES.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, our management evaluated our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as to whether such disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on our evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that there were no material weaknesses in our disclosure controls and procedures and that such disclosure controls and procedures were effective as of the end of the period covered by this report in providing reasonable assurance of achieving the desired control objectives, and therefore there were no corrective actions taken.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Since our evaluation as of December 31, 2005, other than as described in EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES, we have had no significant changes in our internal controls.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

We are subject to litigation from time to time in the ordinary course of our business. There currently is one potentially material arbitration item pending or threatened against us.

ARBITRATION WITH FORMER EMPLOYEE

On May 5, 2005, a former employee of the company filed a Demand for Arbitration claiming that we had wrongfully rejected his request to exercise 20,000 options granted to him in 1997 that we deemed as expired in 1999. The former employee is seeking validation of his option grants, declaratory relief and specific performance, money damages for breach of contract and breach of the covenant of good faith and fair dealing, punitive damages, and attorneys' fees and costs. We answered the arbitration demand and asserted counterclaims. We have recorded an estimated total charge of \$184,000, including \$134,000 in the first quarter of 2006 related to this matter. The settlement negotiations are ongoing and, at this time, we do not know if a mutually acceptable settlement will be reached. We continue to vigorously defend the case.

ITEM 1A. RISK FACTORS.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

There are no material changes from the risk factors as previously disclosed in NTN Buzztime, Inc.'s Form 10-K for the year ended December 31, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION.

None.

27

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NTN BUZZTIME, INC.

Date: May 15, 2006

By: /s/ Andy Wrobel

Andy Wrobel
Authorized Signatory and Chief
Financial Officer

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

28

Item 6. EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Amended and Restated Certificate of Incorporation of the Company, as amended (4)
3.2	Certificate of Designations, Rights and Preferences of Series B Convertible Preferred Stock (7)
3.3	Certificate of Amendment to Restated Certificate of Incorporation of the Company, dated March 22, 2000 (8)
3.4	Certificate of Amendment to Restated Certificate of Incorporation of the Company, dated March 24, 2000 (8)
3.5	By-laws of the Company (2)
3.6	Certificate of Amendment to Restated Certificate of Incorporation of the Company, dated May 27, 2003 (15)
3.7	Certificate of Amendment to Restated Certificate of Incorporation of the Company, dated October 20, 2005 (20)
3.8	Certificate of Amendment to Restated Certificate of Incorporation of the Company, dated December 27, 2005 (20)
4.1	Specimen Common Stock Certificate (10)
4.2*	Stock Option Agreement, dated October 7, 1998, by and between NTN Buzztime, Inc. and Stanley B. Kinsey (5)
4.3*	Stock Option Agreement, dated October 7, 1999, by and between NTN Buzztime, Inc. and Stanley B. Kinsey (6)
4.4*	Stock Option Agreement, dated January 26, 2001, by and between NTN Buzztime, Inc. and Stanley B. Kinsey (12)
4.5	Warrant Certificate issued January 13, 2003 by NTN Buzztime, Inc. to Robert M. and Marjie Bennett, Trustees The Bennett Family Trust dated 11-17-86 (18)
4.6	NTN Investor Rights Agreement, dated May 7, 2003, by and between NTN Buzztime, Inc. and Media General, Inc. (17)
4.7	Buzztime Investor Rights Agreement, dated May 7, 2003, by and among NTN Buzztime, Inc., Buzztime Entertainment, Inc. and Media General, Inc. (17)
4.8	Common Stock Purchase Warrant dated May 7, 2003 issued to Media General, Inc. exercisable for 500,000 shares of common stock of Buzztime Entertainment, Inc. (17)
4.9	Form of Common Stock Purchase Warrant issued to Roth Capital Partners (13)
4.10*	NTN Communications, Inc. 2004 Performance Incentive Plan (21)
4.11*	Stock Option Agreement, dated June 28, 2005, by and between NTN Communications, Inc. and Stanley B. Kinsey (20)
10.1	License Agreement with NTN Canada (3)
10.2*	Employment Agreement, dated September 9, 2004, by and between NTN Buzztime, Inc. and Stanley B. Kinsey (16)
10.3	Subscription Agreement dated January 13, 2003 between NTN Buzztime, Inc. and Robert M. and Marjie Bennett, Trustees The Bennett Family Trust dated 11-17-86 (18)
10.4	Scientific-Atlanta Strategic Investments, L.L.C. Notice of Exchange of Buzztime Preferred Stock for NTN Common Stock, dated January 16, 2003 (18)
10.5	Securities Purchase Agreement dated May 5, 2003 by and among NTN Buzztime, Inc., Buzztime Entertainment, Inc. and Media General, Inc.

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

	(17)
10.6	Placement Agency Agreement dated January 26, 2004 by and between Roth Capital Partners and NTN Buzztime, Inc. (13)
10.7	Manufacturing Agreement, dated November 25, 1997, by and between NTN Buzztime, Inc. and Climax Technology Co., Ltd. (9)
10.8	Office Lease, dated July 17, 2000, between Prentiss Properties Acquisition Partners, L.P. and NTN Buzztime, Inc. (11)
10.9	Asset Purchase Agreement dated July 30, 2003 by and among NTN Software Solutions, Inc., NTN Buzztime, Inc., Breakaway International, Inc. and the Seller Shareholders (15)
10.10	Asset Purchase Agreement dated December 15, 2003 by and among NTN Canada, Inc., NTN Buzztime, Inc., NTN Interactive Network, Inc. and Chell Group Corporation (14)
10.11	Settlement Agreement, effective as of February 28, 2005, between Long Range Systems, Inc. and NTN Buzztime, Inc. (19)
10.12	First Amendment to Lease, dated October 4, 2005, between Prentiss Properties Acquisition Partners L.P. and NTN Communications, Inc. (20)
10.13	License Agreement with NTN Canada, Inc. (3)
31	Rule 13a-14(a) Certifications (1)
32	Section 1350 Certifications (20)

* Management Contract or Compensatory Plan.

-
- (1) Filed herewith.
 - (2) Previously filed as an exhibit to NTN's registration statement on Form S-8, File No. 33-75732, and incorporated by reference.
 - (3) Previously filed as an exhibit to NTN's report on Form 10-K for the year ended December 31, 1990, and incorporated by reference.
 - (4) Previously filed as an exhibit to NTN's report on Form 10-K, for the year ended December 31, 1997, and incorporated by reference.
 - (5) Previously filed as an exhibit to NTN's report on Form 10-K dated December 31, 1998 and incorporated by reference.
 - (6) Previously filed as an exhibit to NTN's report on Form 10-K dated December 31, 1999 and incorporated herein by reference.

 - (7) Previously filed as an exhibit to NTN's report on Form 8-K dated November 7, 1997 and incorporated herein by reference.
 - (8) Previously filed as an exhibit to NTN's report on Form 10-K/A filed on April 5, 2000 and incorporated herein by reference.
 - (9) Previously filed as an exhibit to NTN's report on Form 10-K/A dated March 5, 2001 and incorporated herein by reference.
 - (10) Previously filed as an exhibit to NTN's registration statement on Form 8-A, File No. 0-19383, and incorporated by reference.
 - (11) Previously filed as an exhibit to NTN's report on Form 10-K dated December 31, 2000, and incorporated by reference.
 - (12) Previously filed as an exhibit to NTN's report on Form 10-Q dated March 31, 2001 and incorporated by reference.
 - (13) Previously filed as an exhibit to NTN's report on Form 8-K dated January 29, 2004 and incorporated herein by reference.
 - (14) Previously filed as an exhibit to NTN's registration statement on Form S-3, File No. 333-111538, filed on December 24, 2003 and incorporated herein by reference.
 - (15) Previously filed as an exhibit to NTN's Form 10-Q dated August 14, 2003 and incorporated herein by reference.
 - (16) Previously filed as an exhibit to NTN's report on Form 10-Q dated September 30, 2004 and incorporated herein by reference.

Edgar Filing: NTN BUZZTIME INC - Form 10-Q

- (17) Previously filed as an exhibit to NTN's registration statement on Form S-3, File No. 333-105429, filed on May 21, 2003 and incorporated herein by reference.
- (18) Previously filed as an exhibit to NTN's Form 10-Q dated May 15, 2003 and incorporated herein by reference.
- (19) Previously filed as an exhibit to NTN's Form 8-K dated March 18, 2005, and incorporated herein by reference.
- (20) Previously filed as an exhibit to NTN's report on Form 10-K for the year ended December 31, 2005 and incorporated by reference.
- (21) Previously filed as an exhibit to NTN's Form 10-Q dated August 9, 2005, and incorporated herein by reference.
- (22) Furnished concurrently herewith.