NTN Communications

1999 Annual Report

NTN is a content company positioned at the forefront of interactive games for which platform?

1) interactive television
2) the Internet
3) portable devices
4) hospitality venues
5) all of the above

Company Profile

Headquartered in Carlsbad, California, NTN Communications, Inc. is a leading interactive television network and provider of content for interactive platforms. NTN is the parent corporation of two operating divisions: BUZZTIME.com™ and the NTN Network®.

BUZZTIME.com develops and distributes trivia quiz shows and sports games to a variety of interactive platforms including www.BUZZTIME.com, the NTN Network, America Online, WebTV, AT&T Interactive Television, Midway coin-operated games, www.QB1.com and www.ntn.com.

The correct answer: All of the above.

The NTN Network, NTN's hospitality business, operates its DITV interactive television network that broadcasts to millions of consumers each month at restaurants, sports bars and taverns.

Dear NTN Shareholders, Customers, Employees and Friends:

Stanley B. Kinsey
Chairman and
Chief Executive Officer

I am pleased to say that our number one strategic initiative is being fulfilled. NTN is quickly becoming a content leader in the emerging interactive media marketplace. Being a preferred programmer for interactive television (ITV), the Internet and wireless networks is the cornerstone of our objectives to substantially grow revenues, become increasingly profitable and differentiate our product from others in the interactive entertainment game market.

The long-awaited convergence of the PC and TV is rapidly emerging as companies like AT&T, Microsoft and America Online invest hundreds of millions of dollars to install ITV infrastructure into millions of homes. Following closely behind will be the growth of a narrow group of content companies that will be selected to become the premier interactive channels for their services, each with the potential to substantially surpass Internet competitors for user involvement and spending. Unlike the Internet, ITV content companies cannot simply launch a Web site; they must be selected for channel placement from among all competitors. AT&T and Microsoft's WebTV have recently chosen NTN as the primary game content offering on each of their services. These agreements, combined with our Internet development progress, are placing NTN Communications at the center of the ITV content world and should enable the Company to reap enormous benefits ahead.

The materialization of ITV is validating long-held beliefs of previous and current NTN management that the in-home market has explosive potential for game play. Over fifteen years ago, the founders of NTN had a vision of interactive sports games and quiz shows being played in both out-of-home and in-home markets. They set the company on a course of interactive game development and distribution, creating popular "play-along" sports games and the world's largest trivia game show library. These assets, together with a unique ITV broadcast studio that allows tens of thousands of simultaneous users to play together in conjunction with a live television broadcast, would become the forerunners of interactive television. Over the past decade, NTN has built and operated its NTN Network, which remains the only out-of-home interactive network of its kind. But, until now, the in-home market was merely a future promise of the industry.

I accepted the role of Chairman and Chief Executive Officer of NTN in October 1998, knowing the in-home markets, led by the Internet, were starting to heat up. We quickly built a new management team and set a goal for NTN to become one of the world's leading interactive, multi-platform, multi-player games companies by the year 2002. At this date, we believe we have made significant progress toward this goal and have successfully positioned ourselves to take advantage of the enormous opportunities emerging in the interactive marketplace.

BUILDING FOR THE FUTURE

Entering 1999, we had a choice between driving for profitability with our traditional out-of-home network, or investing to build for the future. We chose the latter, and our bottom-line financial performance reflects this decision. Revenues declined as we phased out modest interactive initiatives, including a revenue-producing agreement with America Online that kept us exclusive to their service. Expenses increased as we built a stronger team and asset base to compete in the in-home market.

For the year ended December 31, 1999, NTN reported a net loss of $2.5 million, or $0.09 per share, compared with a net loss of $1.8 million, or $0.10 per share, in 1998. Revenue for 1999 totaled $23.7 million, compared with revenues of $24.2 million in 1998.

Despite lackluster financial performance, 1999 was an extremely productive year in terms of laying the groundwork that will enable NTN to become a premier player in the interactive market. Our balance sheet was recently strengthened by a $6 million public offering of 2 million shares of NTN common stock. We are using these funds for the development and implementation of our interactive technologies across all platforms, thus expanding our penetration into the interactive market.

A broad demographic appeal, unparalleled interactivity and a state-of-the-art technological infrastructure, we possess all the elements necessary to capture market share.

SOME OF OUR SIGNIFICANT HIGHLIGHTS IN 1999 INCLUDED:

- NTN formed a wholly-owned subsidiary, BUZZTIME.com, Inc.™, as the distributor of its rich trivia quiz show library and the company's "Predict the Play™" sports games. BUZZTIME is functioning both as a developer and a distributor.

- BUZZTIME signed a one-year, non-exclusive content agreement with America Online that made BUZZTIME trivia games available to AOL's more than 24 million members. The agreement also enables BUZZTIME to make its interactive game content available on other Internet and in-home platforms.

- NTN announced plans to launch BUZZTIME.com as a new game Web site. The Web site was launched in spring of 2000. BUZZTIME.com content features proven game formats, with a focus on fun content, community, competition and player rewards. The site will be commercially launched this fall and will feature more than 30 popular, branded interactive trivia games and will host the company's unique "Predict the Play" sports games that add a live interactive layer to television broadcasts.

- BUZZTIME partnered with AT&T's Interactive Offerings Group to develop advertising-supported interactive content specifically for AT&T's Interactive Television service. The content will be available to AT&T Interactive TV customers beginning at the end of 2000, when DCT-5000 set-top boxes are expected to be deployed in limited areas and enabled for interactive use.

- BUZZTIME entered into an agreement with FOXSports.com, a division of News Corp., for BUZZTIME to produce and host a customized, co-branded version of QB1™-"Predict the Play" for FOXSports.com. QB1-"Predict the Play" is played around the country by Internet users and by patrons of approximately 3,000 sports bars and restaurants. QB1-"Predict the Play" allows players to compete with one another during an NFL game by calling offensive plays before the football on the field is snapped. The game is scheduled to run on FOXSports.com for the 2000-2001 football season.

THE INTERACTIVE AGE

Consumer demand for the interactive experience has grown hand-in-hand with the Internet. Compelling data bodes well for those companies that seize a leadership position in the interactive market in general and the interactive games market in particular:

- The number of ITV households will increase from 3 million at the end of 1999 to 67 million by 2003 – 25% of all users, according to Datamonitor, a respected market research firm.

- International Data Corporation forecasts that the number of Americans using the Internet regularly will grow from its current level of 51 million to more than 135 million by 2002.

- According to Jupiter Communications, the online game population will grow from approximately 38 million people in 1999 to nearly 70 million in 2003, while online game revenues will increase from just over $100 million in 1999 to $770 million by 2003.

- With broad demographic appeal, unparalleled interactivity and a state-of-the-art technological infrastructure, NTN possesses all the elements necessary to capture market share as the interactive experience becomes more pervasive in our daily lives.

As part of our mission to provide content to every possible interactive platform, we are focusing on the following core areas:

INTERACTIVE TELEVISION

Although the market for interactive television has evolved more slowly than originally anticipated, ITV is rapidly gaining momentum and will realize extraordinary growth in the near future. Recent notable developments in the area of interactive television include:

- Microsoft Corp. and AT&T Broadband expanded their commitment to work together to support the growth and expansion of the enhanced-television industry, as announced at Cable 2000, the annual National Cable Television Association convention.

- America Online has announced the launch of their AOL TV service, which will provide a new genre of interactive programming.

- Investor's Business Daily noted that the current rivalry between cable and satellite broadcasters is fueling renewed interest in interactive digital television.

- Disney (ABC and ESPN) and The Fox Network rolled-out enhanced TV services and content to meet a growing demand for interactive television content.

NTN has spent the last several years developing strategic relationships with the companies that are driving the development of interactive television. We feel that these relationships have firmly positioned NTN to profoundly benefit from the proliferation of ITV. These relationships include:

- **AT &T**—As noted previously, BUZZTIME has a partnership with AT&T's Interactive Offerings Group to develop advertising-supported interactive content specifically for AT&T's interactive television service.

- **FOXSports.com**—FOXSports.com selected QB1-"Predict the Play" to debut their enhanced television sports offering in December of 1999.

- **Microsoft Corp.**—BUZZTIME has an agreement with WebTV, Microsoft's interactive television service, to be their featured provider of trivia content.

- **AOL TV**—The nation's largest Internet service provider has selected the BUZZTIME trivia channel as an AOL TV Programming Partner for their AOL TV service.

THE INTERNET

Until recently, NTN was prohibited from operating its own Internet game site or distributing content through other Web portals as the result of an exclusive agreement with AOL. That agreement expired in December 1999, enabling us to sign a broader, non-exclusive agreement with AOL. Capitalizing on the tremendous exposure that NTN's trivia and sports games have received due to their presence on AOL, NTN is now launching BUZZTIME.com, an interactive game Web site.

Currently, more than 500,000 unique players participate in the company's trivia games on AOL each month, and more than 2 million people visit the game site. With the launch of BUZZTIME.com and our BUZZTIME interactive television channels on WebTV and AT&T, we expect to greatly expand our audience and begin generating significant revenue during the next three years through advertising sales, sponsorships and direct marketing programs.

Jupiter Communications has found that knowledge-based games are proving to have significant value on the Web because they appeal to every market segment, build community, generate audience loyalty and yield longer site visits. Data gathered by America Online and NTN confirms that the audience for interactive trivia games has an extremely attractive demographic profile. The average duration of play for the BUZZTIME.com interactive trivia games on AOL is nearly 30 minutes per visit, providing the type of "stickiness" that is highly valued by Internet advertisers.

Given that we already possess the world's largest trivia quiz show library, the industry's premier technology and infrastructure, and a large, loyal user base, we anticipate that BUZZTIME will emerge as a leading player in the promising Internet and interactive television games market.

"OUT-OF-HOME" HOSPITALITY VENUES

The NTN Network is the nation's largest "out-of-home" interactive television network. The Network broadcasts to approximately 3,300 diverse hospitality venues including restaurants, sports bars, taverns and hotels. Current Network subscribers include national chain restaurants such as TGI Friday's, Damon's, BW-3, Pizzeria Uno, Bennigan's and Applebee's, and hotels such as Marriott, Holiday Inn, Best Western and Radisson.

The Network continues to play an important role in NTN's operations as it provides a stable, consistent source of revenue that helps fund the company's other ventures. It will also become the company's own "media partner" as its 12,000 TV screens will expose the BUZZTIME brand to millions of out-of-home consumers every month. And, despite a flat site count over the past few years, management believes the network will expand.

The company has identified an untapped market of 300,000 hospitality locations nationwide, and is targeting 30,000 ideal venues for our product as we strive to expand to 5,000 locations within three years. With this expansion in mind, the Network underwent a recent conversion to Digital Interactive TV (DITV) and now offers full motion video and dynamic graphics, which we believe will drive the company's marketing efforts to many new venues. The more robust technology may also reduce the historic rate of churn that has impeded growth. To date, more than 75% of Network locations are operating the newer Digital Interactive Network, and we anticipate full deployment of the DITV Network by late 2000.

We believe the conversion to DITV will also produce significant growth in advertising revenue generated by the Network. Currently, NTN utilizes only about 15% of its ad capacity, which accounts for only 5% of the Network's revenue. DITV's ability to display full-motion video content and ads, customize advertising for a specific location or promotion, and prompt the consumer to respond electronically makes the Network extremely attractive to advertisers. Several recent additions to our roster of advertisers, including Miller Brewing Company, priceline.com, Michelob Amber Bock, and Warsteiner Importers Agency, Inc., indicate that the conversion to DITV is having the positive impact on advertising revenue that we had anticipated. We have set a goal of increasing ad sales a minimum of ten-fold over the next three years.

We are currently embarking on a roll-out of DSL conversion connectivity to our current sites. This will give us continuous broadband connectivity thereby significantly lowering overall customer service, communication and data transfer costs. More importantly, these developments will fortify NTN's position as the first broad-based public-portal to the Internet allowing for wireless Internet connectivity and new revenue streams via additional product and content entries.

POISED FOR SUCCESS

As the interactive market unfolds, NTN holds an enviable position. Our demonstrated expertise along with more than 15 years of experience in developing and distributing interactive content provides a strong competitive advantage and a barrier to entry for competitors. NTN enjoys a strong brand identity, with independent sources documenting that more than 20 million adults are aware of our games in restaurants and sports bars. Millions more enjoy BUZZTIME.com trivia games over the Internet.

And with the physical technological infrastructure already in place to support rapid growth online and digital delivery, including the industry's largest and longest running broadcast studio, continued expansion will require relatively small capital expenditures. As the interactive experience broadens to include devices beyond the PC, NTN is well prepared to deliver compelling content on every possible platform.

Our entire team is excited to position NTN as a leading interactive games enterprise in this new interactive age. Together with partners such as AT&T, Microsoft and America Online, we look forward to enhancing the lives of consumers and making interactive games available wherever they may desire—personal computers, televisions, cell phones, personal digital assistants, or any other platform that will evolve in the new digital age. I am confident that our efforts will also reward our shareholders for their patience and support.

Sincerely,

Stanley B. Kinsey
Chairman and Chief Executive Officer

Selected Financial Data

The following tables furnish information with respect to selected consolidated financial data of the Company over the past five years.

STATEMENT OF OPERATIONS DATA
(in thousands, except per share data)

Years Ended December 31,	**1999**	1998	1997	1996	1995
Total revenue	**$23,748**	$24,194	$ 25,861	$ 25,711	$20,082
Total operating expenses	**27,549**	27,641	38,668	51,566	25,508
Operating income (loss)	**(3,801)**	(3,447)	(12,807)	(25,855)	(5,426)
Other income, net	**1,303**	1,654	350	1	1,409
Net loss from continuing operations	**(2,498)**	(1,793)	(12,457)	(25,854)	(4,017)
Net income (loss) from discontinued operations	—	—	—	(1,317)	69
Gain on sale of discontinued operations	—	—	—	4,219	—
Income taxes	—	—	—	—	—
Net loss	**$ (2,498)**	$ (1,793)	$(12,457)	$(22,952)	$ (3,948)
Accretion of beneficial conversion feature of preferred stock	—	(758)	—	—	—
Net loss available to common shareholders	**$ (2,498)**	$ (2,551)	$(12,457)	$(22,952)	$ (3,948)
Basic and diluted net loss per common share:					
Continuing operations	**$(0.09)**	$(0.10)	$(0.55)	$(1.15)	$(0.19)
Discontinued operations	—	—	—	0.13	—
Net loss	**$(0.09)**	$(0.10)	$(0.55)	$(1.02)	$(0.19)
Weighted average shares outstanding	**28,470**	26,078	22,696	22,568	20,301

BALANCE SHEET DATA
(in thousands)

December 31,	**1999**	1998	1997	1996	1995
Total current assets	**$ 6,387**	$ 8,131	$ 8,390	$10,655	$26,009
Total assets	**17,287**	16,767	20,271	28,504	41,221
Total current liabilities	**5,466**	5,731	8,373	12,775	6,541
Total liabilities	**15,066**	8,442	11,545	18,282	7,770
Shareholders' equity	**2,221**	8,325	8,726	10,222	33,451

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the selected financial data and the consolidated financial statements and notes thereto included elsewhere herein.

Results of Operations

Following is a comparative discussion by fiscal year of the results of operations for the three years ended December 31, 1999. The Company believes that inflation has not had a material effect on its results of operations for the periods presented.

Year Ended December 31, 1999 as Compared to the Year Ended December 31, 1998

Operations for the year ended December 31, 1999 resulted in a net loss of $2,498,000 compared to net loss of $1,793,000 for the year ended December 31, 1998. The operating results for the year ended December 31, 1999 included a gain of $2,254,000 related to the sale of the assets of the Company's wholly-owned subsidiary, IWN, L.P., to eBet Limited for $1,227,000 in cash and 4,000,000 shares of eBet Online stock. The operating results for the year ended December 31, 1998 included a gain of $1,643,000 related to the sale of a majority interest in one of the Company's subsidiaries.

Total revenues decreased 2% to $23,748,000 for the year ended December 31, 1999 from $24,194,000 for the year ended December 31, 1998. This occurred primarily due to decreases in Internet revenues, America Online fees, equipment sales and other revenues which were partially offset by increases in hospitality revenues.

Hospitality revenues increased 6% to $22,250,000 for the year ended December 31, 1999 from $20,973,000 for the year ended December 31, 1998. This increase is primarily due to an increase in fees charged for the setup, installation and training for the DITV Network as compared to the original NTN Network. During the year ended December 31, 1999, approximately 1,500 DITV systems were installed.

Internet revenues decreased 66% to $383,000 for the year ended December 31, 1999 from $1,131,000 for the year ended December 31, 1998. The decrease was largely due to the expiration of the trials the Company performed for Bell Canada in 1998 which generated $670,000 in 1998 that did not occur in 1999.

America Online fees decreased 32% to $600,000 for the year ended December 31, 1999 from $883,000 for the year ended December 31, 1998. The Company entered into a new contract in the second quarter of 1998 with its Internet partner, America Online. The new contract, which expired December 1, 1999, provided for a flat monthly fee rather than fees based on AOL member usage of the Company's content, which resulted in a reduction of revenue from this source of $283,000 for the year ended December 31, 1999 compared to the year ended December 31, 1998.

Equipment sales decreased 83% to $84,000 for the year ended December 31, 1999 from $499,000 for the year ended December 31, 1998. This decrease was due to the conclusion of the recognition of deferred revenue associated with prior equipment sale-leasebacks and also a result of no equipment being sold in 1999.

Other revenue decreased 39% to $431,000 for the year ended December 31, 1999 from $708,000 for the year ended December 31, 1998. Other revenue for the year ended December 31, 1998 included $125,000 in sales generated by LearnStar, Inc. As a result of the sale of an 82.5% interest in LearnStar in June 1998, no such revenue was recorded for the year ended December 31, 1999. Additionally, due to the curtailment of operations related to IWN, Inc. in 1998, other revenue decreased by approximately $191,000 for IWN, Inc. for the year ended December 31, 1999 as compared to the year ended December 31, 1998.

Direct operating costs increased 27% to $5,982,000 for the year ended December 31, 1999 from $4,715,000 for the year ended December 31, 1998. This increase was due to aggregate expenses of approximately $600,000 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 in 1999. Satellite transmissions costs and ISP charges increased $884,000 due to additional services needed to support the DITV Network for the year ended December 31, 1999. These increases were partially offset by the settlement of an accrued liability for license fees that was less than had been estimated. As a result, the Company reduced the accrued expenses and direct operating costs by approximately $180,000 related to the settlement in 1999. The results for the year ended December 31, 1998 included approximately $360,000 in costs related to the realignment of the satellite dishes at hospitality locations in order to receive broadcast transmissions from the Galaxy III-R satellite when the PanAmSat Galaxy IV satellite failed to operate in May 1998.

Selling, general and administrative expenses increased 1% to $11,920,000 for the year ended December 31, 1999 from $11,767,000 for the year ended December 31, 1998. Selling, general and administrative expenses for the year ended December 31, 1999 included consulting expenses of approximately $415,000 relating to Year 2000 remediation efforts. Additionally, marketing expenses increased approximately $343,000 related to the new DITV Network which was introduced during the year ended December 31, 1999. Approximately $276,000 in selling, general and administrative expenses were incurred by LearnStar for the year ended December 31, 1998. As a result of the sale of an 82.5% interest in LearnStar in June 1998, no such expenses were recorded for the year ended December 31, 1999. Selling, general and administrative expenses incurred by IWN also decreased by approximately $235,000 in 1999 as a result of the sale of assets of IWN, L.P. in August 1999. Additionally, office lease expense decreased approximately $135,000 due to the sublet of office space beginning in September 1998.

Litigation, legal and professional fees decreased to $558,000 for the year ended December 31, 1999 from $1,658,000 for the year ended December 31, 1998 partially due to the settlement of litigation for which the Company had accrued a liability of $500,000 and the litigation was settled for approximately $340,000. As a result, the Company reduced the accrued expenses and litigation, legal and professional fee expenses by approximately $160,000 related to the settlement. Expenses for 1998 include legal expenses incurred in the ordinary course of business, as well as certain litigation expenses which did not recur in 1999.

Equipment lease expense decreased 30% to $652,000 for the year ended December 31, 1999 from $932,000 for the year ended December 31, 1998 due to the payoff of such leases during the year ended December 31, 1999.

Stock-based compensation expense decreased 17% to $292,000 for the year ended December 31, 1999 compared to $353,000 for the year ended December 31, 1998. The 1999 and 1998 charges resulted from the issuance of warrants and options to employees and non-employees and can vary from period to period.

Research and development expenses decreased 18% to $842,000 for the year ended December 31, 1999 compared to $714,000 for the year ended December 31, 1998. The current period expenses result from the Company's research and development efforts related to the second generation of the DITV Network, Internet stations, and future Internet web sites. For the year ended December 31, 1998, the Company's research and development efforts focused primarily on the upgrade of the NTN Network to DITV.

Interest expense increased 263% to $1,050,000 for the year ended December 31, 1999 from $289,000 for the year ended December 31, 1998. The increase was primarily due to interest expense recorded in 1999 related to the 7% senior subordinated convertible notes issued in 1999. The Company also incurred increased interest expense related to a new revolving line of credit, other notes payable and additional capital leases for equipment acquisitions that did not exist in 1998.

Year Ended December 31, 1998 as Compared to the Year Ended December 31, 1997

The Company incurred a net loss of $1,793,000 for the year ended December 31, 1998 as compared to a net loss of $12,457,000 for the year ended December 31, 1997. The 1998 results include an operating loss of $3,447,000 which was partially offset by a gain of $1,643,000 from the sale of an 82.5% interest in the Company's LearnStar subsidiary. The 1997 results included charges totaling $4,998,000 related to a management reorganization, a $2,543,000 charge related to shrinkage and obsolete equipment and a $905,000 gain from the sale of an interest in real estate.

Total revenues decreased 6% to $24,194,000 in 1998 from $25,861,000 in 1997 due to declines in hospitality revenues, Internet revenues, America Online fees, and other revenue.

Hospitality revenues decreased 1% to $20,973,000 in 1998 from $21,018,000 in 1997 due primarily to a reduction in average billing rates during 1998, which is offset by an increase in advertising revenue due to an increase in the number of commercial spots sold.

Internet revenues increased 63% to $1,131,000 in 1998 from $694,000 in 1997 partially due to the trials the Company performed for Bell Canada which resulted in an increase in revenue from this source of $290,000 in 1998. Also included in 1998 is revenue related to GTE Mainstreet which did not exist in 1997.

America Online fees decreased 66% to $883,000 in 1998 from $2,632,000 in 1997 largely due to non-recurring revenue of $1,000,000 in 1997 from AOL related to AOL's termination of its prior contract with the Company and the recognition of revenue for production services in 1997 that did not recur in 1998.

Equipment sales increased 5% to $499,000 in 1998 from $475,000 in 1997. Equipment sales in the past have included sales to foreign licensees, which are subject to outside influences and can occur unevenly throughout the year.

Direct operating costs decreased 28% to $4,715,000 in 1998 from $6,565,000 in 1997. The decrease relates to a reduction in site visit fees, commissions and other field expenses due to (i) the Company's decreased reliance on independent representatives in favor of employed field and marketing personnel and (ii) a revision, effective January 1, 1998, in the Company's commission and bonus structure for all field personnel.

Selling, general and administrative expenses decreased 28% to $11,767,000 in 1998 from $16,244,000 in 1997. Included in selling, general and administrative expenses for 1997 were charges for the reorganization of the Company's management totaling $3,363,000 and costs associated with the abandoned merger with GTECH Corporation of $376,000. Exclusive of these charges, selling, general and administrative expenses decreased $738,000 or 6%. This decrease is primarily due to a reduction in advertising and promotion expense, the sale of LearnStar, Inc. and a significant reduction in IWN, L.P. business activity which collectively reduced selling, general and administrative expenses.

Litigation, legal and professional fees increased to $1,658,000 in 1998 from $808,000 in 1997. In the fourth quarter of 1997, the Company reduced the accrual for a legal settlement which reduced legal expense by $1,350,000. Expenses for 1998 included legal expenses incurred in the ordinary course of business, as well as litigation expenses and accruals which included $500,000 to cover the potential liability related to insufficient licensing for MS-DOS.

Stock-based compensation decreased 89% to $353,000 in 1998 from $3,205,000 in 1997. Stock-based compensation charges result from the issuance, extension or modification of warrants or options to non-employees and can vary from period to period. Charges in 1997 included $1,450,000 that resulted from extension of the exercise period and reductions in the exercise price of warrants owned by certain former officers pursuant to the management reorganization in 1997.

Depreciation and amortization expense increased 21% to $6,412,000 in 1998 from $5,305,000 in 1997 due to additions of broadcast equipment and fixed assets.

Bad debt expense decreased 42% to $850,000 in 1998 from $1,462,000 in 1997. The Company began to experience reliability problems with its equipment in NTN Network Locations. These problems led to an increase in bad debt expense in 1996 and 1997. In 1998, the equipment problems stabilized, resulting in a lower bad debt expense.

Equipment charges decreased 91% to $240,000 in 1998 from $2,543,000 in 1997. Equipment charges consist of charges for

obsolescence and shrinkage of the Company's stock of broadcast equipment. The Company performs periodic reviews of its broadcast equipment. In connection with these reviews, the Company identified equipment shrinkage and obsolescence primarily related to terminated sites.

Research and development expenses decreased 55% to $714,000 in 1998 from $1,600,000 in 1997. The decrease was due to certain research and development endeavors which began in early 1997 that were completed by the end of 1997. These efforts included initial design and implementation of the Company web site, redesign of the America Online site and content and other production for third parties. For 1998, the Company's research and development efforts related primarily to the upgrade of the NTN network to DITV.

Other income (expense) increased to $1,654,000 in 1998 from $350,000 in 1997. Other income in 1998 included a gain of $1,643,000 related to the sale of an 82.5% interest in LearnStar in June 1998. Other income in 1997 included a gain of $905,000 related to the sale of the Company's interest in an office building. Interest expense decreased 64% to $289,000 in 1998 from $793,000 in 1997 due primarily to interest expense recorded in 1997 in conjunction with the repurchase of a limited partnership interest in IWN, L.P. in 1997.

Liquidity and Capital Resources

At December 31, 1999, the Company had cash and cash equivalents of $1,044,000 and working capital (current assets in excess of current liabilities) of $921,000 compared to cash and cash equivalents of $4,560,000 and working capital of $2,400,000 at December 31, 1998. Net cash provided by operations was $431,000 and $1,120,000 for the twelve months ended December 31, 1999 and 1998, respectively. The principal uses of cash in 1999 were to fund the Company's net loss from operations, to fund prepaid expenses and to fund severance payments totaling $925,000 in compliance with reorganization agreements with former officers. These uses were more than offset by depreciation, amortization and other noncash charges. Net cash used in investing activities was $5,472,000 for the twelve months ended December 31, 1999 and $1,220,000 for the twelve months ended December 31, 1998. Included in net cash used in investing activities for the twelve months ended December 31, 1999 were approximately $6,814,000 in capital expenditures, which were partially offset by proceeds from the sale of assets of a subsidiary of approximately $1,227,000. Net cash provided by financing activities was $1,525,000 for the year ended December 31, 1999. Net cash used in financing activities was $104,000 for the year ended December 31, 1998. Net cash provided by financing activities for the year ended December 31, 1999 included borrowings under a new revolving line of credit of approximately $11,175,000, offset by principal payments on the revolving line of credit and other debt of approximately $8,872,000, and $1,125,000 of principal payments on capital leases.

As of December 31, 1999, the Company has outstanding 7% senior subordinated convertible notes (convertible notes) of approximately $4,705,000, payable February 1, 2001 and bearing interest at 7% per annum. If the Company defaults under the convertible notes, in the discretion of the holders of the convertible notes, the entire outstanding principal amount of the convertible notes and all accrued and unpaid interest will become immediately due and payable in full. On November 20, 1999, $1,000,000 of principal plus accrued interest was converted into approximately 793,000 shares of Common Stock.

In August 1999, the Company entered into an agreement with Coast Business Credit for a revolving line of credit not to exceed $4,000,000. Interest is charged on the outstanding balance at a rate equal to the Prime Rate plus 1.5% per annum, but cannot be less than 9% per annum. The line of credit is secured by substantially all of the Company's assets. Total loan fees of $120,000 are payable in three annual installments and are being amortized over the life of the loan, which matures on August 31, 2002. The line of credit is expected to be used primarily for capital expenditures related to the launch of the DITV Network.

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 Common Stock of the Company ("Settlement Warrants"). Each Settlement Warrant has a term of three years beginning February 18, 1998. The Settlement Warrants 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 cause the Company to redeem the Settlement Warrants for a redemption 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 or the underlying 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.

The Company believes that its cash on hand, anticipated cash flows from its operations and borrowings under its line of credit will be sufficient to meet its immediate operating needs. If cash flow is less than anticipated, however, or if the Company incurs unexpected expenses, the Company may need additional funding in order to maintain its current level of operations of business activities. It also is likely the Company will need to raise additional capital in future periods through public or private financing or other arrangements to expand the BUZZTIME Internet strategy, convert its entire existing customer base to the DITV Network, to expand the DITV Network and to implement the Company's Internet station strategy. The Company has no agreement or commitment for any such additional financing and there can be no assurance whether, or on what terms, such financing will be available to the Company. If the Company is unable to obtain any needed financing, it would have to curtail certain business activities.

Year 2000 Compliance

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.

Risk Factors That May Affect Future Results

The Company's business, results of operations and financial condition would be adversely affected by a number of factors, including the following:

History of Significant Losses; Recent Results of Operations.

The Company has a history of significant losses, including net losses of $2,498,000, $1,793,000 and $12,457,000 for each of the three years ended December 31, 1999, and an accumulated deficit of $63,645,000 as of December 31, 1999. The results of operations during these periods included substantial charges related to the resignation or termination of certain former executive officers, write-downs of assets associated with discontinued business activities and shrinkage and obsolescence of equipment, accruals for litigation settlement costs and other litigation expenses, charges relating to stock-based compensation, charges related to Year 2000 compliance, as well as charges related to the rollout of the new DITV Network and the development of the Company's Internet strategies. The Company expects to incur significant additional charges in the future in connection with the deployment of the Company's Internet strategies. There is no assurance that the Company will ever operate profitably. See "Liquidity and Capital Resources" and "Selected Consolidated Financial Data" for more information regarding the Company's financial condition and need for financing.

Brand Awareness

Enhancing the BUZZTIME brand is critical to the Company's ability to expand its user base and revenues and potential future profitability. The Company believes that the importance of brand recognition will increase as the number of entertainment web sites grows and has therefore launched its "BUZZTIME Everywhere" campaign. In order to attract and retain users and advertisers, the Company intends to increase expenditures for creating and maintaining brand loyalty. There is no assurance that the Company will be successful in building or maintaining its brand. The Company's success in promoting and enhancing the BUZZTIME brand will also depend on its success in providing high quality content, features and functions that are attractive and entertaining to users of online game shows and multi-player games. If visitors to the Company's web sites or advertisers do not perceive the services to be of high quality, the value of the BUZZTIME brand could be diminished and this could adversely affect the Company's business, financial condition and results of operations.

Pending Litigation Proceedings

See "Legal Proceedings" for a discussion of pending legal proceedings. The Company could become subject to similar legal proceedings in the future.

Recent Equipment Problems

The 49 megahertz Playmaker, a hand-held, radio frequency device used to enter choices and selections by players of QB1 and other games and programming broadcast via the NTN Network is still being used in approximately 40% of NTN's hospitality locations as of December 31, 1999. Customers have experienced certain recurring problems with 49 megahertz Playmakers related to noise sensitivity and performance of the Playmaker's rechargeable batteries. Management believes these equipment problems contributed to a high rate of churn in 1999, 1998 and 1997. To address these problems, the Company introduced a 900 megahertz Playmaker in April 1999. The 900 megahertz Playmaker is manufactured by the manufacturer of the 49 megahertz Playmaker. To date, there have been no significant equipment problems with the 900 megahertz Playmakers; however, there is no assurance that such problems won't occur in the future, which could adversely affect our results of operations.

Additional Personnel

The Company plans to expand its employee base to manage its anticipated growth. Most importantly, the Company intends to hire additional members for its technical and Internet sales and marketing teams. Competition for personnel, particularly for employees with technical and Internet sales and marketing expertise is intense. The success of execution of our Internet strategy is dependent on hiring and retaining suitable personnel.

Competition

The Company's programming competes generally with broadcast television, direct satellite programming, pay-per-view and other content offered on cable television. With the entrance of motion picture, cable and TV companies, competition in the interactive entertainment and multimedia industries will likely intensify in the future. In 1999, for example, The Walt Disney Company introduced interactive programming broadcast in conjunction with live sporting and other events which may compete directly with QB1 and our other programming.

The Company competes with other content and services available to the consumer on the Internet, through America Online and other online services. Moreover, the expanded use of online networks and the Internet provide computer users an increasing number of alternatives to video games and entertainment software. NTN seeks to compete by providing its content via a variety of media platforms in addition to maintaining high quality content, features and functions that are attractive and entertaining to users of online game shows and multi-player games, thereby establishing a favorable reputation among frequent users. There can be no assurance, however, that the Company can compete effectively.

Governmental Regulation and Legal Uncertainties

The laws governing Internet use and related transactions remain largely unknown. The adoption and modification of laws and regulations relating to the Internet could increase costs and administrative burdens. It may take years to determine what existing laws such as those governing intellectual property, privacy, consumer protection and taxation apply to the Internet. Laws and regulations directly applicable to communications or commerce over the Internet are becoming more prevalent. The Company must comply with new regulations in the United States and other countries where it conducts business. Noncompliance with any newly adopted laws or regulations could expose the Company to significant liabilities.

Potential for Technological Obsolescence

The computer industry and related businesses are marked by rapid and significant technological development and change. It is possible that the Company's interactive technology and services will be rendered obsolete by ongoing technological developments.

There also is no assurance that NTN will be able to respond effectively to technological changes.

Dependence on Sole Source of Supply of Playmakers

The Company currently purchases Playmaker keyboards from a single, unaffiliated Taiwanese manufacturer. NTN is dependent on the current sole source of supply of the Playmakers.

Volatility of Stock Price; Recent Trading Prices

Historically, the trading price of the Company's Common Stock has fluctuated widely, and it may be subject to similar future fluctuations in response to quarter-to-quarter variations in operating results, announcements regarding litigation, technological innovations or new products introduced by NTN or our competitors, general industry conditions and other events or factors, which are beyond management's control. In addition, in recent years and months, broad stock market indices, in general, and the securities of "small cap" companies such as NTN, in particular, have experienced substantial price fluctuations. Such broad market fluctuations also may adversely affect the future trading price of the Common Stock. See "Market For Registrant's Common Equity and Related Stockholder Matters" for more information on historical trading prices of the Common Stock.

Effect of Outstanding Options and Warrants

At March 1, 2000, there were approximately 7,011,104 shares of Common Stock reserved for issuance upon the exercise of outstanding stock options at exercise prices ranging from $0.5625 to $6.37 per share. At March 1, 2000, there were also outstanding warrants to purchase an aggregate of approximately 3,008,238 shares of Common Stock at current exercise prices ranging from $0.6875 to $6.125 per share. Substantially all of the shares underlying these outstanding warrants are subject to currently effective registration statements covering the resale of the underlying warrant shares by the holders.

The foregoing options and warrants could adversely affect our ability to obtain future financing or engage in certain mergers or other transactions, since the holders of those options and warrants can be expected to exercise them at a time when we would be able to obtain additional capital through a new offering of securities on terms more favorable than those provided by such options and warrants. For the life of such options and warrants, the holders are given the opportunity to profit from a rise in the market price of the Common Stock without assuming the risk of ownership. To the extent the trading price of the Common Stock at the time of exercise of any such options or warrants exceeds the exercise price, such exercise will also have a dilutive effect on our stockholders, including purchases of the offered shares.

Shares Eligible for Future Sale

No predictions can be made with respect to the effect that sales of Common Stock in the market or the availability of shares of Common Stock for sale pursuant to currently effective registration statements or under Rule 144 will have on the market price of Common Stock prevailing from time to time. Nevertheless, the possibility that substantial amounts of Common Stock may be sold in the public market may adversely affect prevailing market prices for the Common Stock and could impair NTN's ability to raise capital through the sale of equity securities.

Independent Auditors' Report

The Board of Directors
NTN Communications, Inc.:

We have audited the accompanying consolidated balance sheets of NTN Communications, Inc. and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NTN Communications, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

San Diego, California
March 9, 2000

Consolidated Balance Sheets

December 31, 1999 and 1998

	1999	1998
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 1,044,000**	$ 4,560,000
Restricted cash	**239,000**	—
Accounts receivable—trade, net of allowance for doubtful accounts of $2,148,000 in 1999 and $1,720,000 in 1998	**2,541,000**	2,471,000
Investments available for sale	**937,000**	—
Deposits on broadcast equipment	**611,000**	237,000
Prepaid expenses and other current assets	**1,015,000**	863,000
Total current assets	**6,387,000**	8,131,000
Broadcast equipment and fixed assets, net	**10,470,000**	7,249,000
Software development costs, net of accumulated amortization of $6,356,000 in 1999 and $5,422,000 in 1998	**138,000**	1,072,000
Other assets	**292,000**	315,000
Total assets	**$ 17,287,000**	$ 16,767,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 1,421,000**	$ 840,000
Accrued expenses	**1,498,000**	2,328,000
Accrual for litigation costs	**334,000**	847,000
Accrual for management severance	**598,000**	866,000
Obligations under capital leases	**740,000**	205,000
Deferred revenue	**796,000**	645,000
Note payable	**79,000**	—
Total current liabilities	**5,466,000**	5,731,000
Obligations under capital leases, excluding current portion	**475,000**	380,000
Accrual for settlement warrants	**1,793,000**	1,670,000
Accrual for management severance	—	619,000
Revolving line of credit	**2,486,000**	—
7% senior subordinated convertible notes	**4,705,000**	—
Other long-term liabilities and note payable, excluding current portion	**141,000**	42,000
Total liabilities	**15,066,000**	8,442,000
Shareholders' equity:		
Series A 10% cumulative convertible preferred stock, $.005 par value, 5,000,000 shares authorized; 161,000 shares issued and outstanding at December 31, 1999 and December 31, 1998	**1,000**	1,000
Series B 7% cumulative convertible preferred stock, $.005 par value, 85,000 shares authorized; 0 and 56,000 shares issued and outstanding at December 31, 1999 and December 31, 1998, respectively	—	1,000
Common stock, $.005 par value, 50,000,000 shares authorized; 29,914,000 and 28,086,000 shares issued and outstanding at December 31, 1999 and December 31, 1998, respectively	**149,000**	140,000
Additional paid-in capital	**66,548,000**	70,733,000
Accumulated deficit	**(63,645,000)**	(61,147,000)
Accumulated other comprehensive loss	**(360,000)**	—
Treasury stock, at cost, 111,000 and 329,000 shares at December 31, 1999 and December 31, 1998, respectively	**(472,000)**	(1,403,000)
Total shareholders' equity	**2,221,000**	8,325,000
Total liabilities and shareholders' equity	**$ 17,287,000**	$ 16,767,000

See accompanying notes to consolidated financial statements

Consolidated Statements of Operations

For the Years Ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Revenues:			
Hospitality revenues	**$22,250,000**	$20,973,000	$ 21,018,000
Internet revenues	**383,000**	1,131,000	694,000
America Online fees	**600,000**	883,000	2,632,000
Equipment sales, net of cost of sales of $0, $208,000 and $231,000 in 1999, 1998 and 1997, respectively	**84,000**	499,000	475,000
Other revenues	**431,000**	708,000	1,042,000
Total revenues	**23,748,000**	24,194,000	25,861,000
Operating expenses:			
Direct operating costs	**5,982,000**	4,715,000	6,565,000
Selling, general and administrative	**11,920,000**	11,767,000	16,244,000
Litigation, legal and professional fees	**558,000**	1,658,000	808,000
Equipment lease expense	**652,000**	932,000	936,000
Stock-based compensation expense	**292,000**	353,000	3,205,000
Depreciation and amortization	**6,557,000**	6,412,000	5,305,000
Bad debt expense	**746,000**	850,000	1,462,000
Equipment charges	**—**	240,000	2,543,000
Research and development	**842,000**	714,000	1,600,000
Total operating expenses	**27,549,000**	27,641,000	38,668,000
Operating loss	**(3,801,000)**	(3,447,000)	(12,807,000)
Other income (expense):			
Interest income	**116,000**	288,000	238,000
Interest expense	**(1,050,000)**	(289,000)	(793,000)
Gain on sale of interest in subsidiary	**—**	1,643,000	—
Gain on sale of assets of subsidiary	**2,254,000**	—	—
Other	**(17,000)**	12,000	905,000
Total other income (expense)	**1,303,000**	1,654,000	350,000
Income (loss) before income taxes	**(2,498,000)**	(1,793,000)	(12,457,000)
Provision for income taxes	**—**	—	—
Net income (loss)	**(2,498,000)**	(1,793,000)	(12,457,000)
Accretion of beneficial conversion feature on preferred stock	**—**	(758,000)	—
Net income (loss) available to common shareholders	**$ (2,498,000)**	$ (2,551,000)	$(12,457,000)
Net income (loss) per common share—basic and diluted	**$(0.09)**	$(0.10)	$(0.55)
Weighted average shares outstanding—basic and diluted	**28,470,000**	26,078,000	22,696,000

See accompanying notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 1999, 1998 and 1997

	Series A and B Cumulative Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehen-sive Loss	Treasury Stock	Total
	Shares	Amount	Shares	Amount					
Balance, December 31, 1996	161,000	$ 1,000	23,177,000	$116,000	$59,583,000	$(46,139,000)	$ —	$(3,339,000)	$ 10,222,000
Issuance of stock for exercise of warrants and options	—	—	419,000	2,000	888,000	—	—	—	890,000
Issuance of Series B Preferred Stock in private offering, net of issuance costs	70,000	1,000	—	—	6,706,000	—	—	—	6,707,000
Issuance of stock in lieu of dividends	—	—	8,000	—	—	—	—	—	—
Issuance and modifications of warrants granted to non-employees	—	—	—	—	3,205,000	—	—	—	3,205,000
Issuance of stock for settlement of litigation	—	—	73,000	—	159,000	—	—	—	159,000
Net loss	—	—	—	—	—	(12,457,000)	—	—	(12,457,000)
Balance, December 31, 1997	231,000	$ 2,000	23,677,000	$118,000	$70,541,000	$(58,596,000)	$ —	$(3,339,000)	$ 8,726,000
Issuance of stock in lieu of dividends	—	—	19,000	—	—	—	—	—	—
Issuance of Treasury stock for settlement of litigation	—	—	—	—	(622,000)	—	—	755,000	133,000
Issuance of Common Stock for settlement of litigation	—	—	1,200,000	6,000	1,194,000	—	—	—	1,200,000
Conversion of Series B Preferred Stock to Common Stock	(14,000)	—	2,430,000	12,000	(12,000)	—	—	—	—
Issuance of Common Stock in exchange for cancellation of options and warrants	—	—	759,000	4,000	(4,000)	—	—	—	—
Issuance of Treasury Stock in exchange for cancellation of options and warrants	—	—	—	—	(1,181,000)	—	—	1,181,000	—
Accretion of beneficial conversion feature on Series B Preferred Stock	—	—	—	—	758,000	—	—	—	758,000
Issuance of stock for exercise of warrants and options	—	—	1,000	—	1,000	—	—	—	1,000
Options granted to non-employees	—	—	—	—	58,000	—	—	—	58,000
Net loss	—	—	—	—	—	(2,551,000)	—	—	(2,551,000)
Balance, December 31, 1998	217,000	$ 2,000	28,086,000	$140,000	$70,733,000	$(61,147,000)	$ —	$(1,403,000)	$ 8,325,000
Conversion of Series B Preferred Stock to Convertible Note Payable	**(56,000)**	**(1,000)**	—	—	**(5,448,000)**	—	—	—	**(5,449,000)**
Convertible Note Payable converted to Common Stock	—	—	**793,000**	**4,000**	**1,008,000**	—	—	—	**1,012,000**
Issuance of stock for exercise of warrants and options	—	—	**334,000**	**2,000**	**345,000**	—	—	—	**347,000**
Issuance of Treasury Stock pursuant to anti-dilution provision	—	—	—	—	**(931,000)**	—	—	**931,000**	—
Issuance of stock in lieu of interest	—	—	**435,000**	**2,000**	**295,000**	—	—	—	**297,000**
Issuance of stock in lieu of dividends	—	—	**13,000**	—	—	—	—	—	—
Issuance of stock in payment of accrued board compensation	—	—	**253,000**	**1,000**	**246,000**	—	—	—	**247,000**
Stock options granted below market	—	—	—	—	**38,000**	—	—	—	**38,000**
Warrants granted to non-employees	—	—	—	—	**262,000**	—	—	—	**262,000**
Unrealized holding loss on investments available for sale	—	—	—	—	—	—	**(360,000)**	—	**(360,000)**
Net loss	—	—	—	—	—	**(2,498,000)**	—	—	**(2,498,000)**
Balance, December 31, 1999	**161,000**	**$ 1,000**	**29,914,000**	**$149,000**	**$66,548,000**	**$(63,645,000)**	**$(360,000)**	**$ (472,000)**	**$ 2,221,000**

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the Years Ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Cash flows provided by (used in) operating activities:			
Net Income (loss)	$(2,498,000)	$(1,793,000)	$(12,457,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,557,000	6,412,000	5,305,000
Provision for doubtful accounts	746,000	850,000	1,462,000
(Gain) loss from disposition of equipment	(6,000)	240,000	2,543,000
Non-cash compensation charges	292,000	353,000	3,205,000
Accreted interest expense	459,000	211,000	410,000
Amortization of deferred revenue	(85,000)	(1,022,000)	(719,000)
Gain on sale of interest in subsidiary	—	(1,643,000)	—
Gain on sale of assets of subsidiary	(2,254,000)	—	—
Gain on sale of interest in building	—	—	(905,000)
Stock issued in settlement of litigation	—	—	159,000
Changes in assets and liabilities:			
Restricted cash	(239,000)	—	—
Accounts receivable	(816,000)	(627,000)	(1,956,000)
Deposits on broadcast equipment	(374,000)	(237,000)	—
Prepaid expenses and other assets	(423,000)	(487,000)	3,542,000
Accounts payable and accrued expenses	(209,000)	64,000	(108,000)
Deferred revenue	236,000	(382,000)	523,000
Management severance and other long-term liabilities	(955,000)	(819,000)	(2,008,000)
Net cash provided by (used in) operating activities	431,000	1,120,000	(1,004,000)
Cash flows provided by (used in) investing activities:			
Capital expenditures	(6,814,000)	(3,002,000)	(3,700,000)
Capital software expenditures	—	(10,000)	(1,020,000)
Notes receivable	70,000	(70,000)	—
Proceeds from sale of assets of subsidiary	1,227,000	—	—
Proceeds from sale of equipment	45,000	—	—
Proceeds from sale of interest in building	—	—	1,405,000
Proceeds from sale of interest in subsidiary	—	1,862,000	—
Net cash provided by (used in) investing activities	(5,472,000)	(1,220,000)	(3,315,000)
Cash flows provided by (used in) financing activities:			
Principal payments on capital leases	(1,125,000)	(104,000)	—
Borrowings from revolving line of credit	11,175,000	—	—
Proceeds from issuance of debt	—	—	4,470,000
Principal payments on debt and revolving line of credit	(8,872,000)	—	(9,563,000)
Proceeds from issuance of common and preferred stock, less issuance of costs paid in cash	—	—	7,597,000
Exercise of stock options	347,000	—	—
Net cash provided by (used in) financing activities	1,525,000	(104,000)	2,504,000
Net increase (decrease) in cash and cash equivalents	(3,516,000)	(204,000)	(1,815,000)
Cash and cash equivalents at beginning of period	4,560,000	4,764,000	6,579,000
Cash and cash equivalents at end of period	$ 1,044,000	$ 4,560,000	$ 4,764,000

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows (continued)

For the Years Ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 249,000	$ 121,000	$367,000
Income taxes	$ —	$ —	$ —
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of treasury stock pursuant to anti-dilution provision	$ 931,000	$1,181,000	$ —
Issuance of common stock in payment of interest	$ 297,000	$ —	$ —
Issuance of common stock in payment of board compensation	$ 247,000	$ —	$ —
Equipment acquired under capital leases	$1,767,000	$ 464,000	$258,000
Equipment and license acquired by issuing note payable	$ 361,000	$ —	$ —
Exchange of preferred stock for convertible notes and warrants	$5,449,000	$ —	$ —
Exchange of convertible notes to common stock	$1,012,000	$ —	$ —
Issuance of common stock in exchange for cancellation of options and warrants	$ —	$ 4,000	$ —
Unrealized holding loss on investments available for sale	$ 360,000	$ —	$ —
Sale of assets of subsidiary for cash of $1,227,000 and stock of eBet Online	$1,297,000	$ —	$ —

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

For the Years Ended December 31, 1999, 1998 and 1997

(1) Organization and Summary of Significant Accounting Policies

Description of Business

The Company operates its businesses through two operating divisions: BUZZTIME, Inc.(TM) (BUZZTIME) and The NTN Network(TM). BUZZTIME, NTN's wholly-owned subsidiary formed in December 1999, owns the exclusive rights to the largest digital trivia game show library and many unique "TV Play-along" sports games. The NTN Network operates two interactive television (ITV) networks: its original NTN Network and its new Digital Interactive Television (DITV) Network. Both networks broadcast daily a wide variety of popular interactive games, advertisements and informational programming to consumers in approximately 3,300 restaurants, sports bars and taverns throughout North America.

Basis of Accounting Presentation

The consolidated financial statements include the accounts of NTN and its wholly-owned subsidiaries, IWN, Inc. ("IWN"), IWN, L.P. and BUZZTIME, Inc. (BUZZTIME) ("the Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

On June 16, 1998, the Company sold an 82.5% interest in LearnStar, Inc. (LearnStar) to NewStar Learning Systems, L.L.C. (NewStar) for $1,862,000. The transaction resulted in a gain of $1,643,000, which is included in other income for the year ended December 31, 1998. In 1994, the Company formed IWN, Inc. ("IWN"), which serves as the general partner of IWN, L.P., a limited partnership engaged in the development of interactive technology for gaming applications. IWN has no business or operations apart from its service as the general partner of IWN, L.P. In August of 1999, the assets of IWN, L.P. were sold to eBet Limited for $1,227,000 in cash and 4,000,000 shares of eBet Online stock.

Cash and Cash Equivalents

For the purpose of financial statement presentation, the Company considers all highly liquid investment instruments with original maturities of three months or less to be cash equivalents. Cash equivalents of $860,000 and $4,144,000 at December 31, 1999 and 1998, respectively, consist of money market accounts.

Restricted Cash

Under the revolving line of credit agreement, all cash receipts are required to be deposited into a restricted cash account. The restricted cash is then transferred to pay down the line of credit.

Broadcast Equipment and Fixed Assets

Broadcast equipment and fixed assets are stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments. Depreciation of fixed assets is computed using the straight-line method over the estimated useful lives of the assets (three to five years). Depreciation of broadcast equipment is computed using the straight-line method over the estimated useful lives of the assets (two to four years). Amortization of fixed assets under capital leases is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the lease period, and is included in depreciation expense.

Revenue Recognition

The Company recognizes revenue from five sources: Hospitality revenues, Internet revenues, America Online revenues, Equipment Sales and Other Sources.

Hospitality revenue is generated primarily from broadcasting content and advertising. The portion generated from broadcasting content is recognized as the service is provided by the Company. The advertising portion is billed to the customer and recognized ratably over the contract period as the advertisements are aired or displayed.

Internet and America Online revenues are recognized as the service is provided by the Company.

Equipment Sales are recognized when equipment is shipped or transferred to the purchaser.

Other Revenue is recognized when all material services or conditions relating to the transaction have been performed or satisfied.

Software Development Costs

The Company capitalizes costs related to the development of certain software products. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," capitalization of costs begins when technological feasibility has been established and ends when the product is available for general release to customers. Amortization of costs related to interactive programs is recognized on a straight-line basis over three years.

Stock-Based Compensation

On January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period, the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of Accounting Principles Board (APB) No. 25, "Accounting for Stock Issued to Employees," and provide pro forma net income and pro forma earnings per share disclosures for employee stock options grants made in 1996 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

Under SFAS No. 123, options or warrants issued to non-employees in exchange for goods or services received are recorded at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Investments Available for Sale

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

Fair Value of Financial Instruments

The Company believes that the fair value of financial instruments approximate their carrying value. The following methods and assumptions were used to estimate the fair value of financial instruments:

The carrying values of cash and cash equivalents, restricted cash, investments held for sale, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the accrual for settlement warrants approximates the fair value because the accrual for settlement warrants was determined using the present value of expected future cash flows discounted at the interest rate currently available to the Company. The carrying value of the revolving line of credit approximates fair value because the interest rate is indexed by current market rates, and the other terms are comparable to those currently available in the market place. The carrying value of the convertible notes approximates its fair value because the interest rate is comparable to rates currently available in the market.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Research and Development and Advertising

Research and development and advertising are expensed as incurred. Research and development costs amounted to $842,000, $714,000 and $1,600,000 in 1999, 1998 and 1997, respectively. Advertising costs amounted to $265,000, $343,000 and $284,000 in 1999, 1998 and 1997, respectively.

Concentration of Credit Risk

The Company provides services to group viewing locations, generally bars and lounges, and to third-party distributors, primarily throughout the United States. In addition, the Company licenses its technology and products to licensees outside of the United States. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different industries and geographies. The Company performs ongoing credit evaluations of its customers and generally requires no collateral. The Company maintains an allowance for doubtful accounts to provide for credit losses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basic and Diluted Earnings Per Common Share

The Company computes basic and diluted earnings per share in accordance with SFAS No. 128, "Earnings per Share." Basic EPS excludes the dilutive effects of options, warrants and other convertible securities. Diluted EPS reflects the potential dilution of securities that could share in the earnings of the Company. Options, warrants, convertible preferred stock and convertible notes representing approximately 15,306,000, 5,569,000 and 17,630,000 shares were excluded from the computations of net loss per common share for the years ended December 31, 1999, 1998 and 1997, respectively, as their effect is anti-dilutive.

Reflected in the net loss available to common shareholders for the year ended December 31, 1998 is the accretion of the beneficial conversion feature on the Series B Preferred Stock in the amount of $758,000. The amount of the beneficial conversion feature was measured at the date of issue of the convertible security as the difference between the conversion price and the market value of the Common Stock into which the security was convertible. This amount was accounted for as a non-cash dividend on the convertible preferred stock with the same amount credited to additional paid-in capital, allocated over the period from issuance to first convertibility. Therefore, there is no impact to shareholders' equity. The beneficial conversion feature was fully accreted as of June 30, 1998. As described in Note 4 to the consolidated financial statements, the Company entered into an exchange agreement with the holders of the Series B Preferred Stock.

Reclassifications

Certain items in the 1998 and 1997 consolidated financial statements have been reclassified to conform to the 1999 presentation.

(2) Broadcast Equipment and Fixed Assets

Broadcast equipment and fixed assets are recorded at cost and consist of the following:

	1999	1998
Broadcast equipment	**$ 14,502,000**	$ 9,243,000
Furniture and fixtures	**445,000**	294,000
Machinery and equipment	**5,080,000**	3,958,000
Leasehold improvements	**547,000**	472,000
Equipment under capital lease:		
Broadcast equipment	**1,589,000**	—
Machinery and equipment	**902,000**	724,000
Other equipment	**9,000**	36,000
	23,074,000	14,727,000
Accumulated depreciation and amortization	**(12,604,000)**	(7,478,000)
	$ 10,470,000	$ 7,249,000

(3) Common Stock Options and Warrants

Options

The Company has two active stock option plans. The 1995 Employee Stock Option Plan (the "Option Plan") was approved by the shareholders in 1995 and was subsequently amended. Under the Option Plan, options for the purchase of the Company's Common Stock may be granted to officers, directors and employees. Options may be designated as incentive stock options or as nonqualified stock options and generally vest over four years, except, the Board of Directors, at its discretion, can authorize acceleration of vesting periods. Options under the Option Plan, which have a term of up to ten years, are exercisable at a price per share not less than the fair market value on the date of grant. The aggregate number of shares authorized for issuance under the Option Plan as of December 31, 1999 is 6,818,930. The Company held a special meeting of stockholders on January 7, 2000 at which time approval was received to increase the aggregate number of shares that may be issued under the plan by 5,000,000 shares.

In addition, the Company has issued options pursuant to a Special Stock Option Plan ("Special Plan"). Options issued under the Special Plan are made at the discretion of the Board of Directors and are designated only as nonqualified options. The options generally have a term of up to ten years, are exercisable at a price per share not less than the fair market value on the date of grant and vest over various terms. The aggregate number of shares authorized for issuance under the Special Plan as of December 31, 1999 is 704,000.

The per share weighted average fair value of stock options granted during 1999, 1998 and 1997 was $0.72, $0.72 and $2.58, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: 1999—dividend yield of 0%, risk-free interest rate of 5.28%, expected volatility of 124.97%, and expected life of 3.6 years; 1998—dividend yield of 0%, risk-free interest rate of 4.69%, expected volatility of 188%, and expected life of 5.2 years; and 1997—dividend yield of 0%, risk-free interest rate of 6.5%, expected volatility of 179%, and expected life of 7.5 years. In compliance with APB No. 25, the Company expensed $38,000 in 1999 associated with the grant of 600,000 options issued in 1999 below market value pursuant to the Option Plan. No options were granted below market value in 1998 or 1997 pursuant to the Option Plan.

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized in the consolidated financial statements for the issuance of options to employees pursuant to the Special Plan and the Option Plan. Had compensation cost related to employees for the Company's stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net loss and net loss per share applicable to Common Stock would have been increased to the pro forma amounts indicated below.

		1999	1998	1997
Net loss	As reported	**$2,498,000**	$2,551,000	$12,457,000
	Pro forma	**$3,514,000**	$4,365,000	$16,733,000
Net loss per share				
	As reported	**$0.09**	$0.10	$0.55
	Pro forma	**$0.12**	$0.17	$0.74

A summary of stock option activity during 1999, 1998 and 1997 is as follows:

	Special Plan		Option Plan	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding December 31, 1996	—	—	6,689,000	$5.09
Granted	600,000	$5.00	1,947,000	2.66
Exercised	430,000	3.30	(45,000)	2.08
Canceled	—	—	(3,503,000)	5.58
Outstanding December 31, 1997	1,030,000	3.01	5,088,000	3.47
Granted	104,000	2.81	3,290,000	0.93
Exercised	—	—	—	—
Canceled	(430,000)	3.30	(3,721,000)	3.59
Outstanding December 31, 1998	704,000	2.81	4,657,000	1.58
Granted	—	—	**3,179,000**	**0.92**
Exercised	—	—	**(325,000)**	**1.04**
Canceled	—	—	**(1,030,000)**	**0.95**
Outstanding December 31, 1999	**704,000**	**$2.81**	**6,481,000**	**$1.38**
Exercisable as of December 31, 1999	**704,000**	**$2.81**	**2,039,000**	**$2.11**

A summary of options outstanding and exercisable by exercise price range at December 31, 1999 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Special Plan:					
$2.81	704,000	4 years	$2.81	704,000	$2.81
Option Plan:					
$0.56-$1.50	4,863,000	9 years	$0.86	807,000	$0.89
$1.51-$3.00	1,293,000	6 years	$2.71	1,006,000	$2.68
$3.01-$6.50	325,000	5 years	$3.95	226,000	$3.95

In April 1998, the Board of Directors approved the issuance of 564,000 options with exercise price of $1.00 in exchange for the cancellation of various prior employee options under the Option Plan with exercise prices ranging from $2.00 to $6.50. No compensation expense was recorded as a result of the issuance.

In March 1998, the Company issued approximately 277,000 shares of Common Stock to two former officers in exchange for the surrender and cancellation of certain previously outstanding warrants and options to purchase 1,500,000 shares of Common Stock at exercise prices ranging from $2.00 to $4.75 per share. The fair market value of the shares issued was approximately $242,000, which was less than the fair value of the warrants and options received in the exchange.

In January 1998, the Company issued approximately 759,000 shares of Common Stock in exchange for the surrender and cancellation of certain previously outstanding warrants and options to purchase approximately 2,578,000 shares of Common Stock at exercise prices ranging from $2.00 to $5.75 per share. The fair market value of the shares issued was approximately $900,000, which was less than the fair value of the warrants and options received in the exchange.

In May 1997, the Board of Directors approved a modification to previously issued options under the Special and Option Plans whereby the exercise price of 1,612,000 options issued to certain members of the Board of Directors, management and employees was reduced to $2.81. The previous exercise prices ranged from $3.50 to $5.08. No compensation expense was recorded as a result of the modification.

The Company has issued various options pursuant to the Special Plan to non-employees to purchase Common Stock in 1997, the majority of which were exercisable as of December 31, 1997. In compliance with SFAS No. 123, the Company expensed $58,000 and $354,000 in 1998 and 1997, respectively, associated with the grant of 134,000 options in 1997. The fair value of each grant in 1997 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0% percent, risk-free interest rate of 6.5%, expected volatility of 179%, and an expected option life of 5 years.

Warrants

In 1999, 1998 and 1997, the Company granted 1,191,000, 1,000,000 and 1,065,000 warrants to non-employees, with exercise prices equal to the market value on the date of grant. The per share weighted average fair value of warrants granted during 1999, 1998 and 1997 was $1.03, $0.50 and $1.83, respectively. In compliance with SFAS No. 123, the Company expensed $262,000, $0 and $1,401,000 in 1999, 1998 and 1997, respectively, associated with the grant of these warrants. The fair value of each warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: 1999—dividend yield of 0% percent, risk-free interest rate of 4.93%, expected volatility of 81.2%, and an expected life of 2.9 years; 1998—dividend yield of 0% percent, risk-free interest rate of 4.23%, expected volatility of 188%, and an expected life of 2.3 years; 1997—dividend yield of 0% percent, risk-free interest rate of 6.5%, expected volatility of 179%, and an expected life of 10 years.

The following summarizes warrant activity during 1999, 1998 and 1997:

	Outstanding Warrants	Weighted Average Exercise Prices
December 31, 1996	4,581,000	$4.10
Granted	1,065,000	1.83
Exercised	(374,000)	2.07
Canceled	(1,078,000)	4.39
December 31, 1997	4,194,000	3.63
Granted	1,000,000	1.25
Exercised	—	—
Canceled	(2,291,000)	4.02
December 31, 1998	2,903,000	2.49
Granted	**1,191,000**	**1.00**
Exercised	**(9,000)**	**0.96**
Canceled	**(938,000)**	**2.63**
December 31, 1999	**3,147,000**	**$1.89**
Balance exercisable at December 31, 1999	**2,905,000**	**$1.72**

At December 31, 1999, the range of exercise prices and the weighted average remaining contractual life of outstanding warrants was $0.6875 to $7.50 and 2 years, respectively.

(4) Cumulative Convertible Preferred Stock

The Company has authorized 10,000,000 shares of preferred stock. The preferred stock may be issued in one or more series. The only series currently designated are a series of 5,000,000 shares of Series A Cumulative Convertible Preferred Stock ("Series A Preferred Stock") and a series of 85,000 shares of Series B Preferred Stock.

Series A

At December 31, 1999 and 1998, there were 161,000 shares of Series A Preferred Stock issued and outstanding. The Series A Preferred Stock provides for a cumulative annual dividend of $0.10 per share, payable in semi-annual installments in June and December. Dividends may be paid in cash or with shares of Common Stock. In 1999, 1998 and 1997, the Company issued approximately 13,000, 19,000 and 8,000 common shares, respectively, for payment of dividends. At December 31, 1999, the cumulative unpaid dividends for the Series A Preferred Stock was approximately $1,300.

The Series A Preferred Stock has no voting rights and has a $1.00 per share liquidation preference over Common Stock. The registered holder has the right at any time to convert shares of Series A Preferred Stock into that number of shares of NTN Common Stock that equals the number of shares of Series A Preferred Stock that are surrendered for conversion divided by the conversion rate. The conversion rate is subject to adjustment in certain events and is established at the time of each conversion. During 1999, 1998 and 1997, there were no conversions. There are no mandatory conversion terms or dates associated with the Series A Preferred Stock.

Series B

In October 1997, NTN sold and issued 35,000 shares of Series B Preferred Stock each to two institutional purchasers ("the Investors") for a total of $7,000,000. The sale of the Series B Preferred Stock was effected pursuant to Regulation D of the Securities and Exchange Commission under the Securities Act of 1993 as amended. The Company paid $210,000 in financial advisory services in connection with the sale of the Series B Preferred Stock. A portion of the net proceeds from the private placement was used to repay indebtedness and accrued interest to GTECH totaling $3,883,000. The balance was used for general working capital purposes.

As of October 5, 1998, 14,000 shares of the Series B Preferred Stock (plus accrued dividends) had been converted into 2,430,000 shares of Common Stock of the Company, leaving 56,000 shares of the Series B Preferred Stock outstanding. On October 5, 1998, NTN entered into an Exchange Agreement with the Investors pursuant to which they agreed to surrender for cancellation their remaining shares of Series B Preferred Stock in exchange for warrants and 7% senior subordinated convertible notes (convertible notes) as described below. Pending their surrender and cancellation, the dividend rate on the Series B Preferred Stock was increased from 4% to 7% and the conversion price of the Series B Preferred Stock was fixed at $1.275 per share.

Under the Exchange Agreement, the Company agreed to issue each of the Investors a convertible note of the Company in a principal amount equal to the stated value of their Series B Preferred Stock, plus accrued and unpaid dividends through the date of issuance of the convertible notes. The convertible notes were issued January 11, 1999.

(5) Retirement and Savings Plans

Defined Contribution Plan

During 1994, the Company established a defined contribution plan which is organized under Section 401(k) of the Internal Revenue Code, which allows employees who have completed at least six months of service or reached age 21, whichever is later, to defer up to 15% of their pay on a pretax basis. The Company, at its discretion, may contribute to the plan. For the years ended December 31, 1999, 1998 and 1997, the Company made no such contributions.

Defined Benefit Pension Plan

In connection with the Reorganization in 1997, the Company terminated a non-qualified, non-contributory pension plan that covered certain former officers. There were no accrued pension benefits payable to any participants upon termination of the plan. The plan was secured by whole-life insurance policies for certain former officers. The Company had previously borrowed funds against these assets. Upon termination, the loans were repaid and the net assets were liquidated.

Deferred Compensation Plan

In connection with the Reorganization in 1997, the Company terminated an unfunded, non-qualified deferred compensation plan that covered certain former officers. The accrued plan benefits of $580,000 included in accrued expenses as of December 31, 1996 were substantially paid to participants in 1997. Unpaid benefits at December 31, 1999 and 1998 were $0 and $58,000, respectively.

(6) Income Taxes

For each of the years ended December 31, 1999, 1998 and 1997, there was no provision for current or deferred income taxes. The components that comprise deferred tax assets and liabilities at December 31, 1999 and 1998 are as follows:

	1999	1998
Deferred tax assets:		
NOL carryforwards	**$ 16,711,000**	$ 17,295,000
Legal and litigation accruals	**3,000**	361,000
Allowance for doubtful accounts	**859,000**	719,000
Compensation and vacation accrual	**337,000**	779,000
Accrued expenses	**185,000**	1,032,000
Allowance for equipment obsolescence	**77,000**	—
Deferred revenue	**247,000**	133,000
Research and experimentation credit	**245,000**	280,000
Other reserves	**717,000**	247,000
Amortization	**96,000**	—
Depreciation	**482,000**	—
Charitable contributions	**10,000**	376,000
Other	—	12,000
Total gross deferred tax assets	**19,969,000**	21,234,000
Valuation allowance	**(19,914,000)**	(20,703,000)
Net deferred tax assets	**55,000**	531,000
Deferred tax liabilities:		
Capitalized software	**55,000**	457,000
Amortization	—	55,000
Other	—	19,000
Total gross deferred liabilities	**55,000**	531,000
Net deferred taxes	**$ —**	$ —

The reconciliation of computed expected income taxes to effective income taxes by applying the federal statutory rate is as follows:

	1999	1998	1997
Tax at federal income tax rate	**$ (849,000)**	$ (610,000)	$(4,235,000)
State taxes net of federal benefit	**(150,000)**	(105,000)	(142,000)
Settlement warrants and SFAS No. 123 charges	**99,000**	84,000	1,109,000
Nondeductible expenses of IWN	—	299,000	—
Sale of LearnStar	—	(559,000)	—
Change in valuation allowance	**(789,000)**	3,131,000	2,768,000
Adjustments of net operating loss carryforwards	**1,384,000**	(2,313,000)	563,000
Other	**305,000**	73,000	(63,000)
	$ —	$ —	$ —

The net change in the total valuation allowance for the year ended December 31, 1999 was a decrease of $789,000. The net change in the total valuation allowance for the years ended December 31, 1998 and 1997 was an increase of $3,131,000, and $2,768,000, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical operating results and projections for the taxable income for the future, management has determined that it is more likely than not that the portion of deferred tax assets not utilized through the reversal of deferred tax liabilities will not be realized. Accordingly, the Company has recorded a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized.

At December 31, 1999, the Company has available net operating loss carryforwards of approximately $47,500,000 for federal income tax purposes, which begin to expire in 2000. The net operating loss carryforwards for state purposes, which began expiring in 1998 are approximately $9,100,000.

(7) Commitments and Contingencies

Operating Leases

The Company leases office and production facilities and equipment under agreements which expire at various dates. Certain leases contain renewal provisions and generally require the Company to pay utilities, insurance, taxes and other operating expenses. Additionally, the Company entered into lease agreements for certain equipment used in broadcast operations, some of which involved sale and leaseback transactions. Any deferred gains on sale and leaseback transactions were amortized over the three year lease terms. Each lease provides an option to the Company to repurchase the equipment at the estimated fair market value at the end of the lease term. All sale and leaseback transactions were completed during 1999 at which time the equipment was purchased. Lease expense under operating leases totaled $1,007,000, $1,505,000 and $1,299,000, in 1999, 1998 and 1997, respectively, net of sublease income of $157,000 and $46,000 in 1999 and 1998, respectively.

In November 1997, the Company sold its interest in a LLC that owns the building containing the Company's corporate office. A gain of $905,000 was recognized in 1997.

Future minimum lease obligations under noncancelable operating leases, net of expected sublease payments of $154,000 in 2000 and $79,000 in 2001, at December 31, 1999 are as follows:

Year Ending	Total
2000	$378,000
2001	63,000
Total	$441,000

Capital Leases

The Company entered into capital leases for the purchase of new equipment. Future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 1999 are as follows:

Year Ending	Total
2000	$ 907,000
2001	480,000
2002	21,000
2003	17,000
Total minimum lease payments	1,425,000
Less: Amount representing interest ranging from 6% to 33.7%	(210,000)
Present value of net minimum lease payments	1,215,000
Less current portion	(740,000)
Long-term portion	$ 475,000

Property held under capital leases is as follows:

	1999	1998
Equipment	**$2,491,000**	$ 724,000
Accumulated depreciation	**(667,000)**	(159,000)
	$1,824,000	$ 565,000

(8) Debt

Revolving Line Of Credit

The Company entered into an agreement with Coast Business Credit for a revolving line of credit not to exceed $4,000,000. Interest is charged on the outstanding balance at a rate equal to the prime rate plus 1.5% per annum (effective rate of interest is 10% at December 31, 1999), but cannot be less than 9% per annum. The line of credit is secured by substantially all of the Company's assets. Total loan fees of $120,000 are payable in three annual installments and are being amortized over the life of the loan which matures on August 31, 2002. The unused line of credit at December 31, 1999 was $1,514,000.

7% Senior Subordinated Convertible Notes

In 1999, the Company reacquired the Series B Preferred Stock in exchange for convertible notes and warrants. The convertible notes, with a face value of $5,913,000, were issued January 11, 1999 and bear interest at the annual rate of 7% per annum. Interest is due and payable in quarterly installments, in arrears, and the entire principal amount will be due and payable on February 1, 2001. Interest on the convertible notes may be paid in cash or, at NTN's election, in shares of its Common Stock valued for this purpose at 90% of the average closing bid price of the Common Stock during the 10 trading days preceding the interest payment date.

At any time after a period of 20 consecutive trading days during which the daily "Market Price" (as defined in the Exchange Agreement) of the Common Stock equals or exceeds $1.75 (subject to adjustment), the Company may elect upon 45 days prior written notice to prepay all or any portion of the convertible notes at a price of 105% of the outstanding principal amount, plus accrued and unpaid interest. The convertible notes will continue to be convertible, however, at any time prior to prepayment in full. The convertible notes must be prepaid in connection with a merger or consolidation of the Company or other "Major Transaction" (as defined in the Exchange Agreement) if the consideration per share of Common Stock in the Major Transaction is at least $1.50. In such event, the prepayment price will be 105% of the outstanding principal amount of the convertible notes, plus accrued and unpaid interest.

The holders of the convertible notes may convert them at any time, in whole or in part, at their option. The number of shares of Common Stock issuable upon conversion of each convertible note will be determined by dividing the outstanding principal amount to be converted, plus any accrued and unpaid interest, by the conversion price then in effect. The conversion price will be $1.275 per share, subject to adjustment if certain events, including stock dividends or subdivisions or reclassifications of the Common Stock or any sale or issuance of Common Stock (or of rights or options to subscribe for or purchase Common Stock) for no consideration or for a consideration per share less than the "Average Market Price" (as defined in the Exchange Agreement) of the Common Stock. The actual number of shares of Common Stock issuable upon any conversion of the convertible notes will depend on the conversion price in effect on the relevant conversion date. On November 20, 1999, $1,000,000 of principal plus accrued interest was converted into approximately 793,000 shares of Common Stock. An additional $45,000 of interest expense related to the unamortized discount on the converted notes was recognized upon conversion of the principal.

The convertible notes are subordinate in right of payment to the prior payment of all "Senior Debt" (as defined in the Exchange Agreement). The Company is restricted under the terms of the convertible notes from incurring any Senior Debt in excess of $10,000,000 or any other indebtedness (except senior debt and "subordinated debt" (as defined in the Exchange Agreement)) in excess of $2,000,000 at any time.

The Company will be in default under the convertible notes if it fails to pay any principal or interest on the convertible notes when due, and in certain other events, including in the event of a material adverse change in the condition, financial or otherwise, or operations of the Company as determined by the holders of the convertible notes in their discretion. If the Company defaults under the convertible notes, in the discretion of the holders of the convertible notes, the entire outstanding principal amount of the convertible notes and all accrued and unpaid interest will become immediately due and payable in full.

On October 5, 1998, in consideration for their entering into the Exchange Agreement on October 5, 1998, NTN issued to each of the Investors a warrant to purchase 500,000 shares of Common Stock at an initial purchase price of $1.25 per share. The purchase price of shares of Common Stock under the warrants will be subject to reduction based on the future "Market Price" (as defined) of the Common Stock as follows: the purchase price will be (i) $0.75, if the daily Market Price on each day during any 10 consecutive trading days shall be equal to or greater than $1.75 but less than $2.00; (ii) $0.625, if the daily Market Price on each day during any 10 consecutive trading days shall be equal to or greater than $2.00 but less than $2.25; (iii) $0.50, if the daily Market Price on each day during any 10 consecutive trading days shall be equal to or greater than $2.25 but less than $2.50; (iv) $0.375, if the daily Market Price on each day during any 10 consecutive trading days shall be equal to or greater than $2.50 but less than $3.00; (v) $0.25, if the daily Market Price on each day during any 10 consecutive trading days shall be equal to or greater than $3.00 but less than $4.00; and (vi) $0.005, if the daily Market Price on each day during any 10 consecutive trading days shall be equal to or greater than $4.00. No adjustments to the purchase price will be made to increase the purchase price in effect at any time. The warrants are exercisable at any time on or before February 1, 2001. In the event, however, that a "Major Transaction" (as defined in the Convertible Notes) occurs, NTN may elect upon 30 days prior written notice to the warrant holders to accelerate the expiration date of the warrants so long as the consideration per share of Common Stock which would be received by the warrant holders in the Major Transaction exceeds the then-applicable purchase price per share under the warrants.

The warrants contain certain antidilution provisions that require adjustments in the purchase price and the number of shares of Common Stock purchasable in the event of a stock dividend, subdivision or combination of the outstanding shares of Common Stock or in the event of a recapitalization of the Company and certain similar events. In addition, the exercise price and number of shares purchasable under the warrants are to be adjusted in the event the Company issues additional shares of Common Stock (or rights or options to subscribe for or purchase Common Stock) for no consideration, or for a consideration per share of Common Stock less than the "Current Market Price" (as defined) of the Common Stock under any employee stock option plan or other employee plan approved by the Company's Board of Directors, provided that the exercise or purchase price is not less than 85% of the fair market value on the date of grant. The warrants allow for cashless exercises by means of the Company's withholding of shares of Common Stock otherwise issuable to the holder, which shares are to be valued for this purpose based on the market price of the Common Stock at the time.

An allocation has been made between the convertible notes and the warrants based on the relative fair values of the securities at the time of issuance. A discount of approximately $464,000 has been recorded against the convertible notes due to the allocation. As a result of this allocation, the Company will record interest expense, at an effective interest rate of 11% per year, throughout the terms of the convertible notes which began in the first quarter of 1999. Interest expense of approximately $257,000 has been accreted for the year ended December 31, 1999.

The balance of the note plus accreted interest at December 31, 1999 is $4,705,000.

A registration statement on Form S-3 covering 4,637,516 shares of Common Stock, some or all of which may be issuable upon conversion of the convertible notes, was declared effective by the Securities and Exchange Commission on January 8, 1999.

Note Payable

The Company purchased equipment and a license agreement related to the Internet stations for $400,000 in April 1999. A promissory note was issued for $360,000 and cash of $40,000 was paid in relation to this agreement. The note bears interest at 10% per annum and principal is payable in twelve equal quarterly installments of $30,000 plus interest. In December 1999, the agreement was revised and a payment of approximately $123,000 plus interest was paid in December 1999, leaving a balance of approximately $178,000 at December 31, 1999 to be paid in nine quarterly installments of $19,676 beginning on March 31, 2000.

Maturities

Maturities of notes payable at December 31, 1999 are as follows:

Year Ending	Convertible Notes	Note Payable	Total
2000	—	$ 79,000	$ 79,000
2001	$4,705,000	79,000	4,784,000
2003	—	20,000	20,000
Total Obligation	4,705,000	178,000	4,883,000
Less Current Maturities	—	(79,000)	(79,000)
Long-Term Obligation	$4,705,000	$ 99,000	$4,804,000

(9) 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® 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.

(10) Management Reorganization

On March 5, 1997, the Company announced a reorganization of its executive management personnel in which Patrick J. Downs resigned as Chief Executive Officer and Chairman of the Board and Daniel C. Downs resigned as President. In addition, three other officers resigned or were terminated in connection with the reorganization ("Reorganization"). The Company entered into separate agreements ("Agreements") with each of the former officers setting out the terms on which their existing employment contracts with the Company would be settled. In compliance with the Agreements, the Company was to continue to pay the former officers their current annual salaries and other benefits for the remaining terms of their employment agreements with the Company, which were to expire on or before December 31, 1999.

In March 1998, the Company and three of the former officers agreed to an amendment of the Agreements. The Agreements were modified to extend the payment term an additional year to December 31, 2000 and provided for reductions of amounts to be paid in 1998 and 1999 totaling $272,000 and $355,000, respectively. Medical and life insurance benefits pursuant to the Agreements were also extended to December 31, 2000.

Pursuant to the Agreements, in 1997, the Company canceled an aggregate of 2,325,000 of outstanding warrants and options to purchase Common Stock of the Company previously issued to the former officers. In addition, the Company agreed to extend the exercise period and reduce the exercise price of certain other warrants and options retained by the former officers.

Total charges related to the Reorganization are comprised of the following:

	1997
Contractual payments for Agreements, net of discount	$3,128,000
Cancellation of notes receivable and related accrued interest of $216,000 from former officers	—
Cancellation of note receivable from President	150,000
Bonus granted to President	85,000
Charge related to extension of the exercise period and reduction in the exercise price of certain warrants and options	1,450,000
Total charges	$4,813,000

Interest expense totaling $34,000, $56,000 and $185,000 was incurred in 1999, 1998 and 1997, respectively, related to the Agreements.

Upon joining the Company in October 1997 as Chief Financial Officer, Gerald Sokol, Jr. was granted a total of 700,000 options to purchase Common Stock at prices ranging from $5.00 to $5.08 per share. The options were exercisable as follows: 100,000 upon grant, 200,000 in three equal annual installments and 400,000 exercisable only if the closing price of the Common Stock was at least $11 per share for ten consecutive days prior to August 15, 1998. All of the options were subject to acceleration in the event of a "Change in Control Event" as defined. Such a Change of Control Event occurred in March 1997 as a consequence of the Reorganization and all the options became vested and exercisable in full at that time. Also as a result of the Reorganization in 1997, the Board of Directors granted Gerald Sokol, Jr. an additional 600,000 options to purchase the Common Stock of the Company. Mr. Sokol is no longer with the Company.

(11) Segment Information

The Company's operations are to develop and distribute 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 hospitality and Buzztime divisions. Hospitality revenue is generated primarily from broadcasting content to customer locations through two interactive television networks. Hospitality revenues comprise 94% of the Company's total revenue. Revenue from Buzztime is primarily generated from the distribution of its digital trivia game show content and "Play-Along" sports games as well as revenue related to production services for third parties. The following tables set forth certain information regarding the Company's segments and other operations:

	1999	1998	1997
Revenues:			
Hospitality	**$22,250,000**	$20,973,000	$ 21,018,000
BUZZTIME	**1,028,000**	2,014,000	3,326,000
IWN	**302,000**	493,000	275,000
Other	**—**	282,000	455,000
Corporate	**168,000**	432,000	787,000
Total Revenues	**$23,748,000**	$24,194,000	$ 25,861,000
Operating Income (Loss):			
Hospitality	**$ 6,798,000**	$ 5,755,000	$ 1,129,000
BUZZTIME	**(4,599,000)**	(1,371,000)	(247,000)
IWN	**(50,000)**	(895,000)	(1,429,000)
Other	**—**	(16,000)	(780,000)
Corporate	**(5,950,000)**	(6,920,000)	(11,480,000)
Total Operating Loss	**$ (3,801,000)**	$ (3,447,000)	$(12,807,000)
Total Assets:			
Hospitality	**$12,547,000**	$11,816,000	$ 10,510,000
BUZZTIME	**230,000**	1,072,000	3,087,000
IWN	**118,000**	367,000	1,126,000
Other	**—**	—	556,000
Corporate	**4,392,000**	3,512,000	4,992,000
Total Assets	**$17,287,000**	$16,767,000	$ 20,271,000
Capital Expenditures and Software Development Costs:			
Hospitality	**$ 5,174,000**	$ 2,383,000	$ 4,050,000
BUZZTIME	**—**	10,000	—
Corporate	**1,640,000**	619,000	670,000
Total Capital Expenditures and Software Development Costs	**$ 6,814,000**	$ 3,012,000	$ 4,720,000
Depreciation and Amortization:			
Hospitality	**$ 4,290,000**	$ 2,865,000	$ 2,715,000
BUZZTIME	**934,000**	2,015,000	1,578,000
IWN	**14,000**	698,000	157,000
Other	**—**	21,000	67,000
Corporate	**1,319,000**	813,000	788,000
Total Depreciation and Amortization	**$ 6,557,000**	$ 6,412,000	$ 5,305,000

Market for Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock and Redeemable Common Stock Purchase Warrants are listed on the American Stock Exchange ("AMEX") under the symbols "NTN" and "NTN/WS," respectively. Trading of the Company's redeemable Common Stock purchase warrants commenced on the AMEX in February 1998. Set forth below are the high and low sales prices for the Common Stock and warrants as reported by the AMEX for the two most recent fiscal years:

	Common Stock		Warrants	
	Low	High	Low	High
2000				
First Quarter (through 3/1/00)	$2.3130	$4.5000	$2.7500	$3.3750
1999				
First Quarter	$0.5625	$2.0000	$1.3750	$2.5000
Second Quarter	$0.6250	$1.0000	$1.8750	$2.2500
Third Quarter	$1.0625	$1.3750	$2.0630	$2.6250
Fourth Quarter	$1.1875	$4.7500	$2.5000	$3.8130
1998				
First Quarter	$0.3125	$1.0625	$0.8750	$1.3125
Second Quarter	$0.6875	$2.6250	$0.5000	$1.8750
Third Quarter	$0.6250	$1.2500	$1.0625	$1.2500
Fourth Quarter	$0.3125	$0.8125	$1.0625	$1.5000

On March 1, 2000, the closing price for the Common Stock as reported on the AMEX was $4.25.

To date, the Company has not declared or paid any cash dividends with respect to its Common Stock, and the current policy of the Board of Directors is to retain earnings, if any, after payment of dividends on the outstanding preferred stock to provide for the growth of the Company. Consequently, no cash dividends are expected to be paid on the Company's Common Stock in the foreseeable future. Pursuant to the terms of the Company's line of credit, the Company may not pay or declare dividends without the prior written consent of the Lender.

As of March 1, 2000, there were approximately 1,952 holders of Common Stock.

Corporate Information

Board of Directors

Stanley B. Kinsey
Chairman of the Board
Director

Gary Arlen
Director

Robert M. Bennett
Director

Barry Bergsman
Director

Vincent A. Carrino
Director

Esther L. Rodriguez
Director

Corporate Officers

Stanley B. Kinsey
Chief Executive Officer

Kendra S. Berger
Chief Financial Officer
Corporate Secretary

V. Tyrone Lam
President
Buzztime.com, Inc.

Robert L. Anderson
President and General Manager
NTN Network

Independent Certified Public Accountants

KPMG Peat Marwick, LLP
750 B Street, Suite 3000
San Diego, California 92101

Transfer Agent

American Stock Transfer & Trust Agency
40 Wall Street
New York, New York 10005

Corporate Counsel

Troy & Gould
1801 Avenue of the Stars, Suite 900
Los Angeles, California 90067

Executive Offices

NTN Communications, Inc.
5966 LaPlace Court, Suite 100
Carlsbad, California 92008-8830
Tel: (760) 438-7400
Fax: (760) 438-7470
www.ntn.com

Investor Contact

Kendra S. Berger
Chief Financial Officer
Tel: (760) 438-7400
www.investor@ntn.com

Listed on The American Stock Exchange®
Symbol: NTN

Annual Meeting

The Annual Meeting of the shareholders of the Company will be held at 10:00 am on July 31, 2000 at:
La Costa Resort
Costa Del Mar Road
Carlsbad, California 92009

Owners of Common Stock as of June 1, 2000, the record date of the meeting, will be eligible to vote on matters brought before the meeting.

IN MEMORY OF

Donald C. Klosterman
January 18, 1930 – June 7, 2000

NTN Board of Directors
Co-Founder NTN Communications, Inc.
Co-Creator QB1

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