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 September 30, 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 November 1, 2000 the registrant had outstanding 34,813,000 shares of common stock, $.005 par value.

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FORM 10-Q/A
PERIOD ENDED SEPTEMBER 30, 2000
NTN COMMUNICATIONS, INC.

PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

NTN COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

Assets	September 30, 2000 (Unaudited)
Current assets:	
Cash and cash equivalents	$ 1,699,000
Restricted cash	147,000
Accounts receivable, net	1,891,000
Investment available for sale	385,000
Deposits on broadcast equipment	37,000
Prepaid expenses and other current assets	712,000
Total current assets	4,871,000
Broadcast equipment and fixed assets, net	13,790,000
Other assets	250,000
Total assets	$ 18,911,000
Liabilities and Shareholders' Equity	
Current liabilities:	
Accounts payable	$ 1,464,000
Accrued expenses	1,346,000
Accrual for litigation costs	98,000
Accrual for management severance	213,000
Obligations under capital leases	874,000
Deferred revenue	680,000

Note payable and other current liabilities	161,000
Total current liabilities	4,836,000
Obligations under capital leases, excluding current portion	157,000
Accrual for settlement warrants	--
Revolving line of credit	3,772,000
7% senior convertible notes	3,947,000
Other long-term liabilities	91,000
Total liabilities	12,803,000
Shareholders' equity:	
Series A 10% cumulative convertible preferred stock, $.005 par value, 5,000,000 shares authorized; 161,000 shares issued and outstanding at September 30, 2000 and December 31, 1999	1,000
Common stock, $.005 par value, 70,000,000 and 50,000,000 shares authorized at September 30, 2000 and December 31, 1999, respectively; 34,610,000 and 29,914,000 shares issued and outstanding at September 30, 2000 and December 31, 1999, respectively	173,000
Additional paid-in capital	76,147,000
Accumulated deficit	(69,309,000)
Accumulated other comprehensive loss	(432,000)
Treasury stock, at cost, 111,000 shares at September 30, 2000 and December 31, 1999	(472,000)
Total shareholders' equity	6,108,000
Total liabilities and shareholders' equity	$ 18,911,000

See accompanying notes to unaudited consolidated financial statements

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

	Three Months Ended		Ni
	September 30 2000	September 30 1999	September 2000
Revenues:			
NTN Network revenues	$ 5,458,000	$ 5,559,000	$ 16,631
BUZZTIME service revenues	172,000	72,000	356
America Online fees	--	150,000	
Other revenues	67,000	106,000	87

Total revenues	5,697,000	5,887,000	17,074
Operating expenses:			
Direct operating costs of services	2,401,000	3,045,000	8,461
Selling, general and administrative	3,665,000	3,774,000	11,980
Depreciation and amortization	482,000	337,000	1,346
Research and development	97,000	229,000	320
Total operating expenses	6,645,000	7,385,000	22,107
Operating loss	(948,000)	(1,498,000)	(5,033
Other income (expense):			
Interest income (expense), net	(271,000)	(249,000)	(803
Gain on sale of assets of subsidiary	--	2,254,000	
Other	11,000	--	172
Total other income (expense)	(260,000)	2,005,000	(631
Income (loss) before income taxes	(1,208,000)	507,000	(5,664
Provision for income taxes	--	--	
Net income (loss)	$ (1,208,000)	$ 507,000	$ (5,664
Net income (loss) per common share - basic	$ (0.04)	$ 0.02	$ (
Net income (loss) per common share - diluted	$ (0.04)	$ 0.02	$ (
Weighted average shares outstanding - basic	34,237,000	28,573,000	32,613
Weighted average shares outstanding - diluted	34,237,000	35,294,000	32,613

See accompanying notes to unaudited consolidated financial statements

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

	Three Months Ended	
	September 30 2000	September 30 1999
Cash flows provided by (used in) operating activities:		
Net Income (loss)	$ (1,208,000)	$ 507,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,222,000	1,623,000
Provision for doubtful accounts	(182,000)	209,000
Non-cash stock-based compensation charges	497,000	35,000
Accreted interest expense	58,000	98,000
Amortization of deferred revenue	--	--
Gain from disposition of equipment	--	--
Gain on sale of assets of subsidiary	--	(2,254,000
(Gain) loss on sale of investment available for sale	7,000	--
Changes in assets and liabilities:		
Accounts receivable	(317,000)	330,000
Prepaid expenses and other assets	(56,000)	197,000
Accounts payable and accrued expenses	451,000	626,000
Deferred revenue	20,000	(122,000
Management severance and other long-term liabilities	(131,000)	(187,000
Net cash provided by (used in) operating activities	361,000	1,062,000
Cash flows provided by (used in) investing activities:		
Capital expenditures	(1,529,000)	(2,548,000
Deposits on broadcast equipment	442,000	(107,000
Restricted cash	112,000	--
Notes receivable	--	20,000
Capital software expenditures	--	(25,000
Proceeds from sale of equipment	--	--
Proceeds from sale of investment available for sale	10,000	1,227,000
Net cash provided by (used in) investing activities	(965,000)	(1,433,000
Cash flows provided by (used in) financing activities:		
Principal payments on capital leases	(242,000)	(282,000
Borrowings from revolving line of credit	5,767,000	1,257,000
Principal payments on revolving line of credit	(5,688,000)	--
Proceeds from issuance of stock, net of offering expenses	--	--
Principal payments on notes payable	--	(60,000
Exercise of stock options and warrants	119,000	--
Net cash provided by (used in) financing activities	(44,000)	915,000
Net increase (decrease) in cash and cash equivalents	(648,000)	544,000

Cash and cash equivalents at beginning of period	2,347,000	2,525,000
Cash and cash equivalents at end of period	$ 1,699,000	$ 3,069,000

See accompanying notes to unaudited consolidated financial statements

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	Three Months Ended	
	September 30 2000	September 30 1999
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 121,000	$ 52,000
Income taxes	$ --	$ --
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock in payment of interest	$ 82,000	$ 103,000
Equipment acquired under capital leases	$ 234,000	$ 328,000
Unrealized holding loss on investments	$ 185,000	$ 410,000
Exchange of convertible notes to common stock	$ 713,000	$ --
Issuance of treasury stock pursuant to anti-dilution provisions	$ --	$ 930,000
Equipment and license acquired by issuing note payable	$ --	$ 360,000
Exchange of preferred stock for convertible notes and warrants	$ --	$ --
Issuance of common stock in payment of accrued board compensation	$ --	$ 247,000
Sale of assets of subsidiary in exchange for cash		

of $1,227,000 and stock of eBet Online	$ --	$ 1,297,000
Expiration of settlement warrant obligation	$ --	$ --

See accompanying notes to unaudited consolidated financial statements.

NTN COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 30, 2000

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 operations and cash flows of the Company 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. The results of operations for the interim periods are not necessarily indicative of results to be expected for any other interim period or for the year ending December 31, 2000.

The consolidated financial statements for the three months and nine months ended September 30, 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 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. INCOME (LOSS) PER SHARE

Options, warrants, convertible preferred stock and convertible notes representing approximately 12,414,000, 4,462,000, 14,105,000, and 13,346,000 potentially dilutive common shares have been excluded from the computations of net income (loss) per share for the three months ended September 30, 2000 and 1999 and the nine months ended September 30, 2000 and 1999, respectively, as their effect was anti-dilutive.

	Three Months Ended		
	September 30, 2000	September 30, 1999	Sep
Numerator for diluted earnings (loss) per share:			

Net income (loss) available to common shareholders	$ (1,208,000)	$ 507,000	$
Interest on 7% convertible notes	--	103,000	
	$ (1,208,000)	$ 610,000	$
Denominator:			
Denominator for basic earnings (loss) per share:			
Weighted average shares	34,237,000	28,573,000	
Potential effect of dilutive securities:			
Employee stock options and director options	--	1,497,000	
Warrants	--	526,000	
Convertible preferred stock	--	61,000	
Convertible debt	--	4,637,000	
Potentially dilutive common stock	--	6,721,000	
Denominator for diluted earnings (loss) per share:			
Adjusted weighted average shares and assumed conversions	34,237,000	35,294,000	
Basic earnings (loss) per common share	$ (0.04)	$ 0.02	$
Diluted earnings (loss) per common share	$ (0.04)	$ 0.02	$

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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(R) and BUZZTIME(TM) divisions. NTN Network revenue is generated primarily from broadcasting content to customer locations through the NTN Network, an interactive television network, and from advertising sold on the NTN Network. NTN Network revenues comprised 98% of the Company's total revenue for the nine months ended September 30, 2000. Revenues from the BUZZTIME segment includes fees earned from AOL and BUZZTIME services revenue. BUZZTIME services revenue is generated primarily from the distribution of the Company's digital trivia game show content and "Predict-the-Play" sports games, as well as revenue related to advertising and production services for third parties. The following tables set forth certain information regarding the Company's segments and other operations:

	THREE MONTHS ENDED		NINE MONT
	SEPTEMBER 30, 2000	SEPTEMBER 30, 1999	SEPTEMBER 30, 2000
Revenues			
NTN Network	$ 5,458,000	$ 5,559,000	$ 16,631,000

BUZZTIME(1)	172,000	222,000	356,000
Other	67,000	106,000	87,000
Total revenue	$ 5,697,000	$ 5,887,000	$ 17,074,000
Operating income (loss)			
NTN Network	$ 1,790,000	$ 798,000	$ 2,843,000
BUZZTIME	(1,302,000)	(417,000)	(3,263,000)
Corporate	(1,503,000)	(1,864,000)	(4,700,000)
Other	67,000	(15,000)	87,000
Operating loss	$ (948,000)	$ (1,498,000)	$ (5,033,000)

(1) Includes AOL fees of $0 and $150,000 for the three months ended September 30, 2000 and September 30, 1999, respectively, and $0 and $500,000 for the nine months ended September 30, 2000 and September 30, 1999, respectively.

4. SETTLEMENT WARRANTS

Shareholders' equity at September 30, 2000 includes the reclassification in the first quarter of 2000 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 the Company's 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. PUBLIC OFFERING OF COMMON STOCK

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 $5,163,000, were used primarily for working capital and general corporate purposes relating to the Company's launch of its new game portal, BUZZTIME and ongoing conversion of the NTN Network's hospitality locations to the Company's 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, business strategies and other matters, which are subject to risks and uncertainties, including cash needs, competition, market acceptance 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, reports on Form 8-K, and its quarterly reports on 10-Q for the periods ended March 31, 2000 and June 30, 2000, which risk factors are incorporated herein by reference.

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GENERAL

The Company is a developer and distributor of interactive game content. The Company operates its businesses through two operating divisions, the NTN Network and BUZZTIME, Inc. (BUZZTIME).

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 3,400 locations in North America ("Locations") as of October 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 and allows 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 September 2000, approximately 70% 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 its 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 its existing contracts.

BUZZTIME, a wholly-owned subsidiary formed in December 1999, functions both as a game web site, BUZZTIME.com launched in May 2000, and as a developer and distributor of game content. As a developer, BUZZTIME will continue to augment NTN's expansive interactive game libraries. As a distributor, BUZZTIME broadcasts live play-along game shows to a broad array of interactive networks and platforms, including the Internet and online services, interactive television and hand-held devices.

In May 2000, BUZZTIME entered into an agreement with NHL Interactive CyberEnterprises, or NHL ICE, to maintain and develop BUZZTIME Hockey Trivia. This trivia game will be accessed by a link on the front page of NHL.com for the 2000-2001 NHL season. The game is a multi-player trivia contest testing the players' knowledge on the National Hockey League. NHL ICE will advertise on the area displaying the trivia game and BUZZTIME will receive 45% of the net revenues derived from such advertising sales. No minimum revenue is guaranteed. Users of the trivia game will be registered on both BUZZTIME and NHL ICE.

The Company's current strategy for each of the two operating divisions is as follows: For the NTN Network, the strategy is to continue to lower operating costs while increasing the number of paying customers in the Network. To lower costs, the company's focus is on declining telecommunications and technology costs. To increase sales, the focus is on increasing targeted sales efforts in the top twenty metropolitan markets, using new forms of connectivity, including DSL, to reach locations not previously available. The strategy also calls for using newly available and inexpensive broadband connectivity and the availability of inexpensive wireless Internet appliances to deliver new content and services, for additional revenues, to both locations and their consumers. For BUZZTIME, the Company intends to focus increasingly on the distribution of BUZZTIME content to Interactive Television (ITV) markets and to wireless devices. These channels should both increase future direct revenues and increase player registrations and loyalty, regardless of the consumer's point of access. The NTN Network will continue to be a key element in promoting the BUZZTIME brand. In addition, the Company expects to generate revenues through a combination of direct consumer marketing, advertising, game sponsorships, pay-to-play and subscription models across all platforms. There can be no assurance, however, that the Company will be successful in executing this strategy.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2000 AND SEPTEMBER 30, 1999

Operations for the three months ended September 30, 2000 resulted in a net loss of $1,208,000 compared to net income of $507,000 for the three months ended September 30, 1999. The results for the third quarter 1999 include a gain of $2,254,000 related to the sale of the assets of its wholly-owned subsidiary, IWN, Inc. to eBet Limited in exchange for $1,227,000 in cash and 4,000,000 shares of eBet Online stock. Excluding this gain, operations for the three months ended September 30, 1999 resulted in a net loss of $1,747,000.

Total revenues decreased 3% to $5,697,000 for the three months ended September 30, 2000 from $5,887,000 for the three months ended September 30, 1999. This decrease was primarily due to a decrease in NTN Network revenues, America Online fees and other revenues. America Online fees decreased as the Company wound down such exclusive relationships to pursue Internet and interactive initiatives through its BUZZTIME subsidiary.

NTN Network 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. NTN Network revenues revenue decreased 2% to $5,458,000 for the three months ended September 30, 2000 from $5,559,000 for the three months ended September 30, 1999. This decrease was primarily due to a decrease of $195,000 in setup, installation, and training revenue for the three months ended September 30, 2000, as approximately 325 DITV systems were installed, including both new customers and conversions from the original network during the three months ended September 30, 2000, compared to 596 DITV systems for the three months ended September 30, 1999. It was also influenced by decreases of approximately $73,000, in hospitality subscription revenues attributable to a lower billing rate structure associated with the DITV network as compared to the original network. The lower billing rate structure was introduced in order to incent DOS-based customers to convert to the DITV system and to grow the number of hospitality sites receiving the DITV service. The total number of sites as of September 30, 2000 was 2,906, representing a net increase of approximately 100 sites compared to September 30, 1999. At September 30, 2000, approximately 83% of the sites have been converted to the DITV network compared to approximately 33% of the sites converted as of September 30, 1999. Included in hospitality revenues are revenues from the Company's Canadian licensee totaling $316,000 for the three months ended September 30, 2000. Advertising revenue for hospitality increased 69%, or $137,000, to $337,000 for the three months ended September 30, 2000 from $200,000 for the three months ended September 30, 1999 due to new advertising contracts that did not exist for the three months ended September 30, 1999.

BUZZTIME service revenues are generated primarily from advertising and production services. The direct costs associated with these revenues are license fees and service hosting fees. BUZZTIME service revenue increased to $172,000 for the three months ended September 30, 2000 from $72,000 for the three months ended September 30, 1999. Included in BUZZTIME service revenue for the three months ended September 30, 2000 was advertising revenue of $85,000 and production revenue of $87,000. The increase was due primarily to new contracts for advertising that did not exist for the three months ended September 30, 1999.

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. America Online ("AOL") fees were zero for the three months ended September 30, 2000, compared to $150,000 for the three months ended September 30, 1999. The Company's contract with AOL expired on December 1, 1999, at which time a new contract was signed, under which the Company will not generate revenue from AOL. Under the terms of the new nonexclusive contract, the Company has access to AOL's 25 million subscribers allowing promotion of the BUZZTIME web site on several AOL channels. The contract with AOL expires on November 30, 2000.

Other revenues decreased 37% to $67,000 for the three months ended September 30, 2000 from $106,000 for the three months ended September 30, 1999. Included in other revenues for the three months ended September 30, 1999 was approximately $99,000 of revenues from IWN, Inc. No revenue was recorded for IWN, Inc. for the three months ended September 30, 2000 due to the sale of its assets in August 1999 to eBet Online Limited.

Direct operating costs of services decreased 21% to $2,401,000 for the three months ended September 30, 2000 from $3,045,000 for the three months ended September 30, 1999. Depreciation and amortization decreased by a net amount of approximately $546,000 due to broadcast equipment for the DOS-based network being fully depreciation in June 2000 and capitalized software as it becomes fully depreciated by the end of 2000. This decrease is offset by an increase in depreciation related to capitalized purchases of broadcast equipment for the DITV network. Playmaker repairs, miscellaneous parts, and technical site service costs decreased approximately $145,000, in aggregate, which is attributable to new equipment at the sites for the DITV network which requires less repair and servicing than the DOS-based network equipment. Specifically, the costs incurred included $62,000 for Playmaker repairs, $117,000 for miscellaneous parts and $130,000 for technical site service. Additionally, installation expenses decreased $95,000 for the three months ended September 30, 2000 as there were 271 fewer installations compared to the three months ended September 30, 1999. Hosting fees associated with the web site of approximately $162,000 were incurred for the three months ended September 30, 2000. No similar hosting fees were recorded for the three months ended September 30, 1999. The Company expects to incur hosting fees for the three months ending December 31, 2000 of approximately $125,000. The conversion to the DITV network is expected to be complete by Spring 2001.

Selling, general and administrative expenses decreased 3% to $3,665,000 for the three months ended September 30, 2000 from $3,774,000 for the three months ended September 30, 1999. Bad debt expense decreased approximately $390,000 primarily related to improved collections. Consulting expenses decreased approximately $294,000 related to Year 2000 efforts for the three months ended September 30, 1999. Equipment lease expense decreased for the three months ended September 30, 2000 by $180,000 due to the payoff of such leases during 1999. Marketing expenses decreased approximately $133,000 for the three months ended September 30, 2000 due to additional expenses incurred for the three months ended September 30, 1999 related to the DITV Network. Salaries, payroll taxes, benefits, recruiting fees and other employee related expenses increased by approximately $503,000 during the three months ended September 30, 2000 due to an increase in the number of employees related to the development and launch of the Internet web site, interactive television and wireless applications as compared to the three months ended September 30, 1999. Additionally, stock-based compensation expense increased to $497,000 for the three months ended September 30, 2000 from $35,000 for the three months ended September 30, 1999. These noncash charges result from the issuance of warrants and options to employees and non-employees, which can vary from period-to-period.

Research and development expenses were $97,000 for the three months ended September 30, 2000, compared to $229,000 for the three months ended September 30, 1999. The current period expenses resulted from the Company's research and development efforts related to the next generation of the DITV network and development of an Internet web site. For the three-month period ended September 30, 1999, the Company's research and development efforts focused primarily on the upgrade of the NTN network as well as Internet web sites and Internet stations.

NINE MONTHS ENDED SEPTEMBER 30, 2000 AND SEPTEMBER 30, 1999

Operations for the nine months ended September 30, 2000 resulted in a net loss of $5,664,000 compared to a net loss of $799,000 for the nine months ended September 30, 1999. The operating results for the nine months ended September 30, 1999 include a gain of $2,254,000 related to the sale of the assets of its wholly-owned subsidiary, IWN, Inc. to eBet Limited in exchange for $1,227,000 in cash and 4,000,000 shares of eBet Online stock. Excluding the one-time gain in 1999, the Company's net loss for the nine months ended September 30, 1999 was $3,053,000.

Total revenues decreased 2% to $17,074,000 for the nine months ended September 30, 2000 from $17,385,000 for the nine months ended September 30, 1999. This decrease was primarily due to a decrease in America Online fees and other revenues as the Company wound down such exclusive relationships to pursue Internet and interactive initiatives through BUZZTIME.

NTN Network revenues increased 3% to $16,631,000 for the nine months ended September 30, 2000 from $16,146,000 for the nine months ended September 30, 1999. This increase was due primarily to an increase in rates charged for the setup, installation and training for the DITV network as compared to the original network. Advertising revenue for hospitality also increased to $1,070,000 for the nine months ended September 30, 2000 from $468,000 for the nine months ended September 30, 1999 due to new advertising contracts that did not exist for the nine months ended September 30, 1999. These increases were partially offset by a decrease in hospitality subscription revenues attributable to a lower billing rate structure associated with the DITV network as compared to the original network. During the nine months ended September 30, 2000, approximately 1,055 DITV systems were installed compared to 936 DITV sites installed for the nine months ended September 30, 1999. Included in hospitality revenues are revenues from the Company's Canadian licensee totaling $950,000 for the nine months ended September 30, 2000.

BUZZTIME service revenue increased 19% to $356,000 for the nine months ended September 30, 2000 from $300,000 for the nine months ended September 30, 1999. Included in BUZZTIME service revenue for the nine months ended September 30, 2000 was advertising revenue of $125,000 and production revenue of $231,000. The increase was due to new contracts for advertising that did not exist for the nine months ended September 30, 1999. This increase was partially offset by a decrease in production revenue due to the expiration of the Company's contract with GTE Mainstreet, in February 2000.

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AOL fees were zero for the nine months ended September 30, 2000, compared to $500,000 for the nine months ended September 30, 1999. The Company's contract with AOL expired on December 1, 1999, at which time a new contract was signed as described above, under which the Company will not generate revenue from AOL.

Other revenues decreased 82% to $87,000 for the nine months ended September 30, 2000 from $439,000 for the nine months ended September 30, 1999. Included in other revenue for the nine months ended September 30, 1999 was approximately $269,000 of revenue from IWN, Inc. and approximately $84,000 of equipment sales. No revenue was recorded for IWN, Inc. or equipment sales for the nine months ended September 30, 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 8% to $8,461,000 for the nine months ended September 30, 2000 from $7,836,000 for the nine months ended September 30, 1999. This increase was due primarily to increased ISP charges of $535,000 due to additional services needed to support the DITV network for the nine months ended September 30, 2000. Advertising commissions increased by $150,000 directly related to the increase in hospitality advertising revenue. License fees also increased for the three months ended September 30, 2000 due to the settlement of an accrued liability for license fees that was less than had been estimated for the three months ended September 30, 1999. As a result, the Company reduced the accrued expenses and direct operating costs by approximately $180,000 related to the settlement. Hosting fees associated with the web site of approximately $222,000 were incurred for the nine months ended September 30, 2000. No similar hosting fees were recorded for the nine months ended September 30, 1999. These increases were partially offset by a decrease of approximately $370,000, in aggregate, for playmaker repairs, miscellaneous parts and technical site service which is attributable to new equipment at the sites for the DITV network which requires less repair and servicing than the DOS-based network equipment. Depreciation and amortization decreased by a net amount of approximately $105,000 due to broadcast equipment for the DOS based network being fully depreciation in June 2000 and for capitalized software as it becomes fully depreciated by the end of 2000. This decrease is offset by an increase in depreciation related to capitalized purchases for broadcast equipment for the DITV network. The conversion to the DITV network is expected to be complete by Spring 2001.

Selling, general and administrative expenses increased 14% to $11,980,000 for the nine months ended September 30, 2000 from $10,466,000 for the nine months ended September 30, 1999. Salaries, payroll taxes, benefits, recruiting fees and other related employee expenses increased by approximately $1,988,000 for the nine months ended September 30, 2000 due to an increase in the number of employees related to the development and launch of the Internet web site, interactive television and wireless applications as compared to the nine months ended September 30, 1999. Stock-based compensation expense increased approximately $719,000 to $810,000 for the nine months ended September 30, 2000 from $91,000 for the nine months ended September 30, 1999. The charges resulted from the issuance of warrants and options to employees and non-employees, which can vary from period-to-period. These increases were partially offset by a decrease in equipment lease expense for the nine months ended September 30, 2000 of $684,000 due to the payoff of such leases during 1999. Bad debt expense decreased approximately $228,000 for the nine months ended September 30, 2000 primarily related to improved collections. Professional fees decreased to $262,000 for the nine months ended September 30, 2000 from $542,000 for the nine months ended September 30, 1999.

Depreciation and amortization expense increased 38% to $1,346,000 for the nine months ended September 30, 2000 from $974,000 for the nine months ended September 30, 1999 due to purchases of fixed assets.

Research and development expenses were $320,000 for the nine months ended September 30, 2000, compared to $524,000 for the nine months ended September 30, 1999. The current period expenses resulted from the Company's research and development efforts related to the next generation of the DITV network, a new Internet web site, wireless and interactive applications and Internet stations. For the nine-month period ended September 30, 1999, the Company's research and development efforts focused primarily on the upgrade of the NTN network and Internet web sites.

Interest expense, net, totaled $852,000 for the nine months ended September 30, 2000 compared to $699,000 for the nine months ended September 30, 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 were added in mid to late 1999.

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 September 30, 2000		Three Months Ended September 30, 1999	
Hospitality	5,458,000	97%	5,559,000	96%
BUZZTIME	172,000	3%	222,000	4%
Total	5,630,000	100%	5,781,000	100%

Hospitality revenues decreased by $101,000 in the third quarter 2000 compared to the third quarter 1999 due primarily to a decrease of $195,000 in setup, installation, and training revenue as a result of fewer systems installed in the third quarter 2000 as compared to the same period in 1999. Additionally, hospitality revenues decreased due to a lower billing rate structure associated with the digital network. These decreases were offset by an increase in advertising revenue of $137,000.

BUZZTIME revenues decreased by $50,000 in the third quarter 2000 over the third quarter 1999 due to no fees earned from AOL in the third quarter 2000 compared to $150,000 in the same period of 1999. The AOL contract expired on

December 1, 1999. The loss of AOL revenue was offset by an $85,000 increase in advertising revenue and an increase of $15,000 in other production fees.

Operating income (loss) by segment are illustrated below:

Segment	Three Months Ended September 30, 2000	Three Months Ended September 30, 1999
Hospitality	1,790,000	798,000
BUZZTIME	(1,302,000)	(417,000)
Total	488,000	381,000

The Hospitality operating income increased $992,000 in the third quarter 2000 over the third quarter 1999 as a result of lower SG&A expenses and direct expenses. Direct expenses decreased primarily because of a reduction in sales commissions as a result of fewer installations and reduced playmaker repairs. SG&A expenses declined as a result of lower bad debt expense because of improved collection efforts and depreciation expense due to the broadcast equipment associated with the original network becoming fully depreciated in June 2000.

BUZZTIME operating loss was $885,000 higher in the third quarter 2000 compared to the third quarter 1999. Lower revenues of $50,000 combined with a $835,000 increase in operating expenses as a result of an increase in personnel, increased stock-based compensation due to warrants issued to consultants and hosting fees associated with the web site.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2000, the Company had cash and cash equivalents of $1,699,000 and working capital of $35,000, 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 $489,000 for the nine months ended September 30, 2000 and $967,000 for the nine months ended September 30, 1999. The principal uses of cash from operations for the nine months ended September 30, 2000 were to fund the Company's net loss, which include BUZZTIME start-up costs, and for severance payments made by the Company in compliance with management resignation agreements executed in March 1997 with former officers totaling $392,000. Depreciation, amortization and other non-cash charges offset the uses. Net cash used in investing activities was $6,227,000 for the nine months ended September 30, 2000 and $2,889,000 for the nine months ended September 30, 1999. Included in net cash used in investing activities for the nine months ended September 30, 2000 was $7,569,000 in capital expenditures offset by deposits on broadcast equipment of $574,000, proceeds from the sale of investments available for sale of $538,000 and notes receivable of $138,000 for the nine months ended September 30, 2000. Net cash provided by financing activities was $6,393,000 for the nine months ended September 30, 2000 and $431,000 for the nine months ended September 30, 1999. Net cash provided by financing activities for the nine months ended September 30, 2000 included $5,163,000 of proceeds from issuance of stock, net of offering expenses, $1,286,000 of net proceeds from the revolving line of credit, and $689,000 of proceeds from the exercise of stock options and warrants offset by $695,000 of principal payments on capital leases.

The Company announced on November 14, 2000 that it closed a private placement of $2,000,000 with two accredited investors (the "Buyers"). The

Company sold a total of 1,218,583 shares of common stock to the Buyers. The shares were sold at a purchase price of $1.64125 per share. The Company also issued warrants to the Buyers to purchase 609,292 shares. Each warrant is exercisable for one share of the Company's common stock at an initial exercise price of $1.64125 per share of common stock. In addition, the Company agreed to issue to the Buyers, for no additional consideration, additional warrants to purchase 609,292 shares of its common stock at an initial price of $1.64125 per share of common stock in the event the Company raises less than a total of $5 million in gross proceeds from the sale of the Company's common stock to entities other than the Buyers by May 14, 2001. The exercise price of all warrants will be reset every six months beginning May 14, 2001 to the average closing bid price for the 20 days prior to each sixth month anniversary if a lower price would result. The warrants have a three-year life starting from the date of issuance.

Pursuant to the terms of the private placement, each Buyer will be issued additional shares of common stock in the event the Company issues, at any time or from time to time during the six months immediately following November 14, 2000, any common stock or convertible securities without consideration or for a consideration per share less than the original purchase price per share paid by the Buyers. In addition, the Company also granted the Buyers a limited right of first refusal exercisable at the option of each Buyer during the twelve-month period ending November 14, 2001.

Capital expenditures for the next twelve months are not expected to exceed $4.6 million. The majority of these expenditures will be used for further expansion of the Company's digital network and upgrades to its corporate computer network. The expenditures are expected to be funded through cash from operations and from the November 2000 private placement.

The Company currently has a revolving line of credit agreement which provides for borrowings not to exceed the lesser of $4,000,000 or three times trailing monthly collections or three times annualized trailing adjusted EBITDA. As of November 14, 2000, the maximum of $4,000,000 was available to the Company. Additionally, the Company has approximately $14,000,000 of common stock remaining under its existing shelf registration for possible future sale to meet its liquidity needs.

The NTN Network currently generates cash flow sufficient to sustain its operations and to continue funding the operation of the Company's BUZZTIME subsidiary, assuming that the development and marketing of BUZZTIME are curtailed as planned. However, in order to fund any BUZZTIME growth initiatives, based on its projected cash requirements, the Company will need additional financing in the form of equity or debt or a combination of both. If additional financing for BUZZTIME is not obtained and the Company is not successful in reducing cash expenditures at BUZZTIME, the Company may not be able to sustain the operations of Buzztime. The Company is also seeking an additional $2 million in financing to support growth of the NTN Network during the next twelve months to 4,000 sites in the U.S. and Canada. The Company intends to fund such growth initiatives only if and when commensurate revenue or strategic investment is made.

The Company plans to offer direct investment in BUZZTIME of up to approximately $10 million over the next twelve months to selected investors. The Company would retain a controlling interest in BUZZTIME. Such an investment would be sufficient to support BUZZTIME's continued growth and expansion through December 31, 2001. Until such a transaction is entered into, NTN will continue to finance BUZZTIME's growth initiatives from its cash on hand, funds available under its line of credit and anticipated cash flows.

The Company's 7% Senior Subordinated Notes mature on February 1, 2001 (the "Notes"). Upon maturity of the Notes, the Company will be required to pay to the two noteholders of an aggregate principal amount of $4,000,000 less any amount of principal converted to common stock by the holders prior to February 1, 2001. If the Notes become payable in cash, the Company will likely need to refinance the terms of the Notes in order to meet its obligations. There can be no assurance that the Company will be successful in refinancing the Notes or that the Notes would be refinanced on terms acceptable to the Company.

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 became 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 September 30, 2000, NTN owned common stock of an Australian company that is subject to market risk. At September 30, 2000, the carrying value of this investment was $385,000, which is net of a $432,000 unrealized loss. This investment is exposed to further market risk in the future based on the operating results of the Australian company and stock market fluctuations. Additionally, the value of the investment is further subject to changes in Australian currency exchange rates. At September 30, 2000, a hypothetical 10% decline in the value of the Australian dollar would result in a reduction of $38,000 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