NTN COMMUNICATIONS INC
Form 10-Q/A
April 13, 2001

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

FORM 10-Q/A

(Amendment No. 2)

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

For the quarterly period ended March 31, 2000

Commission file number 1-11460

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

Delaware	31-1103425
(State of incorporation)	(I.R.S. Employer Identification No.)

The Campus 5966 La Place Court, Carlsbad, California	92008
(Address of principal executive offices)	(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 filing requirements for the past 90 days.

YES [X] NO [ ]

At May 3, 2000 the registrant had 33,532,000 shares of common stock, $.005 par value, outstanding.

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FORM 10-Q/A
PERIOD ENDED MARCH 31, 2000
NTN COMMUNICATIONS, INC.

PART I. FINANCIAL INFORMATION

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PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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NTN COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

Assets	March 31, 2000 (Unaudited)	Decem 19
Current Assets:		
Cash and cash equivalents	$ 463,000	$ 1,
Restricted cash	102,000	
Accounts receivable, net	1,788,000	2,
Investment available for sale	1,017,000	
Deposits on broadcast equipment	811,000	
Prepaid expenses and other current assets	1,051,000	1,
Total current assets	5,232,000	6,
Broadcast equipment and fixed assets, net	12,297,000	10,
Software development costs, net	71,000	
Other assets	255,000	
Total assets	$ 17,855,000	$ 17,

Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 1,525,000	$ 1,
Accrued expenses	1,783,000	1,
Accrual for litigation costs	226,000	
Accrual for management severance	471,000	
Obligations under capital leases	827,000	
Deferred revenue	787,000	
Note payable	79,000	
Total current liabilities	5,698,000	5,
Obligations under capital leases	408,000	
Accrual for settlement warrants	--	1,
Revolving line of credit	3,700,000	2,
7% senior convertible notes	4,558,000	4,
Other long-term liabilities	91,000	
Total liabilities	14,455,000	15,
Shareholders' equity:		
Series A 10% cumulative convertible preferred stock, $.005 par value, 5,000,000 shares authorized; 161,000 shares issued and outstanding at March 31, 2000 and December 31, 1999	1,000	
Common stock, $.005 par value, 70,000,000 shares authorized; 31,515,000 and 29,914,000 shares issued and outstanding at March 31, 2000 and December 31, 1999, respectively	157,000	
Additional paid-in capital	69,309,000	66,
Accumulated deficit	(65,632,000)	(63,
Accumulated other comprehensive gain (loss)	37,000	(
Treasury stock, at cost, 111,000 shares at March 31, 2000 and December 31, 1999	(472,000)	(
Total shareholders' equity	3,400,000	2,
Total liabilities and shareholders' equity	$ 17,855,000	$ 17,

See accompanying notes to unaudited consolidated financial statements

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NTN COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)

	Three Months Ended	
	March 31, 2000	March 31, 1999

Revenues:		
Hospitality revenues	$ 5,765,000	$ 5,227,000
Internet revenues	82,000	110,000
America Online fees	--	180,000
Other revenues	16,000	170,000
Total revenues	5,863,000	5,687,000
Operating expenses:		
Direct operating costs of services	3,070,000	2,535,000
Selling, general and administrative	3,335,000	2,665,000
Litigation, legal and professional fees	178,000	242,000
Equipment lease expense	--	234,000
Stock-based compensation expense	194,000	39,000
Depreciation and amortization	393,000	307,000
Bad debt expense	375,000	193,000
Research and development	147,000	135,000
Total operating expenses	7,692,000	6,350,000
Operating loss	(1,829,000)	(663,000)
Other income (expense):		
Interest expense, net	(304,000)	(159,000)
Other	146,000	(10,000)
Total other income (expense)	(158,000)	(169,000)
Income (loss) before income taxes	(1,987,000)	(832,000)
Provision for income taxes	--	--
Net income (loss)	$ (1,987,000)	$ (832,000)
Net income (loss) per common share - basic and diluted	$ (0.07)	$ (0.03)
Weighted average shares outstanding - basic and diluted	30,500,000	27,875,000

See accompanying notes to unaudited consolidated financial statements

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NTN COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended	
	March 31 2000	March 3[1] 1999
Cash flows provided by (used in) operating activities:		
Net Income (loss)	$(1,987,000)	$ (832,
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,930,000	1,697,
Provision for doubtful accounts	375,000	193,
Non-cash compensation charges	194,000	39,
Accreted interest expense	94,000	142,
Amortization of deferred revenue	--	(51,
Gain on sale of investment available for sale	(77,000)	
Changes in assets and liabilities:		
Restricted cash	137,000	
Accounts receivable	410,000	(492,
Deposits on broadcast equipment	(200,000)	
Prepaid expenses and other assets	(200,000)	87,
Accounts payable and accrued expenses	367,000	(692,
Deferred revenue	(9,000)	221,
Management severance and other long-term liabilities	(165,000)	(385,
Net cash provided by (used in) operating activities	869,000	(73,
Cash flows provided by (used in) investing activities:		
Capital expenditures	(3,389,000)	(875,
Notes receivable	138,000	19,
Proceeds from sale of investments available for sale	362,000	
Net cash provided by (used in) investing activities	(2,889,000)	(856,
Cash flows provided by (used in) financing activities:		
Principal payments on capital leases	(218,000)	(123,
Borrowings from revolving line of credit	8,608,000	
Principal payments on revolving line of credit	(7,394,000)	
Principal payments on notes payable	(50,000)	
Exercise of stock options and warrants	493,000	150,
Net cash provided by (used in) financing activities	1,439,000	27,
Net increase (decrease) in cash and cash equivalents	(581,000)	(902,

Cash and cash equivalents at beginning of period	1,044,000	4,560,
Cash and cash equivalents at end of period	$ 463,000	$ 3,658,

See accompanying notes to unaudited consolidated financial statements

NTN COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)

	Three Months En	
	March 31 2000	Ma
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 152,000	$
Income taxes	$ --	$
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock in payment of interest	$ 86,000	$
Equipment acquired under capital leases	$ 238,000	$
Exchange of preferred stock for convertible notes and warrants	$ --	$
Unrealized holding gain on investments	$ 397,000	$
Exchange of convertible notes to common stock	$ 202,000	$
Expiration of settlement warrant obligations	$ 1,793,000	$

See accompanying notes to unaudited consolidated financial statements

NTN COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying consolidated financial statements include all adjustments that are necessary for a fair presentation of the financial position of NTN Communications, Inc. and subsidiaries (collectively "the Company") and the results of their operations and their cash flows for the interim periods presented. Management has elected to omit substantially all notes to the Company's consolidated financial statements as permitted by the rules and regulations of the Securities and Exchange Commission. 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 ended December 31, 2000.

The consolidated financial statements for the three months ended March 31, 2000 and 1999 are unaudited and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K filed for the year ended December 31, 1999.

Certain items in the prior period consolidated financial statements have been reclassified to conform to the current period presentation.

2. EARNINGS (LOSS) PER SHARE

Options, warrants, convertible preferred stock and convertible notes representing approximately 14,632,000 and 11,628,000 potentially dilutive common shares have been excluded from the computations of net income (loss) per share for the three months ended March 31, 2000 and March 31, 1999, respectively, as their effect was anti-dilutive.

3. SEGMENT INFORMATION

The Company develops, produces and distributes interactive entertainment. The Company's reportable segments have been determined based on the nature of the services offered to customers, which include, but are not limited to, revenue from the NTN Network and BUZZTIME.com divisions. Hospitality revenue is generated primarily from broadcasting content to customer locations through an interactive television network. Hospitality revenues comprise 98% of the Company's total revenue. Revenue from BUZZTIME.com is primarily generated from the distribution of its digital trivia game show content and "Play-Along" sports games, as well as revenue related to advertising and production services for third parties. Revenues from the BUZZTIME segment also includes fees earned from AOL. The following tables set forth certain information regarding the Company's segments and other operations:

	Three Months Ended	
	March 31,	March 31,

	2000	1999
Revenues		
NTN Network	$ 5,771,000	$ 5,282,000
BUZZTIME.com(1)	82,000	290,000
Corporate	10,000	21,000
Other	--	94,000
Total Revenue	$ 5,863,000	$ 5,687,000
Operating income (loss)		
NTN Network	$ 565,000	$ 1,369,000
BUZZTIME.com	(848,000)	(544,000)
Corporate	(1,546,000)	(1,469,000)
Other	--	(19,000)
Operating loss	$(1,829,000)	$ (663,000)

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(1) Includes AOL fees of $0 and $180,000 for the three months ended March 31, 2000 and March 31, 1999, respectively.

4. SETTLEMENT WARRANTS

Shareholders' equity at March 31, 2000 includes the reclassification of an accrued liability of approximately $1,793,000 to additional paid-in capital for a potential redemption obligation, relating to warrants issued in connection with the settlement of litigation in 1996 (Settlement Warrants), which expired in February 2000. The Settlement Warrants entitled the holder of a Settlement Warrant to purchase a share of Common Stock at a price of $0.96 during the period ending February 18, 2001. During the period from February 18, 2000 to February 18, 2001, the holders of the Settlement Warrants were to have the right to cause the Company to redeem the Settlement Warrants for a redemption price of $3.25 per Warrant (the "Put Right"); however, this Put Right expired by its terms on February 17, 2000 when the closing price per share of the Company's Common Stock on the American Stock Exchange reached $4.22 or above for the seventh trading day since the Settlement Warrants were issued. The Company has no further obligation to redeem or repurchase the Settlement Warrants.

5. LEGAL ACTIONS

In February 1998, pursuant to the settlement of a class-action lawsuit pending against the Company since 1993, the Company issued 565,000 warrants to purchase the Common Stock of the Company ("Settlement Warrants"). Each Settlement Warrant has a term of three years beginning February 18, 1998. The Settlement Warrants were issued on February 18, 1998 and entitle the holder of a Settlement Warrant to purchase a share of Common Stock of the Company at a price of $0.96. During the period from February 18, 2000 to

February 18, 2001, the holders of Settlement Warrants were to have the right, but not the obligation, to put the Settlement Warrants to the Company for repurchase at a price of $3.25 per Settlement Warrant (the "Put Right"), however, this Put Right expired by its terms on February 17, 2000 when the closing price per share of the Company's Common Stock on the American Stock Exchange reached $4.22 or above for the seventh trading day. The Company has no further obligation to repurchase the Settlement Warrants. In no event shall the Company have any obligation to repurchase its Common Stock. The right of holders to exercise the Settlement Warrants to purchase shares of Common Stock of the Company at $0.96 per share continues through February 18, 2001.

On June 11, 1997, the Company was included as a defendant in a class-action lawsuit, entitled Eliot Miller and Jay Iyer, shareholders on behalf of themselves and all others similarly situated vs. NTN Communications, Inc., Patrick J. Downs, Daniel C. Downs, Donald C. Klosterman, Ronald E. Hogan, Gerald P. McLaughlin and KPMG Peat Marwick LLP, filed in the United States District Court for the Southern District of California. The complaint alleges violations of state and federal securities laws based upon purported omissions from the Company's filings with the Securities and Exchange Commission. More particularly, the complaint alleges that the directors and former officers devised an "exit strategy" to provide themselves with undue compensation upon their resignation from the Company. The plaintiffs further allege that defendants made false statements about, and failed to disclose, contingent liabilities (guaranteed compensation to management and the right of an investor in IWN to require the Company to repurchase its investment during 1997) and phantom assets (loans to management) in the Company's financial statements and KPMG LLP's audit reports, all of which served allegedly to inflate the trading price of the Company's Common Stock.

On November 7, 1997, the court granted KPMG LLP's motion to dismiss the plaintiffs' claims against it pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure for failure to state a claim upon which relief may be granted.

On July 3, 1997, the Company filed a motion to dismiss the lawsuit. On November 6, 1997, the Court dismissed all of the plaintiff's state law causes of action against the Company but retained the plaintiff's federal law causes of action. In February 1998, the attorneys representing the plaintiffs in this litigation filed an action entitled Dorman vs. NTN Communications, Inc. in the Superior Court of San Diego County for the State of California in which they essentially replead the state law causes of action dismissed in the federal lawsuit. In March 1999, the Court granted the Company's motion for summary judgment in the Dorman matter. On May 13, 1999, plaintiffs filed a motion for new trial which was denied by the Court. On August 20, 1999, plaintiffs filed an appeal of the summary judgment in the Fourth Appellate District of the Court of Appeals for the State of California. The Company will file its reply to the appeal on or before March 30, 2000. In the Company's opinion, the claim in the Dorman litigation is covered by directors and officers liability insurance providing $15,000,000 of coverage. The Company has submitted this claim to its directors and officers liability insurance underwriters, who have accepted such claims subject to reservation of rights. The Company's deductible under the insurance policy is $200,000 which has been paid.

In November 1999, the Company reached a tentative settlement agreement with the class of plaintiffs in the Miller litigation whereby the Company would pay $3,250,000 upon approval by the court. The settlement payment is fully covered by the Company's liability insurance. A settlement hearing is scheduled to take place in April, 2000 for the purpose of seeking court approval of the proposed settlement and plan of allocation of the settlement funds. Upon approval of the proposed settlement, the Court will enter final judgment and dismiss the litigation as to all defendants.

In September 1998, the Company received correspondence from counsel to Microsoft Corporation and related inquiries from the Business Software Alliance and Software Publishers Association, two industry associations, requesting information regarding the Company's use of the MS-DOS operating system in connection with its Playmaker(R) systems which were installed in over 2,900 hospitality locations throughout the

United States. In response, the Company conducted an internal audit and produced the results to counsel to the three entities. Based on the audit results, it was determined that the Company had insufficient licensing for the MS-DOS in use in the hospitality locations. In November 1999, the Company entered into a Settlement Agreement with the Business Software Alliance ("BSA") pursuant to which the Company will pay the Business Software Alliance a total of $339,864 in ten equal monthly installments. The Company will also be required to deliver to BSA a Certification of Compliance certifying the accuracy of the software audit results and that all copies of the relevant software products used by NTN in the course of business are licensed to NTN and are used solely in accordance with such licenses. In addition, in December 1999, the Company entered into a Settlement Agreement with the Software Publishers Association pursuant to which the Company was liable for a total of $25,000 to the Software Publishers Association in two equal installments and purchased sufficient copies of the software to replace infringing copies as needed. The Company had previously provided an amount sufficient to cover the expense of both settlements.

The Company has been involved as a plaintiff or defendant in various previously reported lawsuits in both the United States and Canada involving Interactive Network, Inc. ("IN"). With the court's assistance, the Company and IN reached a resolution of all pending disputes in the United States and agreed to private arbitration regarding any future licensing, copyright or infringement issues which may arise between the parties. There remain two lawsuits involving the Company, its unaffiliated Canadian licensee and IN, which were filed in Canada in 1992. No action was taken in the Canadian litigation until May 1998, when IN gave notice of its intention to proceed. In November 1998, the Company and its Canadian licensee filed a counterclaim against IN. These actions affect only the Canadian operations of the Company and its Canadian licensee and do not extend to the Company's operations in the United States or elsewhere. In January, 2000 the Court ordered the parties to complete discovery in the matter on or before May 2000. Although they cannot be estimated with certainty, any damages the Company might incur are not expected to be material.

There can be no assurance that any or all of the foregoing claims will be decided in favor of the Company, which is not insured against all claims made. During the pendency of such claims, the Company will continue to incur the costs of defense of same. Other than set forth above, there is no material litigation pending or threatened against the Company.

6. SUBSEQUENT EVENTS

The Company raised gross proceeds of $6,000,000 in April 2000 through the underwritten sale of 2,000,000 shares of Common Stock pursuant to the Company's existing shelf registration. The net proceeds from the sale, which totaled approximately $5,185,000, will be used primarily for working capital and general corporate purposes relating to the Company's launch of its new game portal, BUZZTIME.com and ongoing conversion of the NTN Network's hospitality locations to the Company's new DITV technology.

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

OF OPERATIONS.

FORWARD LOOKING STATEMENTS

This Quarterly Report contains forward looking statements regarding use of the proceeds from the recent sale of common stock and other matters, which are subject to risks and uncertainties, including cash needs and other risk factors detailed in the Company's Securities and Exchange Commission filings, including the Company's Report on Form 10-K for the fiscal year ended December 31, 1999, as amended by Form 10-K/A, which risk factors are incorporated herein by reference.

GENERAL

NTN Communications, Inc. ("NTN" or the "Company"), develops, produces and distributes interactive entertainment and owns and operates what it believes to be the largest "out-of-home" interactive consumer marketing television network in the United States. NTN operates its businesses principally through two operating divisions:

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BUZZTIME.com, Inc.(TM) ("BUZZTIME") and The NTN Network(R).

BUZZTIME, NTN's wholly-owned subsidiary formed in December 1999, owns the exclusive rights to two separate sets of game content. First, BUZZTIME owns the largest known digital trivia game show library, encompassing content from widely diverse areas of knowledge. Second, BUZZTIME owns the rights to eight unique "TV Play-along" sports games, played in conjunction with live televised sports programming. This is accomplished through NTN's interactive broadcast studio that enables the Company to turn televised sports or other televised events into a live interactive game.

The NTN Network is North America's largest "out-of-home" interactive television network. The unique private network, distributed by Internet-enhanced technology, broadcasts a variety of multi-player sports and trivia games 365 days a year to hospitality venues such as restaurants, sports bars, hotels, clubs and military bases totaling approximately 3,300 locations in North America ("Locations") as of May 1, 2000. A unique feature of NTN Network's interactive programming is that all players compete in real-time within each Location and are ranked at the end of each game against players in all Locations throughout North America. This enables each Location to create on-premises promotions to increase patron loyalty as well as allowing NTN to capture national sponsors who want to use the competitions as a promotional tool.

In April 1999, the Company upgraded the NTN Network by introducing a new Windows 98-based "Digital Interactive TV" system (DITV) to replace its decade-old DOS-based system. The new DITV system uses Windows-based development tools and multimedia capabilities, resulting in enhanced, high-resolution graphics and full-motion video, making broadcasts on the NTN Network more appealing. As of March 2000, approximately 54% of the NTN Network has been converted to the new digital system. NTN estimates that it will convert about 82% of its network to the digital system. About 15% of the network will continue to run on the DOS-band system under the Canadian license. NTN anticipates service will be terminated on the remaining 3% of the systems under the terms of the existing contracts.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2000 AND MARCH 31, 1999

The Company's net loss for the three months ended March 31, 2000 was $1,987,000 compared to a net loss of $832,000 for the three months ended March 31, 1999.

Total revenues increased 3% to $5,863,000 for the three months ended March 31, 2000 from $5,687,000 for the three months ended March 31, 1999. This increase is due to an increase in hospitality revenues, which was partially offset by decreases in Internet revenues, America Online fees and other revenues as the Company winds down such relationships in preparation for its launch of BUZZTIME.com.

Hospitality revenues increased 10% to $5,765,000 for the three months ended March 31, 2000 from $5,227,000 for the three months ended March 31, 1999. This increase is primarily due to an increase in rates charged for the setup, installation and training for the DITV network as compared to the original network. During the three months ended March 31, 2000, approximately 375 DITV systems were installed. Included in hospitality revenues are revenues from the Company's Canadian licensee totaling $321,000 for the three months ended March 31, 2000. Advertising revenue for hospitality also increased to $399,000 for the three months ended March 31, 2000 from $83,000 for the three months ended March 31, 1999 due to new advertising contracts that did not exist for the three months ended March 31, 1999. Hospitality revenue is generated primarily from broadcasting content and advertising to customer locations. The direct costs associated with these revenues include the cost of installing the equipment at the customer location, marketing visits, technical service, freight, telecommunication, sales commission, parts, repairs, and depreciation of the equipment placed in service and materials.

Internet revenues decreased 25% to $82,000 for the three months ended March 31, 2000 from $110,000 for the three months ended March 31, 1999. The decrease was largely due to the expiration of the Company's contract with GTE Mainstreet, which occurred in February 2000. Internet revenues are generated primarily from advertising and production services. The direct costs associated with these revenues are license fees and server hosting fees.

America Online ("AOL") fees were zero for the three months ended March 31, 2000, compared to $180,000 for the three months ended March 31, 1999. The Company's contract with AOL expired on December 1, 1999, at which time a new contract was signed. Under the terms of the new nonexclusive contract the Company will have access to AOL's 21 million subscribers allowing promotion of the BUZZTIME.com website on each of thirteen AOL channels. The Company will receive extensive promotional branding and revenue opportunities, however, it will receive little or no revenue directly from AOL. America Online fees relate to the fees paid by AOL in connection with an exclusive agreement whereby NTN provided trivia content in exchange for a fee. There are no direct costs related to these fees.

Other revenues decreased 91% to $16,000 for the three months ended March 31, 2000 from $170,000 for the three months ended March 31, 1999. Included in other revenue for the three months ended March 31, 1999 was approximately $94,000 of revenue from IWN, Inc. and approximately $51,000 of deferred revenue from equipment sales. No revenue was recorded for IWN or equipment sales for the three months ended March 31, 2000 as the Company sold the assets of IWN in August 1999 to eBet Online Limited and concluded the recognition of deferred revenue associated with prior equipment sale-leasebacks. The Company stopped selling equipment to its customers in 1998.

Direct operating costs of services increased 21% to $3,070,000 for the three months ended March 31, 2000 from $2,535,000 for the three months ended March 31, 1999. This increase was due primarily to increased ISP charges of $314,000 due to additional services needed to support the DITV network for the three months ended March 31, 2000, and to a lesser extent, to expenses of approximately $114,000 associated with an increase in the number of sites installed, increased freight expenses associated with shipping equipment to the sites and an increase in the number of sales commissions paid in connection with the roll out of the DITV network for the three months ended March 31, 2000. Depreciation and amortization increased by net amount of approximately $147,000, directly related to an increase in capitalized purchases of broadcast equipment for the DITV network offset by a decrease in amortization for capitalized software as the software becomes fully amortized. Advertising commissions also increased by approximately $116,000 directly related to the increase in hospitality advertising revenue. These increases were partially offset by a decrease of approximately $130,000 for technical site service costs which can be attributed to new equipment at the sites for the DITV network which have required less servicing than the 49 MHz network equipment. The Company expects direct operating costs to continue to increase as sites are converted to the DITV network and for ongoing ISP charges compared to prior periods. The conversion is expected to be complete in the fall of 2000.

Selling, general and administrative expenses increased 25% to $3,335,000 for the three months ended March 31, 2000 from $2,665,000 for the three months ended March 31, 1999. Salaries and related payroll taxes, benefits and recruiting fees increased approximately $653,000 for the three months ended March 31, 2000 due to an increase in the number of employees as compared to the three months ended March 31, 1999. Consulting expenses increased approximately $108,000 related to the launch of the Internet website and investor relations for the three months ended March 31, 2000.

Bad debt expense increased 94% to $375,000 for the three months ended March 31, 2000 from $193,000 for the three months ended March 31, 1999. This increase is directly related to continuing evaluation of the uncollectible accounts.

Professional fees decreased to $178,000 for the three months ended March 31, 2000 from $242,000 for the three months ended March 31, 1999.

Equipment leases decreased for the three months ended March 31, 2000 by $234,000 due to the payoff of such leases during 1999.

Stock-based compensation expense increased to $194,000 for the three months ended March 31, 2000 from $39,000 for the three months ended March 31, 1999. The charges resulted from the issuance of warrants and options to employees and non-employees, which can vary from period-to-period.

Research and development expenses were $147,000 for the three months ended March 31, 2000, compared to $135,000 for the three months ended March 31, 1999. The current period expenses result from the Company's research and development efforts related to the next generation of the DITV network, Internet stations and future Internet web sites. For the three-month period ended March 31, 1999, the Company's research and development efforts focused primarily on the upgrade of the NTN network.

Interest income (expense), net, increased to $304,000 for the three months ended March 31, 2000 from $159,000 for the three months ended March 31, 1999. This increase in interest expense relates to the Company's revolving line of credit, other notes payable and additional capital leases for equipment acquisitions which did not exist in the first quarter of 1999.

Other income (expense) increased to $146,000 for the three months ended March 31, 2000 from ($10,000) for the three months ended March 31, 1999. Other income includes gains on sales of investments held for sale and equipment.

SEGMENT ANALYSIS

The Company's operations are to develop and distribute interactive entertainment. Revenues generated by the two most significant segments are as follows:

Segment	Three Months Ended March 31, 2000		Three Months Ended March 31, 1999	
Hospitality	5,771,000	99%	5,282,000	95%
BUZZTIME	82,000	1%	290,000	5%
Total	5,853,000	100%	5,572,000	100%

Hospitality revenues increased 9.3% in 2000 over 1999 due primarily to an increase in fees charged for the setup, installation and training for the DITV Network as compared to the original NTN Network.

BUZZTIME revenues decreased 72% in 2000 over 1999 due primarily to a decrease of $180,000 of fees earned from AOL as a result of the expiration of the contract on December 1, 1999 and a decrease of fees earned from GTE Mainstreet of $67,000. This decrease was offset by additional advertising revenue of $25,000 and a slight increase in other production fees.

Operating income (loss) by segment are illustrated below:

Segment	Three Months Ended March 31, 2000	Three Months Ended March 31, 1999
Hospitality	565,000	1,369,000
BUZZTIME	(848,000)	(544,000)
Total	(283,000)	(825,000)

The Hospitality operating income was 59% lower in the first quarter 2000 over the first quarter 1999. The decrease was primarily a result of an increase in depreciation of $622,000. The increase in depreciation is attributable to the digital network equipment purchased. Additionally, SG&A expenses increased by

$243,000 due primarily to increased salary expense associated with technology and management personnel additions.

BUZZTIME operating loss was $444,000 higher in the first quarter 2000 over the first quarter 1999. Lower revenues of $208,000 combined with increases in operating expenses of $534,000 due to increased staffing were offset by a reduction in depreciation and amortization expense of $447,000 as a result of assets becoming fully amortized in 1999.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2000, the Company had cash and cash equivalents of $463,000 and a working capital deficit of $466,000, compared to cash and cash equivalents of $1,044,000 and working capital of $921,000 at December 31, 1999. Net cash provided by operations was $869,000 for the three months ended March 31, 2000 and net cash used by operations was $73,000 for the three months ended March 31, 1999. The principal uses of cash from operations for the three months ended March 31, 2000 were to fund the Company's net loss, to fund deposits on broadcast equipment and capital software and for severance payments made by the Company in compliance with management resignation agreements with former officers totaling $165,000. Depreciation, amortization and other non-cash charges offset the uses. Net cash used in investing activities was $2,889,000 for the three months ended March 31, 2000 and $856,000 for the three months ended March 31, 1999. Included in net cash used in investing activities for the three months ended March 31, 2000 were $3,389,000 in capital expenditures offset by proceeds from the sale of investments available for sale of $362,000 and notes receivable of $138,000 for the three months ended March 31, 2000. Net cash provided by financing activities was $1,439,000 for the three months ended March 31, 2000 and $27,000 for the three months ended March 31,1999. Net cash provided by financing activities for the three months ended March 31, 2000 included $1,214,000 of proceeds from the revolving line of credit, net of principal payments, and $493,000 of proceeds from the exercise of stock options and warrants offset by $218,000 of principal payments on capital leases.

The Company raised gross proceeds of $6,000,000 in April 2000 through the underwritten sale of 2,000,000 shares of Common Stock pursuant to the Company's existing shelf registration. The net proceeds from the sale, which totaled approximately $5,185,000, will be used primarily for working capital and general corporate purposes relating to the Company's launch of its new game portal, BUZZTIME.com and ongoing conversion of the NTN Network's hospitality locations to the Company's new DITV technology. The Company has approximately $14,000,000 remaining under its existing shelf registration for future liquidity needs. Depending on market conditions, NTN may attempt to raise capital during the second half of the year for, among other uses, further development and marketing of its game portal, BUZZTIME.com, and further expansion and improvement of its DITV Network.

The Company believes that its cash on hand (including the remaining net proceeds from the recent sale of Common Stock), anticipated cash flows from its operations and borrowings under its line of credit will be sufficient to meet its operating needs through 2000. If cash flow is less than anticipated, however, or if the Company incurs unexpected expenses, the Company may need additional funding or need to slow capital intensive business activities. It is likely the Company will need to raise additional capital in future periods to expand the BUZZTIME Internet strategy, convert its entire existing customer base to the DITV Network, expand the DITV Network and implement the Company's Internet station strategy. The Company has no agreement or commitment for any additional financing and there can be no assurance whether, or on what terms, such financing will be available to the Company.

YEAR 2000

The Company's computer systems and equipment successfully transitioned to the Year 2000 with no significant issues. The Company continues to keep its Year 2000 project management in place to monitor latent problems that could surface at key dates or events in the future. It is not anticipated that there will be any significant problems related to these events. All costs associated with the Year 2000 remediation efforts were expensed or capitalized in accordance with appropriate accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 101, Revenue Recognition in Financial Statements which provides guidance related to revenue recognition based on interpretations and practices followed by the SEC. SAB 101 requires companies to report any changes in revenue recognition as cumulative change in accounting principle at the time of implementation in accordance with Accounting Principles Board Opinion 20, "Accounting Changes." SAB 101 will not be effective until the Company's fourth fiscal quarter of 2001. The Company believes that the implementation of SAB 101 will have an impact on the Company's revenue recognition related to fees associated with the installation of broadcast equipment. The Company is in the process of evaluating the impact that SAB 101 will have on its financial position and results of operations.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44, ("FIN 44"), Accounting for Certain Transactions Involving Stock Compensation--an Interpretation of APB 25. This Interpretation clarifies (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a non compensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. This Interpretation will become effective July 1, 2000, but certain conclusions in this Interpretation cover specific events that occur after either December 15, 1998, or January 12, 2000. The Company does not believe that implementation of this standard will have a material impact on the results of operations, liquidity or financial position.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NTN is exposed to risks related to currency exchange rates, stock market fluctuations, and interest rates. As of March 31, 2000, NTN owned common stock of an Australian company that is subject to market risk. At March 31, 2000, the carrying value of this investment was $1,017,000, which includes a $37,000 unrealized gain. 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, 2000, a hypothetical 10% decline in the value of the Australian dollar would result in a reduction of $102,000 in the carrying value of the investment.

NTN has outstanding convertible notes which bear interest at 7% per annum and line of credit borrowings which bear a rate equal to the Prime Rate plus 1.5% per annum, which cannot be less than 9% per annum. At December 31, 1999, a hypothetical one percentage point increase in the Prime Rate would result in an increase of $25,000 in annual interest expense.

The Company does not have derivative financial instruments.

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 COMMUNICATIONS, INC.

Date: April 13, 2001

By: /s/ STANLEY B. KINSEY

Stanley B. Kinsey,
Chairman and Chief Executive Officer