

NTN BUZZTIME INC
Form 10-Q
August 13, 2010

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 June 30, 2010

Commission file number 001-11460

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 has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of August 10, 2010 the registrant had outstanding 60,700,139 shares of common stock, \$.005 par value.

NTN BUZZTIME, INC. AND SUBSIDIARIES

FORM 10-Q
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PART I

ITEM 1. Financial Statements.

NTN BUZZTIME, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amount)

	June 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,268	\$ 3,637
Accounts receivable, net of allowances of \$235 and \$321, respectively	547	606
Investments available-for-sale (Note 6)	198	180
Prepaid expenses and other current assets	613	634
Total current assets	4,626	5,057
Broadcast equipment and fixed assets, net	3,901	3,809
Software development costs, net of accumulated amortization of \$1,375 and \$1,197, respectively (Note 5)	1,086	1,374
Deferred costs	927	1,080
Goodwill (Note 4)	1,203	1,202
Intangible assets, net (Note 4)	1,221	1,585
Other assets	181	190
Total assets	\$ 13,145	\$ 14,297
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 2,032	\$ 2,285
Sales taxes payable	928	855
Obligations under capital lease - current portion	440	300
Deferred revenue	429	523
Other current liabilities	126	294
Total current liabilities	3,955	4,257
Sales taxes payable, excluding current portion	19	128
Obligations under capital leases, excluding current portion	153	173
Deferred revenue, excluding current portion	93	82
Other liabilities	133	239
Total liabilities	4,353	4,879
Commitments and contingencies (Notes 11 and 12)		
Shareholders' Equity:		

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Series A 10% cumulative convertible preferred stock, \$.005 par value, \$161 liquidation preference, 5,000 shares authorized; 161 shares issued and outstanding at June 30, 2010 and December 31, 2009	1	1
Common stock, \$.005 par value, 84,000 shares authorized; 60,700 and 60,359 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	303	302
Treasury stock, at cost, 503 shares at June 30, 2010 and December 31, 2009	(456)	(456)
Additional paid-in capital	115,959	115,740
Accumulated deficit	(107,722)	(106,868)
Accumulated other comprehensive income (Note 13)	707	699
Total shareholders' equity	8,792	9,418
Total shareholders' equity and liabilities	\$ 13,145	\$ 14,297

See accompanying notes to unaudited condensed consolidated financial statements.

NTN BUZZTIME, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenues	\$ 6,191	\$ 6,285	\$ 12,462	\$ 12,481
Operating expenses:				
Direct operating costs (includes depreciation and amortization of \$646 and \$510 for the three months ended June 30, 2010 and 2009, respectively, and \$1,254 and \$1,003 for the six months ended June 30, 2010 and 2009, respectively)	1,527	1,524	3,067	3,026
Selling, general and administrative	4,898	4,859	9,816	9,691
Depreciation and amortization (excluding depreciation and amortization included in direct operating costs)	173	213	345	340
Total operating expenses	6,598	6,596	13,228	13,057
Operating loss	(407)	(311)	(766)	(576)
Other (expense) income, net	(63)	11	(57)	52
Loss before income taxes	(470)	(300)	(823)	(524)
Benefit (provision) for income taxes	13	18	(23)	(13)
Net loss	\$ (457)	\$ (282)	\$ (846)	\$ (537)
Net loss per common share - basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average shares outstanding - basic and diluted	60,188	57,762	60,045	56,500

See accompanying notes to unaudited condensed consolidated financial statements.

NTN BUZZTIME, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	2010	Six months ended June 30,	2009
Cash flows provided by (used in) operating activities:			
Net loss	\$ (846)		\$ (537)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	1,599		1,343
Provision for doubtful accounts	158		31
Gain on contract termination	(11)		-
Stock-based compensation	156		85
Loss from disposition of equipment and capitalized software	173		40
Changes in assets and liabilities:			
Accounts receivable	(99)		(163)
Prepaid expenses and other assets	27		(231)
Accounts payable and accrued expenses	(364)		218
Income taxes payable	5		(44)
Deferred costs	153		88
Deferred revenue	(83)		(26)
Net cash provided by operating activities	868		804
Cash flows used in investing activities:			
Capital expenditures	(535)		(701)
Software development expenditures	(520)		(391)
Deposits on capital expenditures	-		(137)
Trademark license	(35)		-
Net cash used in investing activities	(1,090)		(1,229)
Cash flows provided by (used in) financing activities:			
Principal payments on capital lease	(190)		(41)
Proceeds from exercise of stock options	56		28
Proceeds from the sale of common stock	-		750
Net cash (used in) provided by financing activities	(134)		737
Net (decrease) increase in cash and cash equivalents	(356)		312
Effect of exchange rate on cash	(13)		171
Cash and cash equivalents at beginning of period	3,637		3,362
Cash and cash equivalents at end of period	\$ 3,268		\$ 3,845
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 50		\$ 9
Income taxes	\$ 18		\$ 107
Supplemental disclosure of non-cash investing and financing activities:			

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Unrealized holding gain on investments available-for-sale	\$ 18	\$ 38
Equipment acquired under capital leases	\$ 310	\$ 457
Issuance of common stock in lieu of payment of preferred dividends	\$ 8	\$ 8
Assumed obligations in connection with the acquisition of intangible assets	\$ -	\$ 62
Issuance of common stock in connection with the acquisition of intangible assets	\$ -	\$ 616
Issuance of warrants in connection with the acquisition of intangible assets	\$ -	\$ 908
Earn-out liability in connection with the acquisition of intangible assets	\$ -	\$ 285

See accompanying notes to unaudited condensed consolidated financial statements.

NTN BUZZTIME, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) BASIS OF PRESENTATION

Description of Business

NTN Buzztime, Inc. (the “Company”) was incorporated in Delaware in 1984 as Alroy Industries and changed its corporate name to NTN Communications, Inc. in 1985. The Company changed its name to NTN Buzztime, Inc. in 2005 to better reflect the growing role of the Buzztime consumer brand.

The Company has been in the business of social interactive entertainment for over 25 years. Its primary source of revenue is its Buzztime iTV Network, which focuses on distributing the Company’s interactive promotional television game network programming, primarily to over 4,000 hospitality venues such as restaurants and bars throughout North America.

Basis of Accounting Presentation

The accompanying unaudited interim condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial statements and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments that are necessary, which are of a normal and recurring nature, for a fair presentation for the periods presented of the financial position, results of operations and cash flows of NTN Buzztime, Inc. and its wholly-owned subsidiaries: IWN, Inc., IWN, L.P., Buzztime Entertainment, Inc., NTN Wireless Communications, Inc., NTN Software Solutions, Inc., NTN Canada, Inc., and NTN Buzztime, Ltd. IWN, Inc., IWN, L.P., Buzztime Entertainment, Inc., NTN Wireless Communications, Inc., NTN Software Solutions, Inc., and NTN Buzztime, Ltd. are dormant subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s annual report on Form 10-K for the fiscal year ended December 31, 2009. The accompanying condensed balance sheet as of December 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2010, or any other period.

Reclassifications

The Company reclassified the condensed consolidated balance sheet for the period ended December 31, 2009 to conform to the 2010 presentation.

(2) BASIC AND DILUTED EARNINGS PER COMMON SHARE

The Company computes basic and diluted earnings per common share in accordance with the provisions of ASC No. 260, Earnings per Share. Basic earnings per share excludes the dilutive effects of options, warrants and other convertible securities. Diluted earnings per share reflects the potential dilution of securities that could share in our

earnings. Options, warrants, convertible preferred stock and deferred stock units representing approximately 9,619,000 and 11,237,000 as of June 30, 2010 and 2009, respectively, were excluded from the computations of diluted net loss per common share as their effect was anti-dilutive.

(3) ACQUISITIONS

iSports Acquisition

In April 2009, the Company entered into an asset purchase agreement with iSports Inc., a California corporation. iSports was a provider of mobile sports scores, news and interactive gameplay. Pursuant to the terms of the agreement, in consideration for the acquired assets, the Company issued (i) five hundred thousand (500,000) unregistered shares of the Company's common stock, (ii) a warrant to purchase one million (1,000,000) shares of unregistered common stock, with an exercise price of \$0.30 per share, and (iii) a warrant to purchase five hundred thousand (500,000) shares of unregistered common stock, with an exercise price of \$0.50 per share. In addition, if certain business conditions are satisfied in each of calendar years 2009, 2010 and 2011, the Company would be required to pay as additional consideration 35% of the amount by which the Company's net media revenues (as defined in the Asset Purchase Agreement) for such years exceed specified threshold amounts. The agreement also contains customary representations, warranties and covenants.

The total value assigned to the transaction, including liabilities assumed, was calculated as \$599,000. The purchase price of \$599,000 was comprised of \$371,000 in warrants to purchase shares of unregistered common stock of the Company, \$166,000 in unregistered shares of common stock of the Company and approximately \$62,000 in assumed liabilities. The fair values of the warrants were determined using the Black-Scholes model using the following weighted-average assumptions: risk-free interest rates of 2.79%; dividend yield of 0%; expected volatility of 78.1%; and a term of 8 years.

The Company is using the acquired assets to accelerate the development of its mobile gaming platform. Following the closing, the Company employed a co-founder of iSports, Inc. as the Company's Executive Vice President of Programming and Technology.

The Company accounted for the acquisition pursuant to ASC No. 805, Business Combinations. Accordingly, it recorded net assets and liabilities acquired at their fair values. The purchase price allocation amounts reflected in the Company's financial statements were final as of December 31, 2009. The purchase price allocation was as follows:

Intangible assets – acquired technology	\$599,000
Total assets	599,000
Accounts payable	(62,000)
Total liabilities	(62,000)
Purchase price allocated to assets and liabilities acquired	\$537,000

The purchase price may be increased if certain thresholds of net media revenues are exceeded in calendar years 2010 and 2011. The thresholds of net media revenues were not exceeded in 2009, and the Company does not estimate that they will be met in the future. In the event the thresholds are met, the purchase price allocation will be adjusted and reflected in current earnings in the period that the additional purchase price amount is earned.

As a result of the iSports acquisition, the impact to revenue and net loss for the three and six months ended June 30, 2010 was immaterial. Because there was no continuity of iSports operations after the acquisition date, the Company has determined that the proforma revenue and net loss information for the three and six months ended June 30, 2009 generally required by ASC No. 805 would not be meaningful and may be misleading. The Company has therefore omitted these disclosures from the financial statements.

i-am TV Acquisition

In May 2009, the Company entered into an asset purchase agreement (the "i-am TV Agreement") through which it acquired certain assets of "i-am TV" from Instant Access Media, LLC. i-am TV had been in the business of providing programming and advertising to hospitality venues located in the top 15 designated market areas throughout the United States. The transaction included the acquisition of approximately 1,400 flat panel television screens installed in 368 locations as well as the related communication equipment. Pursuant to the terms of the i-am TV Agreement, in consideration for the acquired assets, the Company issued (i) one million five hundred thousand (1,500,000) unregistered shares of the Company's common stock, (ii) warrants to purchase one million (1,000,000) shares of unregistered common stock with an exercise price of \$0.50 per share, (iii) warrants to purchase one million (1,000,000) shares of unregistered common stock with an exercise price of \$1.00 per share and (iv) warrants to purchase one million (1,000,000) shares of unregistered common stock with an exercise price of \$1.50 per share. In addition, the Company has agreed to provide future earnout consideration (the "Earnout") in calendar years 2010 through 2012 based on net advertising revenues as defined in the i-am TV Agreement. The Earnout will be calculated

as the product of the total net advertising revenues for the Company multiplied by the percentage of qualifying venues that have converted from i-am TV to the Company's Buzztime iTV Network in relation to the total population of Buzztime iTV Network subscribers. The i-am TV Agreement also contained customary representations, warranties and covenants.

The total value assigned to the transaction, including liabilities assumed, was calculated as \$1,176,000. The purchase price of \$1,176,000 was comprised of \$537,000 in warrants to purchase shares of unregistered common stock of the Company, \$450,000 in unregistered shares of common stock of the Company, \$188,000 of contingent consideration in the form of an earnout and approximately \$1,000 in assumed liabilities. The fair values of the warrants were determined using the Black-Scholes model using the following weighted-average assumptions: risk-free interest rates of 2.79%; dividend yield of 0%; expected volatility of 78.1%; and a term of 8 years.

The Company also entered into an agreement with certain investors in Instant Access Media, LLC whereby they purchased 2,419,355 shares of the Company's common stock in a private placement raising \$750,000 in additional working capital.

The Company accounted for the acquisition pursuant to ASC No. 805. Accordingly, it recorded net assets and liabilities acquired at their fair values. The fair value calculations are based on certain assumptions, including the number of i-am TV sites converted to Buzztime customers and the incremental cash flows to the Company from those sites. The purchase price allocation amounts reflected in the Company's financial statements were final as of December 31, 2009. The purchase price allocation was as follows:

Intangible assets – customer relationships – advertising	\$ 302,000
Intangible assets – customer relationships – subscription	874,000
Total assets	1,176,000
Accounts payable	(1,000)
i-am TV earnout – long term liabilities	(188,000)
Total liabilities	(189,000)
Purchase price allocated to assets and liabilities acquired	\$987,000

The purchase price may be increased or decreased if net advertising revenues for the Company deviate from estimations in calendar years 2010, 2011 and 2012. In that event, the purchase price allocation will be adjusted and reflected in current earnings in the period that the adjustment becomes necessary.

As a result of the i-am TV acquisition, the Company recognized approximately \$82,000 and \$173,000 in subscription and other revenue for the three and six months ended June 30, 2010, respectively, based on the sales efforts of the Company to convert approximately 110 legacy i-am TV customers to the Buzztime platform. Based on the post acquisition integration efforts of the Company, it is not practical to determine the impact on net loss for the three and six months ended June 30, 2010.

Because there was no continuity of i-am TV's operations after the acquisition date, the Company has determined that the proforma revenue and net loss information for the three and six months ended June 30, 2009 generally required by ASC No. 805 would not be meaningful and may be misleading. The Company has therefore omitted these disclosures from the financial statements.

(4) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The Company's goodwill balance relates to the purchase of NTN Canada. The Company performed its annual test for goodwill impairment for NTN Canada as of September 30, 2009 and determined that there were no indications of impairment at that time. The Company considered the need to perform an additional test of goodwill of its Canadian business as of June 30, 2010, but determined that the overall health of the underlying Canadian business has remained stable since the September 30, 2009 valuation.

Other Intangible Assets

As discussed in Note 3, during the quarter ended June 30, 2009, the Company acquired certain assets of iSports Inc. and Instant Access Media, LLC. As a result of those transactions, the Company recorded \$1,176,000 in customer relationship intangible assets and \$599,000 in unpatented technology. The majority of the customer relationship intangible asset will be amortized on a straight line basis over a period of 44 months and recorded in selling, general and administrative expenses. Approximately \$300,000 was amortized over the three months ended August 31, 2009 coinciding with the period that the related advertising revenue was recognized. The unpatented technology intangible asset will be amortized on a straight line basis over a period of 60 months and recorded in direct expenses. The useful lives reflect the estimated period of time and method by which the underlying intangible asset benefits will be realized.

The Company also has other intangible assets comprised predominantly of developed technology, trivia databases and trademarks. Amortization expense relating to all intangible assets totaled \$105,000 and \$121,000 for the three months ended June 30, 2010 and 2009, respectively. Amortization expense relating to all intangible assets totaled \$228,000 and \$139,000 for the six months ended June 30, 2010 and 2009, respectively.

(5) SOFTWARE DEVELOPMENT COSTS

The Company capitalizes costs related to the development of certain of its software products in accordance with ASC No. 350. Amortization expense relating to capitalized software development costs totaled \$144,000 and \$72,000 for the three months ended June 30, 2010 and 2009, respectively, and \$265,000 and \$149,000 for the six months ended June 30, 2010 and 2009, respectively. As of June 30, 2010 and December 31, 2009, approximately \$297,000 and \$554,000, respectively, of capitalized software costs were not subject to amortization as the development of various software projects was not complete.

The Company performed its quarterly review of software development projects for the three and six months ended June 30, 2010, and determined to abandon various software development projects that it determined were no longer a current strategic fit or for which the Company determined that the marketability of the content had decreased due to obtaining additional information regarding the specific industry for which the content was intended. As a result, an impairment loss of \$149,000 was recognized for the three and six months ended June 30, 2010, which is included in selling, general and administrative expenses. An impairment loss of \$34,000 was recognized for the six months ended June 30, 2009. There was no impairment loss recognized for the three months ended June 30, 2009.

(6) INVESTMENTS AVAILABLE-FOR-SALE

Investment securities consist of equity securities, which are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value and unrealized holding gains and losses are excluded from earnings and are reported as a separate component of comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount to fair value. Any resulting impairment is charged to other expense and a new cost basis for the security is established.

The one investment available-for-sale that the Company holds is 2,518,000 shares of its Australian licensee eBet Limited (eBet), an Australian gaming technology corporation. The Company's holding in eBet represents less than 1% of the current outstanding shares. The value of the investment increased \$29,000 and \$20,000 for the three months ended June 30, 2010 and 2009, respectively, and increased \$18,000 and \$38,000 for the six months ended June 30, 2010 and 2009, respectively. Based on the closing market price at June 30, 2010, the value of the investment was approximately \$198,000. The unrealized gains and losses of this investment are recorded as other comprehensive income (loss) in the Company's consolidated balance sheet (see Note 13). As of June 30, 2010, the cumulative gain of the eBet investment was \$34,000. The Company will continue to monitor this investment for any decline in value that could be deemed other-than-temporary ultimately resulting in future impairments.

(7) FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC No. 820, Fair Value Measurements and Disclosures, applies to certain assets and liabilities that are being measured and reported on a fair value basis. Broadly, the ASC No. 820 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. ASC No. 820 also establishes a fair value hierarchy for ranking the quality and reliability of the

information used to determine fair values. This hierarchy is as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

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Assets and Liabilities that are Measured at Fair Value on a Recurring Basis:

The fair value of the Company's investment in eBet Limited is determined based on quoted market prices, which is a Level 1 classification. The Company records the investment on the balance sheet at fair value with changes in fair value recorded as a component of other comprehensive income (loss) in the consolidated balance sheet (see Note 13).

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis:

Certain assets are measured at fair value on a non-recurring basis. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. Included in this category are goodwill written down to fair value when determined to be impaired, assets and liabilities with respect to the business combinations closed during 2009, and long-lived assets including capitalized software that are written down to fair value when they are held for sale or determined to be impaired. The valuation methods for goodwill, assets and liabilities resulting from business combinations, and long-lived assets involve assumptions concerning interest and discount rates, growth projections, and/or other assumptions of future business conditions. As all of the assumptions employed to measure these assets and liabilities on a nonrecurring basis are based on management's judgment using internal and external data, these fair value determinations are classified in Level 3 of the valuation hierarchy.

(8) EQUITY INCENTIVE PLANS

In June 2010, the Company's shareholders approved the 2010 Performance Incentive Plan (the "2010 Plan"). The 2010 Plan provides for the issuance of up to 6,000,000 shares of NTN common stock. Under the 2010 Plan, options for the purchase of NTN common stock or other instruments such as deferred stock units may be granted to officers, directors, employees and consultants. The Board of Directors has designated its Nominating and Corporate Governance/Compensation Committee as the 2010 Plan Committee. Stock options granted under the 2010 Plan may either be incentive stock options or nonqualified stock options. A stock option granted under the 2010 Plan generally cannot be exercised until it becomes vested. The 2010 Plan Committee establishes the vesting schedule of each stock option at the time of grant. At its discretion, the 2010 Plan Committee can accelerate the vesting, extend the post-termination exercise term or waive restrictions of any stock options or other awards under the 2010 Plan. Options under the 2010 Plan have a term of up to ten years, and are exercisable at a price per share not less than the fair market value on the date of grant. As of June 30, 2010, 2,402,000 stock options have been granted under the 2010 Plan. In September 2009, the Company's 2004 Performance Incentive Plan (the "2004 Plan") expired. All awards that were granted under the 2004 Plan will continue to be governed by the 2004 Plan until they are exercised or expire in accordance with that plan's terms.

(9) STOCK-BASED COMPENSATION

The Company records stock-based compensation in accordance with ASC No. 718, Compensation – Stock Compensation. The Company estimates the fair value of stock options using the Black-Scholes option pricing model. The fair value of stock options granted is recognized as expense over the requisite service period. Stock-based compensation expense for all share-based payment awards is recognized using the straight-line single-option method.

The Company uses the historical stock price volatility as an input to value its stock options under ASC No. 718. The expected term of stock options represents the period of time options are expected to be outstanding and is based on observed historical exercise patterns of the Company, which the Company believes are indicative of future exercise behavior. For the risk-free interest rate, the Company uses the observed interest rates appropriate for the term of time options are expected to be outstanding. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

The following weighted-average assumptions were used for grants issued during the three months ended June 30, 2010 under the ASC No. 718 requirements. No options were granted for the three months ended March 31, 2010, and therefore, the weighted-average assumptions for the three and six months ended June 30, 2010 are the same.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Weighted-average risk-free rate	1.70%	1.68%	1.70%	1.54%
Weighted-average volatility	93.66%	89.04%	93.66%	87.22%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Forfeiture rate	17.63%	17.63%	17.63%	17.63%
Expected life	6.55 years	4.00 years	6.55 years	3.98 years

ASC No. 718 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 the Company. Stock-based compensation expense for employees for the three months ended June 30, 2010 and 2009 was \$96,000 and \$46,000, respectively, and \$156,000 and \$85,000 for the six months ended June 30, 2010 and 2009, respectively, and is expensed in selling, general and administrative expenses and credited to additional paid-in-capital.

(10) CAPITAL LEASES

In January 2009, the Company entered into a \$500,000 equipment lease facility with an equipment leasing company. The terms of that agreement allow for use of the facility in multiple tranches with each individual tranche having a 24 month term. Additionally, the equipment lease has a collateral obligation whereby the Company has pledged certain equipment located at the Carlsbad, California location to satisfy the equipment leasing company's requirements. As of June 30, 2010, the Company had utilized \$457,000 of this facility, which has been accounted for as a capital lease.

In October 2009, the Company entered into a \$1,000,000 equipment lease facility with an equipment leasing company. The terms of that agreement allow for use of the facility for 24 months and for use of the facility in multiple tranches with each individual tranche having a 24 month term. As of June 30, 2010, the Company had utilized \$442,000 of this facility, which has been accounted for as a capital lease.

Total depreciation expense under all capital leases was \$109,000 and \$23,000 for the three months ended June 30, 2010 and 2009, respectively, and \$192,000 and \$28,000 for the six months ended June 30, 2010 and 2009, respectively.

(11) COMMITMENTS

The Company is subject to litigation from time to time in the ordinary course of business. There can be no assurance that any claims that may be made against the Company, including the claim described below, will be decided in the Company's favor and the Company is not insured against all claims made. During the pendency of any such claims, the Company may continue to incur the costs for its legal defense.

Purchase Commitment Dispute

The Company had a commitment under a long-term agreement to purchase equipment from a vendor. Under the original terms of the agreement, the Company was obligated to purchase \$76,000 and \$835,000 of equipment in 2009 and 2008, respectively, after the Company's acceptance of certain milestones. Issues arose under the terms of the agreement, which still remain unresolved as of June 30, 2010. In early 2008, the Company informed the vendor that

numerous defects existed with the equipment. The vendor failed to remedy the defects in a timely manner and the Company was forced to purchase equipment from a different manufacturer. Due to the vendor's failure to cure the defects in accordance with the provisions in the agreement, the Company does not believe the required milestones were met.

On April 15, 2009, the Company received a letter from the vendor requesting \$300,000 to cover certain costs incurred citing breach of the agreement. The Company responded to the letter, indicating that certain contract milestones had not been met by the vendor and therefore, the Company was not obligated to purchase equipment under the contract. The Company ultimately requested a mutual release to the agreement without any cash payment by either party. The vendor responded to the Company's rebuttal indicating that it disagreed with the Company's assertions, however, was willing to resolve the matter amicably. The last communication was on May 19, 2009, whereby the Company sent a letter which reaffirmed its desire to bring closure to this issue amicably and with no payment by either party. The Company believes the vendor's claim lacks merit and does not plan to make any payments. The Company has not recorded a reserve as it has assessed the likelihood that it would have to pay any amounts as being less than probable.

(12) CONTINGENCIES

Sales and Use Tax

From time to time, state tax authorities will make inquiries as to whether or not a portion of the Company's services require the collection of sales and use taxes from customers in those states. Many states have expanded their interpretation of their sales and use tax statutes to derive additional revenue. The Company evaluates such inquiries on a case-by-case basis and has favorably resolved the majority of these tax issues in the past without any material adverse consequences.

During the three months ended March 31, 2009, the Company settled a long ongoing sales tax evaluation with the State of Texas. The Company and the State of Texas executed an Audit Resolution Agreement and Joint Motion to Dismiss pursuant to which the Company will pay the state approximately \$450,000 over a 2 year period. As part of those agreements, both parties agreed to waive all rights to any redetermination or refund hearings. In February 2009, the Company began collecting and remitting sales tax in Texas in accordance with the state tax statutes. As of June 30, 2010, \$233,000 remains due to the State of Texas under this settlement agreement.

The Company is involved in ongoing sales tax inquiries, including certain formal assessments which total \$705,000, with other states and provinces. As a result of those inquiries, including the Texas liability discussed above, the Company recorded a total liability of \$798,000 and \$847,000 as of June 30, 2010 and December 31, 2009, respectively, which is included in the sales taxes payable balance in the condensed consolidated balance sheets. Based on the guidance set forth by ASC No. 450, Contingencies, management has deemed the likelihood as reasonably possible that it will be forced to pay all or part of these assessments with other states.

(13) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) is the combination of accumulated net unrealized gains or losses on investments available-for-sale and the accumulated gains or losses from foreign currency translation adjustments. The Company translated the assets and liabilities of its Canadian statement of financial position into U.S. dollars using the period end exchange rate. Revenue and expenses were translated using the weighted-average exchange rates for the reporting period.

The carrying value of the Company's Australian investment, eBet, has fluctuated and the respective unrealized gains and losses are recorded in accumulated other comprehensive income (loss). As of June 30, 2010 and December 31, 2009, the components of accumulated other comprehensive income are as follows:

	June 30, 2010	December 31, 2009
	\$ 34,000	\$ 16,000

Unrealized gain on investment available-for-sale		
Foreign currency translation adjustment	673,000	683,000
Ending balance	\$ 707,000	\$ 699,000

(14)

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued an accounting standards update to ASC No. 605-25, Revenue Recognition—Multiple-Element Arrangements. The purpose of this update is to amend the criteria used for separating consideration in multiple-deliverable arrangements. In particular, the amendment:

Establishes a selling price hierarchy for determining the selling price of a deliverable; replaces the term “fair value” in the revenue allocation guidance with “selling price” to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant;

Eliminates using the residual method of allocation and requires that the arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method; and

Requires that the best estimate of a selling price is determined in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis.

The amendments in this update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which will be the Company's 2011 fiscal year. Early adoption is permitted. If adopted early, the Company would be required to apply the amendments retrospectively from the beginning of the fiscal year of adoption. The Company does not intend to adopt the amendments early. The Company does not anticipate that the adoption of these amendments will have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued an accounting standards update to ASC No. 985, Software. The purpose of this update is to change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and nonsoftware components that function together to deliver the tangible product's essential functionality are no longer within the scope of the software revenue guidance in Subtopic 985-605. In addition, this update requires that hardware components of a tangible product containing software components always be excluded from the software revenue guidance. In addition, the update provides guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software. The amendments in this update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which will be the Company's 2011 fiscal year. Early adoption is permitted. If adopted early, the Company would be required to apply the amendments retrospectively from the beginning of the fiscal year of adoption. The Company does not intend to adopt the amendments early. The Company does not anticipate that the adoption of this amendment will have a material impact on the Company's consolidated financial statements.

In April 2010, the FASB issued an accounting standards update to ASC Topic No. 718, Compensation – Stock Compensation. ASC No. 718 stipulates that a share-based payment award that contains a condition that is not a market, performance, or a service condition is required to be classified as a liability. This update clarifies that when an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's securities trades differs from the functional currency of the employer entity or payroll currency of the employee, such award should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this update will be effective for fiscal years beginning on or after December 15, 2010, which will be the Company's 2011 fiscal year. The amendments in this update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied and should be presented separately. Early adoption is permitted; however, the Company does not plan to adopt the amendments early. The Company does not anticipate that the adoption of this amendment will have a material impact on its consolidated financial statements.

(15)

CONCENTRATION OF RISK

Significant Customers

Buffalo Wild Wings together with its franchisees is a significant customer of the Company. For the three months ended June 30, 2010 and 2009, the Company generated approximately 19% and 15%, respectively, of total revenue from this national chain. For the six months ended June 30, 2010 and 2009, the Company generated approximately

18% and 16%, respectively, of revenue from this chain. As of June 30, 2010 and December 31, 2009, approximately \$111,000 and \$71,000, respectively, was included in accounts receivable from this customer.

Single Source Playmaker Supplier

The Company currently purchases its Playmakers from an unaffiliated Taiwanese manufacturer subject to the terms of a supply agreement dated April 23, 2007 with a term that automatically renews for one year periods. The Company currently does not have an alternative source for its playmaker devices. Management believes other manufacturers could be identified to produce the Playmakers on comparable terms. A change in manufacturers, however, could cause delays in supply and may have an adverse effect on the Company's operations.

(16)

GEOGRAPHICAL INFORMATION

Geographic breakdown of the Company's revenue for the three and six months ended June 30, 2010 and 2009 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
United States	\$ 5,593,000	\$ 5,666,000	\$ 11,217,000	\$ 11,223,000
Canada	598,000	619,000	1,245,000	1,258,000
Total revenue	\$ 6,191,000	\$ 6,285,000	\$ 12,462,000	\$ 12,481,000

Geographic breakdown of the Company's long-term tangible assets as of June 30, 2010 and December 31, 2009 is as follows:

	June 30, 2010	December 31, 2009
United States	\$ 3,744,000	\$ 3,588,000
Canada	157,000	221,000
Total long-term tangible assets	\$ 3,901,000	\$ 3,809,000

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 and targets, revenue generation, product availability and offerings, reduction in cash usage, reliance on cash on hand and cash from operations, capital needs, 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," "t," "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, 2009, under the section entitled "Risk Factors," and in Item 1A of Part II of this Quarterly Report on Form 10-Q, 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.

Our trademarks, trade names and service marks referenced herein include Buzztime, IWN, iTV Network, iSports, Playmakers and i-am TV. Each other trademark, trade name or service mark appearing in this quarterly report belongs to its owner.

OVERVIEW

We have been in the business of social interactive entertainment for over 25 years. Our primary source of revenue is our Buzztime iTV Network, which focuses on the distribution of our interactive promotional television game network programming, primarily to over 4,000 hospitality venues such as restaurants and bars throughout North America.

The out-of-home Buzztime iTV Network has maintained a unique position in the hospitality industry for over 25 years as a promotional platform providing interactive entertainment to patrons in restaurants and bars (hospitality venues). The iTV Network distributes a wide variety of engaging interactive multi-player games, including trivia quiz shows, play-along sports programming and casino-style and casual games to our Network subscribers. Patrons use our wireless game controllers, or Playmakers, to play along with the Buzztime games which are displayed on television screens. In late 2009, we introduced a downloadable application available on the iPhone that will enable patrons to use their iPhone in-venue instead of the Playmaker to play these Buzztime games. Buzztime players can compete with other players within their hospitality venue and also against players in other Network subscriber venues.

We target national and regional hospitality chains as well as local independent hospitality venues that desire a competitive point-of-difference to attract and retain customers. As of June 30, 2010, we had 3,695 United States Network subscribers and 314 Canadian subscribers. Approximately 30% of our Network subscribers come from leading national chains in the casual-dining restaurant segment such as Buffalo Wild Wings, TGI Friday's, Hooters and Old Chicago.

Through the transmission of interactive game content stored on a site server at each location, our Buzztime iTV Network enables single-player and multi-player participation as part of local, regional, national or international competitions supported with prizes and player recognition. Our Buzztime iTV Network also generates revenue through the sale of advertising and marketing services to companies seeking to reach the millions of consumers that visit the Buzztime iTV Network's venues.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based on our condensed 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, the provision for income taxes including the valuation allowance, stock-based compensation, bad debts, investments, purchase price allocations related to acquisitions, impairment of software development costs, goodwill, broadcast equipment, intangible assets and contingencies, including the reserve for sales tax inquiries. 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. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of the Company's financial condition and results and require management's most subjective judgments.

There have been no material changes in our critical accounting policies, estimates and judgments during the six months ended June 30, 2010 from those described in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our Annual Report on Form 10-K for the year ended December 31, 2009.

RESULTS OF OPERATIONS

Three months ended June 30, 2010 compared to the three months ended June 30, 2009

We generated a net loss of \$457,000 for the three months ended June 30, 2010, compared to net loss of \$282,000 for the three months ended June 30, 2009.

Revenue

Revenue decreased \$94,000 or 1%, to \$6,191,000 for the three months ended June 30, 2010 from \$6,285,000 for the three months ended June 30, 2009, primarily due to a decrease in advertising revenue of \$111,000. Subscription revenue remained unchanged, however, the average revenue generated per site decreased, which was offset by an increase in site count. Comparative site count information for Buzztime iTV Network is as follows:

	Network Subscribers as of June 30,	
	2010	2009
United States	3,695	3,561
Canada	314	310
Total	4,009	3,871

Direct Costs and Gross Margin

The following table compares the direct costs and gross margin for the three months ended June 30, 2010 and 2009:

For the three months ended
June 30,

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	2010	2009
Revenues	\$ 6,191,000	\$ 6,285,000
Direct Costs	1,527,000	1,524,000
Gross Margin	\$ 4,664,000	\$ 4,761,000
Gross Margin Percentage	75%	76%

Gross margin as a percentage of revenue decreased to 75% for the three months ended June 30, 2010 from 76% for the three months ended June 30, 2009. Direct costs remained flat at \$1,527,000 for the three months ended June 30, 2010 as compared to \$1,524,000 for the same period in 2009. The decrease in gross margin was a result of lower revenue per site recognized for the three months ended June 30, 2010 compared to the same period in 2009. Fluctuations in direct costs for the three months ended June 30, 2010 compared to the same period in 2009 included increased depreciation and amortization expense of \$137,000 resulting from increased equipment purchases under capital leases and intangible assets that were acquired during the second quarter of 2009, offset by a decrease of \$109,000 in communications expense as we completed the conversion of customers from satellite to broadband during 2009 and a decrease in Playmaker repair and other equipment costs of \$30,000.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$39,000, or 1%, to \$4,898,000 for the three months ended June 30, 2010 from \$4,859,000 for the three months ended June 30, 2009. Selling, general and administrative expenses increased during the three months ended June 30, 2010 primarily due to increased personnel and related expenses of \$376,000 resulting from increased headcount, annual merit increases and amounts earned under incentive pay plans; increased software disposal expense of \$149,000 and increased bad debt expense of \$63,000 as a result of 2009 including recoveries. These increases were offset by decreased consulting expense of \$111,000 due to reduced reliance on consultants; decreased legal expense of \$107,000 due to legal expenses associated with asset acquisitions completed in 2009; decreased other tax expense of \$119,000 due to a delay in timing in 2010 relating to services for filing tax returns as well as the impact of a sales tax assessment settlement in 2009; decreased facilities expense of \$94,000 due to reduced maintenance and telephone costs; decreased travel expense of \$75,000 due to less travel by our sales and marketing team and a net \$43,000 decrease in other miscellaneous expenses.

Depreciation and Amortization Expense

Depreciation and amortization expense (excluding depreciation and amortization included in direct operating costs) decreased \$40,000 to \$173,000 for the three months ended June 30, 2010 from \$213,000 for the three months ended June 30, 2009 primarily due to fully amortizing an intangible asset we acquired in 2009.

Other (Expense) Income, Net

Other (expense) income, net increased in expense by \$74,000 to \$63,000 net expense for the three months ended June 30, 2010 from \$11,000 net income for the three months ended June 30, 2009. The increase in expense was due to an increase in interest expense of \$17,000 related to capital equipment leases; lower interest income of \$21,000 resulting from a decrease in our average cash balance invested in interest bearing securities; losses on disposal of assets of \$22,000; and foreign currency exchange losses of \$32,000 related to intercompany activity with our Canadian subsidiary. Offsetting the net increase in expense was \$18,000 of other income related to an insurance claim settlement.

Income Taxes

We expect to incur federal alternative minimum tax, or AMT, and minimum state income tax liability in 2010 related to our U.S. operations. We also expect to pay income taxes in Canada due to the profitability of NTN Canada. For the three months ended June 30, 2010, we recorded a net tax benefit of \$13,000, which includes an adjustment to our Canadian income tax receivable, and we recorded a net tax benefit of \$18,000 for the three months ended June 30, 2009. We continue to provide a 100% valuation allowance against our deferred tax assets related to certain net operating losses as realization of such tax benefits is not assessed as more likely than not.

EBITDA

Earnings before interest, taxes, depreciation and amortization, or EBITDA, is not intended to represent a measure of performance in accordance with U.S. GAAP. Nor should EBITDA be considered as an alternative to statements of cash flows as a measure of liquidity. 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 us that carry significant levels of non-cash depreciation and amortization charges in comparison to their GAAP earnings or loss.

The following table reconciles our consolidated net loss per GAAP to EBITDA:

	For the three months ended	
	June 30,	
	2010	2009
Net loss per GAAP	\$ (457,000)	\$ (282,000)
Interest expense (income), net	28,000	(11,000)
Depreciation and amortization	819,000	723,000
Income tax benefit	(13,000)	(18,000)
EBITDA	\$ 377,000	\$ 412,000

Six months ended June 30, 2010 compared to the six months ended June 30, 2009

We generated a net loss of \$846,000 for the six months ended June 30, 2010, compared to net loss of \$537,000 for the six months ended June 30, 2009.

Revenue

Revenue was flat period to period, decreasing \$19,000 to \$12,462,000 for the six months ended June 30, 2010 from \$12,481,000 for the six months ended June 30, 2009. Fluctuations in revenue for the six months ended June 30, 2010 compared to the same period in 2009 included a decrease in advertising revenue of \$99,000 and an increase in subscription revenue due to increased site count, offset by a decrease in the average revenue generated per site.

Direct Costs and Gross Margin

The following table compares the direct costs and gross margin for the six months ended June 30, 2010 and 2009:

	For the six months ended	
	June 30,	
	2010	2009
Revenues	\$ 12,462,000	\$ 12,481,000
Direct Costs	3,067,000	3,026,000
Gross Margin	\$ 9,395,000	\$ 9,455,000
Gross Margin Percentage	75%	76%

Gross margin as a percentage of revenue decreased to 75% for the six months ended June 30, 2010 from 76% for the six months ended June 30, 2009. Direct costs increased \$41,000 to \$3,067,000 for the six months ended June 30, 2010 as compared to \$3,026,000 for the same period in 2009. The decrease in gross margin was partially the result of lower revenue per site recognized for the six months ended June 30, 2010 compared to the same period in 2009. The increase in direct costs was due to increased depreciation and amortization expense of \$253,000 resulting from increased equipment purchases under capital leases and intangible assets that were acquired during the second quarter of 2009, as well as increased field service costs of \$115,000 due to both an increase in the number of service calls year over year as well as an increase in cost per service call. These increases were offset by a decrease of \$245,000 in communications expense as we completed the conversion of customers from satellite to broadband during 2009, a decrease in Playmaker repair and other equipment costs of \$45,000 and a net decrease of approximately \$37,000 in other miscellaneous expenses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$125,000, or 1%, to \$9,816,000 for the six months ended June 30, 2010 from \$9,691,000 for the six months ended June 30, 2009. Selling, general and administrative expenses increased primarily due to increased personnel and related expenses of \$638,000 resulting from increased headcount, health insurance expenses, temporary labor, stock compensation and annual merit increases; increased expense of \$115,000 relating to the disposal of software; increased travel expense of \$46,000 due to a larger account management team in 2010 as compared to 2009 and increased bad debt expense of \$126,000 as a result of lower recoveries in 2010. These increases were offset by decreased severance and related payroll taxes of \$218,000; decreased facilities expense of \$106,000 due to reduced maintenance and telephone costs; decreased recruiting expense of \$86,000; decreased consulting expense of \$76,000; decreased legal expense of \$205,000 related to the asset acquisitions in 2009 and decreased tax filing fees of \$63,000 due to a delay in timing in 2010 of our tax returns.

Depreciation and Amortization Expense

Depreciation and amortization expense (excluding depreciation and amortization included in direct operating costs) increased \$5,000 to \$345,000 for the six months ended June 30, 2010 from \$340,000 for the six months ended June 30, 2009 primarily due to increased amortization expense related to intangible assets acquired in 2009, of which, one asset was fully amortized during 2009.

Other (Expense) Income, Net

Other (expense) income, net increased in expense by \$109,000 to \$57,000 net expense for the six months ended June 30, 2010 from \$52,000 net income for the six months ended June 30, 2009. The increase in expense was due to an increase in interest expense of \$44,000 related to capital equipment leases; lower interest income of \$63,000 resulting from a decrease in our average cash balance invested in interest bearing securities; losses on disposal of assets of \$11,000; and foreign currency exchange losses of \$8,000 related to intercompany activity with our Canadian subsidiary. Offsetting the net increase in expense is \$18,000 of other income related to an insurance claim settlement.

Income Taxes

For the six months ended June 30, 2010, we recorded a net tax provision of \$23,000, which includes an adjustment to our Canadian income tax receivable, and we recorded a net tax provision of \$13,000 for the six months ended June 30, 2009.

EBITDA

Earnings before interest, taxes, depreciation and amortization, or EBITDA, is not intended to represent a measure of performance in accordance with U.S. GAAP. Nor should EBITDA be considered as an alternative to statements of cash flows as a measure of liquidity. 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 us that carry significant levels of non-cash depreciation and amortization charges in comparison to their GAAP earnings or loss.

The following table reconciles our consolidated net loss per GAAP to EBITDA:

	For the six months ended June 30,	
	2010	2009
Net loss per GAAP	\$ (846,000)	\$ (537,000)
Interest expense (income), net	55,000	(52,000)
Depreciation and amortization	1,599,000	1,343,000
Income tax provision	23,000	13,000
EBITDA	\$ 831,000	\$ 767,000

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2010, we had cash and cash equivalents of \$3,268,000 compared to cash and cash equivalents of \$3,637,000 as of December 31, 2009. We believe existing cash and cash equivalents, together with funds generated from operations, will be sufficient to meet our operating cash requirements for at least the next 12 months. We have no debt obligations other than capital leases. It is our intention to continue entering into capital lease facilities for certain equipment requirements when economically advantageous. In the event that net cash provided by operating

activities and cash on hand are not sufficient to meet future cash requirements, we may be required to reduce planned capital expenses, further reduce operational cash uses, sell assets or seek financing. Any actions we may undertake to reduce planned capital purchases, further reduce expenses, or generate proceeds from the sale of assets may be insufficient to cover shortfalls in available funds. If we require additional capital, we may be unable to secure additional financing on terms that are acceptable to us, or at all.

Working Capital

As of June 30, 2010, we had working capital (current assets in excess of current liabilities) of \$671,000 compared to \$800,000 as of December 31, 2009. The following table shows our change in working capital from December 31, 2009 to June 30, 2010.

	Increase (Decrease)
Working capital as of December 31, 2009	\$ 800,000
Changes in current assets:	
Cash and cash equivalents	(369,000)
Accounts receivable, net of allowance	(59,000)
Investment available-for-sale	18,000
Prepaid expenses and other current assets	(21,000)
Total current assets	(431,000)
Changes in current liabilities:	
Accounts payable and accrued liabilities	(253,000)
Sales taxes payable	73,000
Obligations under capital lease - current portion	140,000
Deferred revenue	(94,000)
Other current liabilities	(168,000)
Total current liabilities	(302,000)
Net change in working capital	(129,000)
Working capital as of June 30, 2010	\$ 671,000

Cash Flows

Cash flows from operating, investing and financing activities, as reflected in the accompanying consolidated statements of cash flows, are summarized as follows:

	For the six months ended June 30,	
	2010	2009
Cash provided by (used in):		
Operating activities	\$ 868,000	\$ 804,000
Investing activities	(1,090,000)	(1,229,000)
Financing activities	(134,000)	737,000
Effect of exchange rates	(13,000)	171,000
Net (decrease) increase in cash and cash equivalents	\$ (369,000)	\$ 483,000

Net cash provided by operating activities. We are dependent on cash flows from operations to meet our cash requirements. Net cash generated from operating activities was \$868,000 for the six months ended June 30, 2010 compared to net cash generated from operating activities of \$804,000 for the same period in 2009. The \$64,000 increase in cash provided by operations was primarily due to an increase of \$267,000 in cash provided by net loss excluding non-cash charges, offset by an increase of \$203,000 in cash used by operating assets and liabilities.

Our largest use of cash is payroll and related costs. Cash used related to payroll increased \$309,000 to \$5,595,000 for the six months ended June 30, 2010 from \$5,286,000 during the same period in 2009. This increase is the result of

higher headcount related to our account management team during the six months ended June 30, 2010 compared to the same period in 2009 as well as merit increases that were given during 2010. Our primary source of cash is cash we generate from customers. Cash received from customers decreased \$14,000 to \$12,789,000 for the six months ended June 30, 2010 from \$12,803,000 during the same period in 2009.

Net cash used in investing activities. We used \$1,090,000 in cash for investing activities for the six months ended June 30, 2010 compared to \$1,229,000 used in cash for investing activities during the same period in 2009. The \$139,000 decrease in cash used in investing activities was primarily due to a decrease in capital expenditures of \$303,000, offset by increases of \$129,000 in cash used for software development initiatives and \$35,000 related to a trademark license.

Net cash (used in) provided by financing activities. Net cash used in financing activities increased \$871,000 to \$134,000 for the six months ended June 30, 2010 compared to net cash provided by financing activities of \$737,000 for the same period in 2009. The increase in cash used in financing activities was due to a \$149,000 increase in principal payments on capital leases and a \$750,000 decrease in proceeds from the sale of common stock in 2009, offset by a \$28,000 increase in proceeds received from the exercise of stock options.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Note 14 of the condensed consolidated financial statements, "Recent Accounting Pronouncements."

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Under SEC rules and regulations, as a smaller reporting company we are not required to provide the information otherwise required by this item.

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 Rule 13a-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, our Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described under Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2009 together with all other information contained or incorporated by reference in this report before you decide to invest in our common stock. If any of the risks described in our annual report occur, our business, financial condition, results of operations and our future growth prospects could be materially and adversely affected. Under these circumstances, the trading price of our common stock could decline, and you may lose all or part of your investment. As of the date of this report, we do not believe that there have been any material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Item 2.Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3.Defaults Upon Senior Securities.

None

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Item 4.(Removed and Reserved).

Item 5.Other Information.

None

Item 6.Exhibits.

Exhibit	Description
3.1	Amended and Restated Certificate of Incorporation of the Company, as amended (1)
3.2	Certificate of Designations, Rights and Preferences of Series B Convertible Preferred Stock (2)
3.3	Bylaws of the Company, as amended (3)
10.1*	2010 Performance Incentive Plan (4)
10.2*	Employment Agreement, dated April 12, 2010, by and between the Company and Michael Bush
10.3*	Severance Agreement and General Release, dated April 30, 2010, by and between the Company and Kenneth Keymer
10.4*	Employment offer letter, dated May 25, 2010, by and between the Company and Christopher George
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1#	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2#	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management Contract or Compensatory Plan

These exhibits are being furnished solely to accompany this report pursuant to U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated herein by reference into any filing of the Company whether made before or after the date hereof, regardless of any general incorporation language in such filing.

- (1) Previously filed as an exhibit to the registrant's report on Form 10-Q for the quarter ended June 30, 2008 and incorporated herein by reference.
- (2) Previously filed as an exhibit to the registrant's report on Form 8-K filed on November 7, 1997 and incorporated herein by reference.

- (3) Previously filed as an exhibit to the registrant's report on Form 10-K for the fiscal year ended December 31, 2007 and incorporated herein by reference.
- (4) Previously filed as Exhibit A to the Definitive Proxy Statement on Schedule 14A filed by the registrant on April 30, 2010 and incorporated herein by reference.

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: August 13, 2010

By: /s/ KENDRA BERGER
Kendra Berger
Chief Financial Officer
(on behalf of the Registrant, and as its
Principal Financial and Accounting
Officer)