NTN COMMUNICATIONS INC
Form 10-K/A
May 02, 2005

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

FORM 10-K/A
(Amendment No. 1)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

COMMISSION FILE NUMBER 1-11460

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

DELAWARE	31-1103425
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5966 LA PLACE COURT CARLSBAD, CALIFORNIA	92008
(Address of Principal Executive Offices)	(Zip Code)

(760) 438-7400
(Registrant's telephone number, including Area Code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $.005 par value	American Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-12). Yes [X] No [ ]

The aggregate market value of the common stock held by non-affiliates of the Registrant as of June 30, 2004, computed by reference to the closing sale price of the common stock on the American Stock Exchange on June 30, 2004, was approximately $132,660,049. Shares of common stock held by each executive officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 9, 2004, Registrant had 53,326,464 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement of NTN Communications, Inc. will be subsequently filed with the Securities and Exchange Commission as to Part III Item Numbers 10, 11, 12, 13 and 14, in each case as specifically referenced herein.

10-K/A EXPLANATORY NOTE

NTN Communications, Inc. is filing this amendment to Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission on March 16, 2005 (the "Original Filing") to:

- amend Item 9A to include Management's Report on Internal Control Over Financial Reporting;

- include a Report of Independent Registered Public Accounting Firm relating to our internal control over financial reporting.

As a result of these amendments, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed as exhibits to the Original Filing, have been re-executed and re-filed as of the date of this Form 10-K/A.

Except for the amendments described above and updated consents from accounting firms, this Form 10-K/A does not modify or update other disclosures in, or exhibits to, the Original Filing.

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THIS ANNUAL REPORT ON FORM 10-K, INCLUDING THE MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. THESE FORWARD-LOOKING STATEMENTS REFLECT FUTURE EVENTS, RESULTS, PERFORMANCE, PROSPECTS AND OPPORTUNITIES, INCLUDING STATEMENTS RELATED TO OUR STRATEGIC PLANS, CAPITAL EXPENDITURES, INDUSTRY TRENDS AND FINANCIAL POSITION OF NTN COMMUNICATIONS, INC. AND ITS SUBSIDIARIES. FORWARD-LOOKING STATEMENTS ARE BASED ON INFORMATION CURRENTLY AVAILABLE TO US AND OUR CURRENT EXPECTATIONS, ESTIMATES, FORECASTS, AND PROJECTIONS ABOUT THE INDUSTRIES IN WHICH WE OPERATE AND THE BELIEFS AND ASSUMPTIONS OF MANAGEMENT. WORDS SUCH AS "EXPECTS," "ANTICIPATES," "COULD," "TARGETS," "PROJECTS," "INTENDS," "PLANS," "BELIEVES," "SEEKS," "ESTIMATES," "MAY," "WILL," "WOULD," VARIATIONS OF SUCH WORDS, AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS ARE ONLY PREDICTIONS AND ARE SUBJECT TO RISKS, UNCERTAINTIES, AND ASSUMPTIONS THAT MAY BE DIFFICULT TO PREDICT. ACTUAL RESULTS MAY DIFFER MATERIALLY AND ADVERSELY FROM THOSE EXPRESSED IN ANY FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THIS REPORT UNDER THE SECTION ENTITLED "RISK FACTORS," AND IN OTHER REPORTS WE FILE WITH THE SECURITIES AND EXCHANGE COMMISSION FROM TIME TO TIME. WE UNDERTAKE NO OBLIGATION TO REVISE OR UPDATE PUBLICLY ANY FORWARD-LOOKING STATEMENT FOR ANY REASON.

PART I

ITEM 1. BUSINESS

GENERAL

We operate principally through four business segments, the NTN Interactive Television Network (NTN iTV Network or iTV Network), NTN Wireless Communications (NTN Wireless), NTN Software Solutions (Software Solutions), which combine to form our NTN Hospitality Technologies Division (formerly the NTN Network Division), and our wholly owned subsidiary, Buzztime Entertainment, Inc. (Buzztime).

- The NTN iTV Network transmits a wide variety of popular interactive games, advertisements and informational programming delivered daily to consumers in approximately 3,660 restaurants, sports bars and taverns throughout the United States and Canada and to 11 pubs in the United Kingdom.

- NTN Wireless offers a complete line of on site wireless communication management products, including GuestCall(R) and ServerCall(R) paging systems, repair and replace programs for pagers, and SurveyCheck (trademark of Superb Serv LLC) electronic touch screen comment cards. The hospitality product suite is built around the goal of using technology to improve the customer experience and front-of-store efficiencies. NTN Wireless also offers on site messaging solutions for hospitals, church and synagogue nurseries, salons, business offices, and retail establishments. More than 2,800 restaurants currently use NTN Wireless products, including such national chains as Buffalo Wild Wings, Darden Restaurant's Olive Garden and Smokey Bones, Fazoli's, Logan's Roadhouse, O'Charley's, and more, making NTN Wireless one of the top providers of hospitality management products in North America.

- Software Solutions designs, develops, and markets innovative software for the restaurant and hospitality industry. Software Solutions' primary products include: NTN ProHost(R), a Windows based seating management system and NTN RSViP(R), a Windows based reservation management system. More than 300 different companies in more than 3,300 locations in 43 countries are currently using our Software Solutions products. Software Solutions customers include Bahama Breeze, Charlie Trotters, Domino's Pizza, Gaylord Entertainment, Harrah's, MGM MIRAGE, Rainforest Cafe, Tavern on the Green, and The Cheesecake Factory.

- Buzztime is a developer and distributor of multiplayer interactive television games and technology. Our Buzztime(R) Trivia Channel is the first continuous multiplayer, game service created exclusively for U.S. digital cable TV audiences. Buzztime features play-along trivia games for players of all interests and ability levels with real-time competition and rankings among households and across cable TV systems.

Unless otherwise indicated, references herein to "NTN," "we," "us" and "our" include NTN Communications, Inc. and its consolidated subsidiaries. Our headquarters are located at 5966 La Place Court, Carlsbad, California 92008, telephone (760) 438-7400. NTN Communications, Inc. was incorporated in Delaware in 1984.

SECURITIES AND EXCHANGE COMMISSION REPORTING

We file reports with the Securities and Exchange Commission (SEC). The public may read and copy any materials we file with the SEC at the SEC's Public

Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://www.sec.gov). Our internet site is www.ntn.com. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on our website.

INDUSTRY SEGMENTS AND GEOGRAPHIC AREAS

Financial information for each of our business segments for each of the last three fiscal years is contained in the Notes to the Consolidated Financial Statements included in Item 15 of this Form 10-K. Approximately 90% of all our revenue is attributable to customers in the United States, and substantially all of the remaining 10% is attributable to customers in Canada.

BUSINESS STRATEGY

Our current strategy is to leverage our unique interactive entertainment as a means of growing our business units. First, we intend to be a leading provider of interactive communications and entertainment offerings to the hospitality industry through the NTN Hospitality Technologies Division. Second, we plan to be a leading developer and distributor of interactive entertainment for the in-home market through interactive television and wireless devices via Buzztime.

To accomplish our objectives, we are pursuing strategies to:

o Increase the number of hospitality locations serviced by the NTN Hospitality Technologies Division through its NTN iTV Network, NTN Wireless and Software Solutions segments. We intend to accomplish this increase by expanding our product offerings to include more value-added services, adding independent dealers to our existing sales force and providing new and updated content on a regular basis, including our recently introduced multiplayer card games such as Blackjack and Texas Hold `Em poker.

o Launch the deployment of the NTN iTV Network in the United Kingdom (UK). We are seeking to do this via an initial 90-day trial at eleven pubs in the UK which commenced on March 1, 2005. Two major pub groups are involved in the trial. There are over 60,000 pubs in the UK and we understand from our research and experience that verbally-presented "pub quizzes" are often presented to patrons. We therefore believe that our networked quiz product may become very successful in this market. It will not be known for several months or longer if the trial will lead to substantial orders to install the Network at other UK sites. The Network is being termed "The Buzztime Network" for the UK market and being operated through NTN Buzztime, Ltd., our UK subsidiary.

o Develop and distribute the Buzztime Channel to cable operators with the intent to become the first to deploy an interactive television games channel to installed digital cable set-top boxes. We have launched the Buzztime Channel on Time Warner's systems in Portland, Maine, LaPlace, Louisiana and Dothan, Alabama and on Comcast Cable's systems in Baltimore, Maryland, Prince William County, Virginia and Alexandria/Arlington, Virginia. We have also launched the Buzztime Channel on Susquehanna Communications' York, Pennsylvania and Williamsport, Pennsylvania systems. We have additionally launched a one-way Buzztime game service on Echostar's Dish Network on a subscription basis. Finally, we have begun to deploy Buzztime on advanced cell phones through several carriers, including Verizon.

- Increase revenues through current and new sources. The NTN Hospitality Technologies Division receives revenues from three major areas: subscription fees from out-of-home hospitality locations along with related third-party advertising revenue and sales of pagers and restaurant management products, including sales and support of software products. We expect to continue generating revenue through these sources and, by growing our customer base, we also expect to see revenue growth in service and advertising revenue. Similarly, as Buzztime gains distribution with cable and satellite television operators, we expect to increase revenue through license fees paid by cable and satellite television operators, fees paid by interactive television home subscribers for premium services or pay-per-play transactions, and advertising revenue. We have also taken steps to establish the Buzztime name as a brand through licensing arrangements with a toy manufacturer and with a provider of airline in-flight entertainment.

- Both the NTN Hospitality Technologies Division and Buzztime may also explore market opportunities to acquire complementary businesses to increase revenues and earnings. One example of a recent acquisition is NTN Wireless, which generated over $5.3 million in revenues through sales of restaurant pagers and related products during 2004. Another example is Software Solutions, which we formed in July 2003 when we acquired the assets and certain liabilities of Breakaway International, Inc. Software Solutions generated approximately $4.0 million in revenues in 2004. Finally, on December 15, 2003, we acquired the assets of NTN Interactive Network, Inc., our Canadian licensee since 1985. This acquisition served to open the Canadian territory for the marketing and sale of our products and services and immediately provided us with an installed NTN iTV Network subscriber base which now approximates 350 sites.

We have incurred consolidated net losses in the last five years and expect to incur consolidated losses through at least the end of 2005. Recent losses have been primarily as a result of significant, planned development expenditures related to Buzztime for which no significant revenues have yet been generated and in our Software Solutions segment.

THE NTN HOSPITALITY TECHNOLOGIES DIVISION

GENERAL

The NTN Hospitality Technologies division provides consumer-oriented interactive communications and entertainment products to the out-of-home hospitality industry including restaurants, sports bars and other establishments that are looking for a competitive point-of-difference to attract and retain customers.

We have maintained a unique and preemptive position in the hospitality industry for over 19 years as a platform for providing interactive trivia and play-along sports programming. We believe that strong growth opportunities exist by continuing to leverage our preeminent entertainment product and our installed base of 3,309 United States venues to include other interactive communications and entertainment services that effectively increase both breadth and depth of their business in this segment.

We have adopted the mission to become the leader in providing distributed network systems comprised of INTERACTIVE COMMUNICATION and ENTERTAINMENT services to the out-of-home market. As such, the division has evolved from one that provides a single product--interactive entertainment located primarily in the bar area--to a full-service provider of "front of the house" products and services across the establishment. These products and services include on-site wireless commercial communication services, seating management and reservation systems for the hospitality industry, additional entertainment services and devices and interactive entertainment for corporate events. Providing this expanded array of products will allow us to offer additional value to, and grow revenues in, our primary markets, as well as to expand the market to include hospitality venues such as fine dining and family dining formats that are beyond our traditional customer base of casual dining, sports bars and taverns.

The NTN Hospitality Technologies Division's operations can be divided into three operating segments:

NTN ITV NETWORK SEGMENT

Approximately 73% of our current revenues come from the operations of the NTN iTV Network, the largest segment of NTN Hospitality Technologies. The NTN iTV Network is the longest running out-of-home interactive television network in the world. We receive service fees from hospitality venues that receive the transmission of our interactive trivia quiz show, play-along sports programming and our new NTN Blast channel. We transmit through our iTV Network engaging, interactive game content to the hospitality locations where patrons use our wireless game devices to interact with content displayed on television screens. Our NTN iTV Network also earns revenues from advertising and marketing communications services to companies seeking to reach the over 6 million unique out-of-home consumers each month that visit the iTV Network's 3,309 domestic venues and 351 Canadian venues. Via an average of four dedicated television screens per location, we provide advertisers with a targeted, cost-effective way to communicate their brand message, obtain consumer feedback, and stimulate product trial.

Up through 2003, our iTV Network also received licensing royalty revenue from NTN Interactive Network (NTNIN), a division of Chell Group Corporation, our Canadian licensee, which maintained approximately 400 sites as of December 2003. On December 15, 2003, we acquired most of the operating assets, certain liabilities and the operations of NTNIN from Chell Group Corporation. We acquired NTNIN's assets for $200,000 in cash, 238,300 shares of unregistered NTN common stock valued at $3.70 per share, the contribution of $550,000 in unpaid licensing royalties, $84,000 of transaction costs and the assumption of certain liabilities. Total consideration for the acquisition was $1,823,000.

We also have granted an exclusive license to eBet Limited, an Australian company, to distribute our games in commercial establishments and other public places throughout Australia and New Zealand via eBet Limited's own licensed network. Our Australian licensee currently operates in approximately 20 hospitality locations.

NTN WIRELESS SEGMENT

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

SOFTWARE SOLUTIONS SEGMENT

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

PRINCIPAL PRODUCTS AND SERVICE:

NTN ITV NETWORK

THE PRODUCT

Our NTN iTV Network broadcasts a wide variety of entertaining and popular multiplayer interactive games, including play-along sports games, trivia games and card games to consumers in 3,309 United States venues and 351 Canadian venues. Patrons play an estimated 17 million games per month, using our wireless hand-held game device, called the Playmaker(R), which allows them to compete locally and nationally with real-time scoring. We have deployed approximately 57,000 Playmakers across our iTV Network in the United States. In addition, our research indicates that an average of 4.3 patrons view and participate in the game for every Playmaker in use. We believe that no other company has created such broad hospitality industry relationships or captured such a large and diverse out-of-home audience. The strong demand for our NTN iTV Network is supported by third-party research indicating players stay longer, spend more, return more frequently and refer others to an NTN iTV Network establishment (source: Actionable Marketing Research, May 2000).

We target national and regional hospitality chains as well as local independent venues that are looking for a competitive point-of-difference to attract and retain customers. Our customers include leading companies in the casual-dining restaurant segment such as TGIFriday's, Bennigan's Irish Grill, Applebee's, Damon's Grill and Buffalo Wild Wings, as well as over 2,700 independent locations in North America.

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

Our NTN iTV Network is also the only out-of-home interactive television network providing advertising and other marketing communications services to companies seeking to reach the over 6 million unique consumers each month and looking for a targeted, cost-effective way to communicate their brand message, obtain consumer feedback and stimulate product trial. Unlike current out-of-home advertising vehicles which are either static or lack multiple consumer exposure, we provide, as part of our game show formats, an end-to-end marketing communications solution comprised of full-motion video commercials, promotional messages, advergaming contextual opportunities and real-time interactive research capabilities at costs well below current media and research alternatives.

VALUE PROPOSITION

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

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

Our NTN iTV Network provides eight advertising units per hour to the venue. These units may become a revenue and profit center to our customers by allowing them to cross-promote internal programs and services, or to re-sell to local area merchants to offset network subscription costs and/or generate profit.

Our customers may employ our proprietary interactive polling service, OMNIPoll(TM), in conjunction with network programming and our wireless Playmaker units to regularly deliver custom player feedback on food, service and promotions, allowing the venue to gauge customer satisfaction levels and make adjustments if necessary.

In 2004, NTN iTV Network's domestic hospitality customers paid us an average of $544 per month per venue to use our interactive technology, and to offer our game transmissions to their patrons. NTN iTV Network venues enter into one- and two-year service agreements, with the average customer life of an NTN iTV Network site/venue of approximately three years.

TECHNOLOGY

The NTN iTV Network utilizes a proprietary delivery technology called DITV (Digital Interactive Television). DITV uses the latest Windows-based development tools and multimedia capabilities, resulting in enhanced, high-resolution graphics and full-motion video. DITV technology allows advertisers to use existing video footage in their ads on the NTN iTV Network.

For ten years, the NTN iTV Network transmitted its data through an FM2 satellite platform and was received by a PC server (base station) installed at a subscriber's hospitality venue which was configured with a special communications card equipped for satellite data reception. That arrangement was originally scheduled to end in February 2005. We entered into equipment purchase and satellite service agreements to convert the NTN iTV Network to a much higher speed, two-way VSAT (Very Small Aperture Technology) satellite technology over a two-year period ending February 2005. These agreements were with the same reseller of satellite services that provided the FM2 satellite platform to us.

We recently amended the agreements with the reseller of satellite services to push out the expiration date on the FM2 satellite platform to February 2007 and to modify the VSAT equipment purchase and satellite service agreements. The modification to the equipment purchase agreement eliminates the requirement to purchase and install a specific amount of VSAT equipment. It is possible that we may have to pay some amount of penalties in connection with the reduced amount of purchases. This flexibility may also enable us to utilize non-satellite based data transmission platforms, such as digital subscriber lines, wireless connectivity or cable modems, for customer sites where such platforms may be appropriate.

The amendment to the FM2 data transmission agreement and the revisions to the VSAT equipment purchase and satellite service agreements allow us to spread any conversions to the new VSAT platform over the remainder of the VSAT satellite services agreement, which is now scheduled to end in April 2009. The amendments also allow us the flexibility to keep existing FM2 sites on the existing platform for another two years and do not require us to have defined levels of VSAT sites by any certain date.

Conversion to the two-way satellite technology requires us to utilize significant capital resources. At December 31, 2004, approximately 41% of sites had been converted to VSAT.

END USER DEVICES

Our DITV system also uses a 900 MHz wireless Playmaker, which features a 900 MHz transceiver, a monochrome LCD display and sealed keypad. Our system does not require the "wiring" of the establishment and the Playmakers have no breakable exterior components. As a result, external interference and Playmaker failure has been significantly reduced over previous versions. Our Playmakers are a rugged combination of hardware and firmware optimized for hospitality environments. We are also in the process of developing a more advanced 2.4 GHz Playmaker that we currently intend to put into service in the second half of 2005.

CONTENT SERVICES

The NTN iTV Network licenses game content (both trivia and play-along sports) from Buzztime and third party content providers. Buzztime creates the game content that we transmit to NTN iTV Network hospitality locations. Each hospitality location is individually addressable, allowing us to send specific content to selected sites. Hospitality locations throughout the United States and Canada receive our content, in the form of programming, 15 hours each day, 365 days each year.

GAME CONTENT & PROMOTION

Our primary product is the transmission of a variety of multiplayer interactive games that entertain and challenge a player's skill and knowledge while creating significant customer loyalty. Historically, our technology limited us to one "channel" of programming that revolved around our sports and trivia games. Over 2003 and 2004, we developed our new iTV2 technology to operate a second "channel" of programming. Over that same period of time we developed a diverse line of games and other content for that second channel that we call our NTN BlastTM channel.

Trivia Games

We provide premium trivia competitions during evening hours when the venues, particularly restaurants and taverns, tend to be busiest. During these programs, each venue system simultaneously displays selected trivia questions on television monitors. Participants use Playmakers to enter their answers. Answers are collected, transmitted and tabulated. We display the score of each participant on the television monitors in our customer venues, along with national, regional and local rankings, as applicable. Players can compete for prizes and merchandise in their local venues, as well as on a regional and national scale. In addition to game interaction, other consumer features available on the Playmaker include real-time sports scores transmitted directly to the units and player chat. For a list of our trivia games, please see the Principal Products/Services section of the business description of our Buzztime segment in this report.

Sports Games

A core component of our content is QB1, a live, play-along football game in which players predict the outcome of each play broadcast within professional and collegiate football games. We have held a license with the NFL for 19 years in conjunction with QB1.

Currently, our other sports games include Brackets and Race Day. In Brackets, our players try to guess which teams will advance in the annual postseason men's college basketball tournament after the collegiate basketball selection committee sets the field of 64 teams. Race Day, an auto racing game, includes two elements; one predictive before the race and one trivia during the race. Points from both elements will be added together for a final score.

NTN BLAST

Designed with today's young adults in mind, NTN Blast brings interactivity to action sports and movies based on content licensed from Zobmondo!, Rip Curl and Atom Films. NTN Blast also includes multiplayer card games including Blackjack and Texas Hold `Em poker. NTN Blast was developed to secure subscription contracts with new hospitality sites that might not be attracted to our core trivia and sports products, as well as retaining existing hospitality sites with the expanded content offering by driving a broader group of consumers into our subscribing sites, based on varied tastes in interactive entertainment.

Playmaker Games:

We also offer a suite of Playmaker only games. This suite of games is independent of the NTN iTV Network and they are played directly on our wireless Playmakers rather than on one of the television screens in the hospitality venue. Players access the games by logging onto a Playmaker and following the instructions on the Playmaker screen. Currently, we have the following Playmaker only games:

Acey Duecey	Two cards are dealt face up. Players bet that the third card will fall between the previous two
Crystal Ball	Ask the Crystal Ball a question and receive your answer
Playmaker Poker	Compete against the house in a game of jacks-or-better poker
Shark Attack	Just like hangman, but with an oceanic twist

COMPETITION

Currently, we have no direct competitors to the NTN iTV Network that furnish live, multi-player interactive entertainment in a similar scope and nature. While we have no direct competitors, we do compete for total entertainment dollars in the marketplace. Other forms of entertainment provided in public venues include music-based systems, live entertainment, cable and pay-per-view programming, coin-operated single-player games/amusements and traffic-building promotions like happy hour specials and buffets. However, none of the alternatives provide the combination of live sports and trivia entertainment broadcast 15 hours per day, 365 days per year, and most require some involvement with the venue staff to be successful, which conflicts with the primary responsibility of the staff.

NTN WIRELESS

THE PRODUCT

To expand our presence in the hospitality industry, during 2002 we completed the acquisitions of the assets of each of ZOOM Communications and Hysen Technologies, manufacturers and sellers of on-site wireless paging products. On-site paging systems consist of guest paging systems designed to improve the wait time for hospitality guests and server paging systems designed to alert servers when prepared food is ready to be served. Our guest paging system, GUESTCALL(R), is comprised of a tabletop transmitter and between 30-70 individual pagers that are distributed to guests upon arrival. The server paging system, SERVERCALL(R), is made up of a transmitter located in the kitchen area, and between 12-36 individual pagers for the wait staff. Both systems may vibrate, flash or both to indicate either the table or food are ready. We also sell our paging products into non-hospitality vertical markets such as retail stores, hospitals and churches.

In 2004, we introduced two new NTN Wireless products, PlayCall(TM) and SmartCallTM. PlayCall offers all the functionality and quality of our standard GUESTCALL coaster pager, combined with five fun, easy-to-play games that guests of all ages will enjoy. SmartCall pagers provide dynamically updated wait times based on ProHost's (see our Software Solutions segment) ongoing analysis of seating trends and table turns. Instead of standing around wondering whether their name has been called, guests are free to relax at the bar, take a stroll outside, do a little window shopping --anything in up to a two-mile range. Both PlayCall game pagers and SmartCall pagers work with our GUESTCALL(R) paging system.

VALUE PROPOSITION

On-site paging systems are designed to address a key industry initiative surrounding "Speed of Service", by improving table turnover and throughput for a venue's operations. The sooner a guest is seated, and the quicker prepared food is served, the faster a table can be effectively "turned" without negatively impacting the customer experience. If a typical restaurant can add just three parties of four during each waiting shift (defined as Thursday, Friday and

Saturday nights), with a $17.00 average per person check, the annual incremental gross revenue to the venue over a three-year period would be $121,000.

TECHNOLOGY

On-site paging systems consist of a small tabletop transmitter or PC-based software and transmitter communicating with a group of pager units in either vibration flashing LED, or alpha-numeric combinations. These systems are defined as "closed systems," meaning they work within a limited area for a specific purpose. The transmitter and pagers are set to the same frequency, which typically carries a range of between one-quarter and one-half mile.

COMPETITION

We are not aware of any industry statistics for the hospitality paging market. Within the industry, it is estimated that JTech, based in Boca Raton, Florida, holds a majority position of the hospitality paging market, JTech markets guest paging and server paging systems, and has recently expanded their product mix to include other operations-based products that integrate with a venue's POS system for check management/paging. JTech was recently acquired by MICROS Systems, Inc., a leading player in the hospitality point of sale industry. Long Range Systems of Dallas, Texas, also markets products similar to ours and those of JTech, including guest and server paging products and electronic guest survey card systems.

NTN SOFTWARE SOLUTIONS

THE PRODUCTS

Our Software Solutions' group provides a turnkey solution that augments our Wireless products to deliver the "Speed of Service" industry initiative by facilitating a database driven reservation management solution as well as a dynamic table management/waitlist management solution. Both solutions currently target the specific operational and reporting requirements of the food service industry effectively minimizing the costs and level of expertise required to manage the guest experience while providing greater intelligence about the customer base. Our primary Software Solutions products, NTN PROHOST AND NTN RSVIP, combine with our NTN Wireless products to form a business intelligence solution in the hospitality market. These products are developed using the following Microsoft technologies: Visual Basic 6.0, Visual Basic .NET, Visual C++ 6.0, ASP .NET, SQL Server 2000, Visual C#.NET and Visual Studio.NET 2003. Our products are currently used by more than 300 companies in more than 3,300 locations in 43 countries. Our NTN Software Solutions customers include The Cheesecake Factory, MGM MIRAGE, Darden Restaurants and Gaylord Entertainment.

NTN PROHOST is our guest and seating management application that coordinates all activities with guests, tables, and servers and integrates to POS solutions and NTN Wireless solutions. PROHOST and wireless provide a real-time business intelligence and decision making tool to a restaurant community. The software is designed to increase the number of guests that a restaurant can seat, serve and satisfy, and thereby help restaurants achieve higher profits. PROHOST solves the complex problem of managing the guest before, during and after they sit at the table, and adds systems and processes where restaurants typically have none. NTN PROHOST also assists restaurant managers by providing flash operational data, many operational alerts, and staff performance reporting.

NTN RSVIP is a reservations management solution designed to accept advance reservations for single or multiple locations. RSVIP is a client/server application which connects multiple users in a restaurant to a central database server. With RSVIP, reservations can be centralized for restaurant groups, made by phone, through the web, and on public or private websites providing restaurants with a level of service and flexibility they currently cannot offer. NTN RSVIP provides powerful customer relationship management (CRM) features that include guest tracking and preferences, guest history and marketing tools, and sophisticated reporting.

On February 4, 2005, we entered into an Asset Purchase Agreement with Intura Solutions LP (Intura), a Texas limited partnership, pursuant to which we sold the point of sale software products developed and maintained by our Software Solutions segment. In accordance with the asset purchase transaction, Gary Peek terminated his position as vice president and general manager of our Software Solutions segment and immediately thereafter commenced his position with Intura to oversee business operations. The primary software products sold by us to Intura were Vision, Relief Manager Plus (RMP), Store Link Plus (SLP), Sell More Pizzas and other legacy products as well as a non-exclusive right to develop and market the Enterprise software. See Acquisitions and Divestitures for more information on this transaction.

COMPETITION

Software Solutions competes with and/or complements a number of entities within the hospitality point-of-sale arena that either have partnered with or plan to partner with other companies that have table management and reservation products. Our competitors include Open Table, MICROS Systems, Inc. and InfoGenesis.

PROFESSIONAL SERVICES

In addition to software development, Software Solutions provides professional services to its customers and partners including software support, hardware configuration, systems staging, deployment, and training services. In addition to co-developing the Dominos Pizza Pulse POS, we provide a wide range of Help Desk services to include all levels of support 24/7/365, in both English and Spanish. We also provide pre-deployment support services such as legacy POS extraction for software conversion, as well as proactive support for issues pending development.

Our field services group provides complete management of the deployment process and includes system installation, software setup, and training services. Software Solutions does not provide site preparation services such as network cabling, electrical, communications installation, and physical site preparation for mounting and housing of various types of equipment.

NTN Hospitality Technologies Sales & Distribution

Currently we sell all products and services through direct sales employees organized by regions throughout the United States and focusing primarily on major metropolitan markets and/or national chain accounts, as well as through independent dealers and representatives in smaller metro markets and rural areas focusing on smaller chains and/or independent restaurants. Our sales cycle varies by customer type, requiring as little as one week for independent customers and up to 18 months for national chain accounts. We seek to generate qualified leads for a follow-up field presentation through our marketing and promotion efforts. In most cases, the products can be sold over the telephone but occasionally may require a field presentation. During the field presentation, our sales representative determines the prospect's requirements and presents possible solutions through the benefits of each product or service presented, including an interactive demonstration, detailed return on investment calculations, local advertising opportunities made available through the NTN iTV Network and third party research results outlining player purchase behavior and success stories from existing NTN iTV Network subscribers. Occasionally, demonstration units are provided to validate the system, with the intention to finalize the sale upon completion of the trial.

NTN Hospitality Technologies Marketing and Promotion

We market our services to the industry primarily through advertising in national trade periodicals, national and regional trade shows, telemarketing, direct mail and direct contact through our field sales and marketing representatives. We organize and track all sales prospects through our distributed database software.

We have found the most effective trade periodicals for our marketing purposes to be Nation's Restaurant News, Nightclub & Bar and Military Hospitality. The key national and regional trade shows to us are the National Restaurant Association Show, Nightclub & Bar Expo, FS/Tech, WestEx, Northeast Foodservice, MMR and MUFSO. In addition, we participate in most of the national chain conference shows. Our field representatives also participate in a substantial number of smaller regional shows.

NTN HOSPITALITY TECHNOLOGIES EQUIPMENT

With the exception of our Playmakers, each system installed at a hospitality location is assembled from off-the-shelf components available from a variety of sources. We are responsible for the installation and maintenance of each system, which we continue to own. Our current Playmaker is a hand-held, 900 MHz radio frequency device used to enter choices and selections by players and is manufactured by Climax Technology, Ltd., a non-affiliated manufacturer in Taiwan.

The majority of our NTN Wireless products are manufactured based on our specifications under contract through a third party manufacturing company located in Seoul, Korea. The contract expires on April 5, 2007. We believe the quality provided by this manufacturer is superior to that provided by manufacturers located in mainland China, and has become a competitive advantage for us. While sufficient alternative supply chain capabilities exist, we would face business interruption if we were to lose this existing manufacturer, and there are no assurances that we could recover lost business in a timely manner.

NTN HOSPITALITY TECHNOLOGIES SEASONALITY

Our NTN iTV Network business has some seasonal elements. While we bill revenue monthly as service is provided to customers, three factors increase our revenues in the second half of the year over the first half. First, sales to new locations have traditionally been higher in the summer and early fall months compared to the rest of the year, driven primarily by the start of the professional and college football season and the availability of our play-along football game, QB1. Second, some older customers pay an incremental amount for our QB1 Predict the Play football game and many customers order additional Playmakers to meet their patrons' demands to play this game in late summer and early fall. Third, we typically gain additional advertising customers who want to participate in our football-oriented games. In the third quarter of 2003, we started bundling our QB1 Predict the Play football game with our trivia content. This has reduced and will likely continue to reduce the seasonal elements of our business over time.

The hospitality industry has historically experienced a relatively high business failure rate. That factor combined with change in ownership and non-renewal of contracts leads us to lose a certain amount of our customers each year. We refer to this collective loss of customers as "churn." Our historical churn experience has also been seasonal in that the percentage of churn has been highest following the completion of the professional football season in February, although churn occurs in all months. During our operating history, approximately 18% to 30% of the existing NTN iTV Network customers at the beginning of a year have churned by the end of that year. The churn rate was 21% for 2004 and 22% for 2003.

NTN HOSPITALITY TECHNOLOGIES SIGNIFICANT CUSTOMERS

Our customers are diverse and varied in size as well as location. We are not dependent on any one customer. We do not have any individual customer, including chain locations, who accounted for 10% or more of our consolidated revenues in 2004, 2003 or 2002.

NTN HOSPITALITY TECHNOLOGIES BACKLOG

We historically have not had a significant backlog at any time because we normally can deliver and install new systems at hospitality locations within the delivery schedule requested by customers (generally, within three to four weeks). Shipments of NTN Wireless products occur in most cases within 20 days of receipt of order.

BUZZTIME ENTERTAINMENT, INC. SUBSIDIARY

GENERAL

Buzztime, our wholly owned subsidiary, was incorporated in the state of Delaware in December 1999 with the objective of creating new revenue from distributing our content library to interactive consumer platforms, with a primary focus on interactive television. Buzztime specializes in real-time, mass-participation games and entertainment including the Buzztime Trivia Channel for cable television services. We manage one of the world's largest trivia game show libraries from our interactive broadcast studio where we also produce our live, Predict the Play interactive television sports prediction games, real-time viewer polls and advertising.

The Buzztime Trivia Channel was launched on cable TV in June 2002 to Susquehanna Communications' (SusCom) York, Pennsylvania digital cable subscribers. We believe this was the first deployment of a real-time, two-way game channel via digital cable TV in the U.S. that operates on commercially deployed digital set-top boxes. The Buzztime Trivia Channel is now available to over 250,000 Comcast, Time Warner and SusCom digital cable subscribers within cable TV systems in Pennsylvania, Virginia, Maryland, Maine and Louisiana. Buzztime also has trivia games deployed on satellite TV through Echostar's DISH Network in the United States and Bell ExpressVu in Canada as well as to major North American wireless carriers through a partnership with Airborne Entertainment. In addition, Buzztime remains the primary content provider to the NTN iTV Network and currently works with leading companies such as Media General, Scientific-Atlanta, The National Football League, Liberate Technologies, Airborne Entertainment, Cadaco, DTI Software and others to bring consumers real-time interactive entertainment.

Buzztime's revenue is derived from license fees to distributors and end-users, royalties from third-party manufacturers and development fees. It is also our plan to sell advertising when we achieve a critical mass of subscribers--particularly via cable TV distribution.

PRINCIPAL PRODUCTS/SERVICES AND DISTRIBUTION

Buzztime develops, produces and distributes single and multiplayer games for both one-way and two-way consumer platforms with a primary focus on interactive television. The games are designed for general audiences and include trivia quiz shows, sports prediction competitions that are played along with live sporting events as well as card, arcade, puzzle and board games. The Buzztime games are distributed through several platforms including the NTN iTV Network, cable television, satellite television, mobile phones and airlines.

MARKETING

Buzztime's sales and marketing efforts have been focused on gaining distribution to cable operators in North America. For the cable systems that are deployed, we operate regular competitions and promotions to drive consumer awareness and usage of our games. As distribution of the Buzztime Channel increases, we plan to sell subscription services to the players and advertising and to marketing companies. Our business model is supported by strong market demand for compelling content on emerging interactive television platforms and the proven success of our content on existing platforms such as the NTN iTV Network.

Key drivers to revenue growth include the integration of interactive television enabling technology into the cable systems, adoption of interactive television services in the home, penetration of Buzztime games into the cable operators, the ability to charge the cable operator for receiving the Buzztime Channel, the ability to charge the end-user for additional games or services and the ability to sell advertising within our games.

EQUIPMENT

The primary product that Buzztime produces is software code and graphics that enable the Buzztime games. For networked distribution such as cable television, satellite television and mobile platforms, we primarily rely on the distribution partners' technology for distribution of our games to the end users. These partners maintain their own receiving, translation and re-broadcasting equipment as part of the normal business. Buzztime maintains server facilities in Carlsbad, California and a co-located facility in Orange County, California. For cable television distribution, Buzztime may install a server in the local cable system facility (head-end).

COMPETITION

On a broad basis, the consumer has, and will continue to have, many options for electronic entertainment and game play. Within each network or platform that Buzztime distributes through, there are numerous options for entertainment. For example, there are hundreds of channels of programming on cable and satellite TV and there are a growing number of choices of entertainment on mobile phones. Specifically within the games category, there are hundreds of game producers that produce thousands of games for interactive platforms such as the internet, game consoles and mobile devices. There are also numerous game companies developing various games for interactive television platforms such as the ones that Buzztime is either operating on or has plans to operate on.

Specific to interactive television on cable TV, there are significant barriers-to-entry for game developers. First, the technology necessary to enable games, especially two-way games such as Buzztime's games, is in its early stages and, in some cases, still being developed. This requires the game developers to devote human resources that have experience in not only games, but interactive television platforms. Second, not all games are suited for the television and remote control. Many popular games on non-TV platforms are dependent upon keyboards, a mouse and advanced game controllers to function properly. Third, there are only a few cable operators that control the majority of the decision-making for carriage of interactive applications such as games. The smaller cable operators will follow the largest cable companies' lead in selecting game technology and content. If a game company does not have success in gaining distribution via a major cable operator, they have little chance of success in the North American cable market.

Buzztime has developed technology, which we promote as Play Along TV(R) Technology, which we believe enables the deployment of one-way and two-way games on iTV platforms. Buzztime, with the support of the NTN iTV Network, has an existing cross-platform promotional network to promote the iTV games and drive competitions. Buzztime's games have been designed and produced specifically for the television and remote control and are compatible with the cable and satellite technology. Finally, due to deployed field trials with Comcast Cable and Time Warner Cable, we have working relationships with the various departments within these cable companies that manage iTV application development and deployment.

LICENSING, TRADEMARKS, COPYRIGHTS AND PATENTS

We keep confidential as trade secrets our technology and software. The hardware used in our operations is purchased from outside vendors. We own copyrights to all of our programs and formats. We have either received, or have applied for, trademark protection for the names of our proprietary programming, to the extent that trademark protection is available for them. Our intellectual property assets are important to our business and, accordingly, we maintain a program directed to the protection of our intellectual property assets, including regular intellectual property protection meetings and ongoing internal education on the protection of intellectual property.

As of December 31, 2004, we owned one United States patent covering certain aspects of technology related to an interactive learning system. This patent will expire in 2017. As of December 31, 2004, we had applied for two additional patents in the United States.

In June 2001, Buzztime Entertainment entered into a contribution agreement with NTN Communications, effective retroactively to January 1, 2001, whereby NTN contributed some of our assets to Buzztime including all company-owned games and related content, trivia game show library, interactive broadcast studio and related technology and intangible assets.

Further, in June 2001, NTN entered into a licensing and marketing agreement with Buzztime, effective retroactively to January 1, 2001, whereby Buzztime granted the NTN iTV Network an exclusive, royalty-free, perpetual license to the game libraries and related technology for distribution to the commercial market for group viewing audiences. Buzztime will continue to provide the NTN iTV Network with new game content created by Buzztime during the ordinary course of business, as well as maintenance and upgrades to existing content and related technologies, through 2006. This obligation is subject to a termination right at the option of Buzztime, upon one year's prior notice to the NTN iTV Network. In addition, Buzztime will continue to produce live sports prediction games, such as QB1, for the NTN iTV Network through 2008. Pursuant to the terms of the agreement, the NTN iTV Network will promote Buzztime during broadcasts of Buzztime programming on the NTN iTV Network as long as Buzztime continues to supply new game content for distribution by the NTN iTV Network. Buzztime shall promote the NTN iTV Network to the best of its ability in the consumer market, including interactive television and wireless devices.

On May 6, 2003, Buzztime entered into an agreement with Media General, Inc. to license its Boxerjam game content and selected technology. The license includes a five year exclusive interactive television license of certain intellectual property, with options to extend the license for an additional five years.

We are party to a license agreement with NFL Enterprises L.P. Our NFL agreement grants us data broadcast rights to conduct interactive games on the NTN iTV Network in conjunction with the broadcast of NFL football games, for which we pay the NFL a flat royalty independent of revenues billed to subscribers by the NTN iTV Network in connection with QB1 play. Under the terms of the license, we are also permitted to utilize the trademarks and logos of the teams and the leagues in connection with the playing of an interactive game. In November 2002, we renewed our license agreement with the NFL through August 6, 2005.

GOVERNMENT CONTRACTS

We provide our broadcast services through the NTN iTV Network to a small number of government agencies, usually military base recreation units. However, the number of government customers is small compared to our overall customer base. We provide our products and services to government agencies under contracts with substantially the same terms and conditions as are in place with other non-government customers.

RESEARCH AND DEVELOPMENT

During 2004, 2003 and 2002, we incurred approximately $329,000, $329,000 and $12,000, respectively, related to research and development projects, including projects performed by outside consultants. In 2004, our research and development efforts were related to digital network, wireless and interactive applications.

There is no assurance that we will successfully complete current or planned development projects or will do so within the prescribed time parameters and budgets. There can be no assurance, furthermore, that a market will develop for any product successfully developed.

ACQUISITIONS AND DIVESTITURES

BREAKAWAY INTERNATIONAL

On July 31, 2003, we acquired all of the assets and certain liabilities of Breakaway International, Inc. (Breakaway), a privately held provider of restaurant industry hardware and software enterprise solutions. We acquired Breakaway's assets for $252,000 in cash, 1,292,614 shares of unregistered NTN common stock, transaction costs and the assumption of certain liabilities. We may pay additional contingent earn-out amounts in NTN common stock and/or cash over the first three years following the acquisition, provided that certain targets over the relevant trailing twelve month period for earnings before taxes are met for the acquired assets. The targeted amounts increase by 25% each year. No earn-out amounts were earned in the first twelve month period following the acquisition. We also entered into employment agreements with five of the executives of Breakaway.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Total consideration for the acquisition was $3,630,000, which consisted of 1,292,614 shares multiplied by the then publicly traded price of $2.44 per share, $252,000 in cash and $224,000 of transaction costs, plus the assumption of liabilities. To determine the fair value of the acquired intangible assets and the related allocation of the purchase price, we commissioned a third party valuation analysis. That third party analysis determined that the identified intangible assets and the related useful lives are developed technology ($781,000, 6 year life), customer relationships ($1,110,000, 6 year life) and non-competition agreements ($30,000, 3 year life). Results of operations from the acquisition have been included in our consolidated statements of operations since August 1, 2003 and include $461,000 of amortization of the identified intangibles based upon the estimated lives.

BREAKAWAY INTERNATIONAL, INC.
ASSETS ACQUIRED AND LIABILITIES ACQUIRED

Accounts receivable, net	$ 333,000
Inventory, net	35,000
Fixed assets, net	108,000
Developed technology	781,000
Customer relationships	1,110,000
Non-competition agreements	30,000
Goodwill	2,235,000
Total assets acquired	$ 4,632,000
Accounts payable and accruals	$ 482,000
Deferred revenue	520,000

Total liabilities assumed	1,002,000
Net assets acquired	$ 3,630,000

The above amounts have changed from our initial purchase accounting as follows: goodwill has increased by $10,000 to reflect $7,000 of additional transaction costs and $3,000 of additional liabilities that were recorded, accounts payable and accruals increased by $3,000 to reflect the additional liabilities that were recorded and, as a result, the overall purchase price increased by $7,000 from the initial amount of $3,623,000 to $3,630,000.

NTN CANADA

On December 15, 2003, we acquired most of the operating assets, certain liabilities and the operations of NTN Interactive Network, Inc. (NTNIN), our long time Canadian licensee from its parent, Chell Group Corporation Inc. (Chell). We acquired NTNIN's assets for $233,000 in cash, 238,300 shares of unregistered NTN common stock, the contribution of $550,000 in unpaid licensing royalties and the assumption of certain liabilities.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Total consideration for the acquisition was approximately $1,823,000, which consisted of 238,300 shares multiplied by the then publicly traded price of $3.70 per share, $233,000 in cash, the contribution of $550,000 in unpaid licensing royalties, $122,000 of transaction costs, plus the assumption of liabilities.

NTN INTERACTIVE NETWORK, INC.
ASSETS ACQUIRED AND LIABILITIES ACQUIRED

Cash	$ 20,000
Accounts receivable, net	235,000
Other current assets	21,000
Fixed assets, net	43,000
Customer relationships	720,000
Trivia database	345,000
Interactive events software	102,000
Trivia software	90,000
Licenses	12,000
Goodwill	974,000
Total assets acquired	$ 2,562,000
Accounts payable and accruals	$ 628,000
Leases	44,000
Deferred revenue	67,000
Total liabilities assumed	739,000
Net assets acquired	$ 1,823,000

To determine the fair value of the acquired intangible assets and the related allocation of the purchase price, we commissioned a third party valuation analysis. That third party analysis determined that the identified intangible assets and the related useful lives are customer relationships ($720,000, 4 year life), trivia database ($345,000, 10 year life), interactive events software ($102,000, 5 year life) and trivia software ($90,000, 5 year life). Results of operations from the acquisition have been included in our consolidated statements of operations since December 15, 2003 and include $203,000 of amortization of the identified intangibles based upon the estimated lives.

The above amounts have changed from our initial purchase accounting as follows: (1) goodwill has increased by $99,000 to reflect a variety of factors including the final calculation of the cash component of the purchase price based on the final closing balance sheet, which generated an additional payment to Chell of approximately $10,000 and a payment to the president of NTNIN on behalf of Chell of approximately $23,000, (2) the final calculation of the transaction costs (an increase of $38,000), (3) recording $12,000 of additional liabilities, and (4) making $16,000 of other adjustments to the final balance sheet. The overall purchase price increased by $37,000 from the initial amount of $1,786,000 to $1,823,000.

VISION PRODUCT LINE

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

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

GOVERNMENT REGULATIONS

The cost of compliance with federal, state and local laws has not had a material effect upon our capital expenditures, earnings or competitive position to date. On June 16, 1998, we received approval from the Federal Communications Commission for our 900 MHz Playmakers. The 900-MHz Playmaker is an integral component of our network.

EMPLOYEES

As of February 3, 2005, we employ approximately 218 people on a full-time basis and 50 people on a part-time or seasonal basis. We also utilize independent contractors for specific projects and hire up to as many as 59 seasonal employees as needed to produce our play along sports games during varying professional and collegiate sports seasons. None of our employees are represented by a labor union and we believe our employee relations are satisfactory.

ITEM 2. PROPERTIES

We lease approximately 39,000 square feet of office and warehouse space at 5966 La Place Court, Carlsbad, California for our corporate headquarters and broadcast center. In July 2001, a five-year lease renewal for the property commenced upon expiration of the prior lease term that expired in June 2001. Until March 2003, we sublet approximately 11,600 square feet of this office space to WinResources Computing, Inc. under a sublease entered into in February 2001.

We also lease approximately 1,253 square feet of additional office space located in San Francisco. This lease expires in April 2005. We sublease this space to a subtenant for approximately the same amount as our monthly rent. That sublease expires in April 2005. We also lease approximately 6,480 square feet of additional office space in Atlanta, Georgia, expiring in September 2005, approximately 16,981 square feet of additional office space in Arlington, Texas, expiring in July 2005, and approximately 5,400 square feet in Toronto, Ontario, Canada, expiring in December 2014. In addition, we lease additional office space in Mill Valley, California. This lease expired in May 2004 and is now on a month to month basis. In February 2004, we entered into a lease agreement for an executive office in New York, New York. That lease expired in June 2004 and is now on a month to month basis.

ITEM 3. LEGAL PROCEEDINGS

We are subject to litigation from time to time in the ordinary course of our business. There currently is no material litigation pending or threatened against us.

INTERACTIVE NETWORK, INC.

On April 14, 2004, we settled the lawsuit filed against us in 1992 by IN (now Two Way TV (US), Inc.) The litigation involved licensing and patent infringement issues in Canada. These actions related to the delivery of the NTN iTV Network to subscribers of our former Canadian licensee (we acquired our licensee's operations in December 2003) and did not extend to our network operations in the United States or elsewhere. We settled the matter for $116,500. We recorded expense related to this matter, including the settlement amount, of approximately $200,000 in the first quarter of 2004 and we recorded further legal fees of approximately $92,000 relating to this matter in the third quarter of 2004.

LONG RANGE SYSTEMS

On March 21, 2003, Long Range Systems, Inc. (LRS) filed in the United States District Court, Northern District of Texas, a patent infringement complaint against our NTN Wireless subsidiary. This complaint alleged trade dress and patent infringement and unfair competition. We were served with this complaint on March 27, 2003. In February 2004, LRS amended their complaint to eliminate certain allegations relating to infringement of its utility patent for wireless pagers. This complaint related to our repair and replacement activities of LRS pagers, which is not a significant percentage of our NTN Wireless business.

On or about April 23, 2003, we filed a complaint in the Superior Court of the State of California, County of San Diego, against LRS alleging defamation and trade libel, intentional interference with prospective economic advantage, Lanham Act (trademark violations) and California unfair competition. The case was subsequently transferred to the United States District Court, Southern District of California. Our complaint alleged that LRS made false statements in its complaint and press release regarding our products infringing LRS patents, that LRS intentionally made false statements to disrupt our business relationships with our clients, and that LRS registered the domain name www.ntnwireless.com in violation of our trademark rights.

On February 28, 2005, we agreed with LRS to settle and dismiss both lawsuits and the joint request for dismissal was filed with the court, although at the date of the filing the settlement agreement had not been fully executed. Under the terms of the settlement, NTN and LRS each agreed to settle and dismiss the two lawsuits without liability or any payment to the other party. Each party is responsible for its own legal costs. On March 2, 2005, the court dismissed the LRS lawsuit based on this agreement.

OPEN TABLE

In March 2004, we received correspondence from Open Table, Inc. (Open Table) alleging breach of the non-compete provisions of the Asset Purchase Agreement entered into by and between Open Table and Breakaway International, Inc. (Breakaway) in February 2002. Our NTN Software Solutions, Inc. subsidiary assumed certain obligations of Breakaway pursuant to the Asset Purchase Agreement we entered into with Breakaway in July 2003. In March 2004, we acknowledged receipt of the Open Table correspondence and advised Open Table that we were investigating the allegations set forth in such correspondence. On April 23, 2004, Open Table filed a complaint in the Superior Court of the State of California, County of San Francisco, against NTN Communications, Inc. f/k/a Breakaway International, Inc., alleging breach of contract, breach of implied covenant of good faith and fair dealing, intentional interference with economic relationship, negligent interference with economic relationship, fraud, accounting, constructive trust and declaratory relief. In December 2004, we agreed with Open Table to settle and dismiss this lawsuit. We paid Open Table $15,000 under the terms of the settlement.

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

No matters were submitted for a vote by security holders during the fourth quarter of the fiscal year ended December 31, 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the American Stock Exchange (AMEX) under the symbol "NTN." Set forth below are the high and low sales prices for the common stock as reported by the AMEX for the two most recent fiscal years:

	COMMON STOCK	
	LOW	HIGH
2003		

First Quarter	$ 0.95	$ 1.75
Second Quarter	$ 1.48	$ 2.33
Third Quarter	$ 1.91	$ 3.00
Fourth Quarter	$ 2.65	$ 4.11
2004		

First Quarter	$ 2.51	$ 4.25
Second Quarter	2.51	3.19
Third Quarter	1.62	3.20
Fourth Quarter	2.40	3.24

On March 9, 2005, the closing price for our common stock as reported on the AMEX was $2.83. As of March 9, 2005, there were approximately 1,259 holders of common stock.

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

We have 161,000 shares of Series A Preferred Stock issued and outstanding. The Series A Preferred Stock provides for a cumulative annual dividend of 10 cents per share, payable in semi-annual installments in June and December. Dividends may be paid in cash or with shares of common stock. In 2004, we issued approximately 6,000 common shares for payment of these dividends. At December 31, 2004, the cumulative unpaid dividends for the Series A Preferred Stock was approximately $1,300.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth as of December 31, 2004 our compensation plans authorizing us to issue equity securities and the number of securities issuable thereunder.

PLAN CATEGORY	(A) NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECU AVAILABLE FOR UNDER EQUITY C (EXCLUDING SECUR COLU
EQUITY COMPENSATION PLANS APPROVED BY SECURITY HOLDERS	10,443,000(1)	$1.46	
EQUITY COMPENSATION PLANS NOT APPROVED BY SECURITY HOLDERS	1,941,000(4)	$1.61	
TOTAL	12,384,000		

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(1) Includes 9,485,305 shares issuable upon exercise of options granted pursuant to the NTN Communications, Inc. 1995 Employee Stock Option Plan, 458,000 shares issuable upon exercise of options and rights granted pursuant to the NTN Communications, Inc. 2004 Performance Incentive Plan

and 500,000 shares issuable upon exercise of options granted pursuant to the NTN Communications, Inc. 1996 Special Stock Option Plan.

(2) Remaining available for grant under the NTN Communications, Inc. 2004 Performance Incentive Plan. The 2004 Performance Incentive Plan became effective on September 30, 2004. No additional awards were, or shall be, granted under the 1995 Plan from and after the effective date of the 2004 Plan. The number of shares of common stock that remained available for award grants under the 1995 Plan immediately prior to the effectiveness of the 2004 Plan became available for award grants under the 2004 Plan.

(3) Does not include 300,000 shares of Buzztime Entertainment, Inc. common stock available for grant under the Buzztime Entertainment, Inc. 2001 Incentive Stock Option Plan. To date, no options have been granted under the plan.

(4) The 1,941,000 shares issuable that are not pursuant to equity compensation plans approved by security holders are all pursuant to warrants granted in connection with consulting agreements with non-employees or were warrants associated with equity financings. Warrants to purchase 236,619 shares were granted in 2004, 514,000 shares were granted in 2003 and 685,000 shares were granted in 2002. The remaining warrants were issued in 2001 or earlier. As of December 31, 2004, the range of exercise prices and the weighted-average remaining contractual life of outstanding warrants was $0.50 to $3.91 and 4 years, respectively.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the financial statements and the notes to those statements and "Management's Discussion and Analysis of Financial Condition and Results of Operation" included elsewhere in this document. The selected financial data for the years ended December 31, 2004, 2003, 2002, 2001 and 2000 is derived from our audited financial statements.

STATEMENT OF OPERATIONS DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEARS ENDED DECEM		
	2004	2003	2002
Total revenue	$ 35,655	$ 29,489	$ 25,610
Total operating expenses	40,711	32,035	27,465
Operating loss	(5,056)	(2,546)	(1,855
Other income (expense), net	171	(128)	(505
Loss from continuing operations	(4,885)	(2,674)	(2,360
Income taxes	(94)	(47)	(41
Minority interest in loss of consolidated subsidiary	--	10	212
Loss before cumulative effect of accounting change	(4,979)	(2,711)	(2,189
Cumulative effect of accounting change	--	--	--

Net loss	$ (4,979)	$ (2,711)	$ (2,189
Basic and diluted net loss per common share:			
Continuing operations	$ (.09)	$ (.06)	$ (.06
Cumulative effect of accounting change	--	--	--
Net loss	$ (.09)	$ (.06)	$ (.06
Weighted-average shares outstanding	52,599	45,446	39,081

BALANCE SHEET DATA
(IN THOUSANDS)

	DECEMBER 31,			
	2004	2003	2002	2
Total current assets	$ 13,506	$ 6,704	$ 4,184	$
Total assets	29,388	20,630	10,842	
Total current liabilities	6,862	5,939	3,620	
Total liabilities	7,353	7,566	8,719	
Total minority interest	--	--	643	
Shareholders' equity	22,035	13,064	1,480	

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

GENERAL

The following management's discussion and analysis of financial condition and results of operations discussion should be read in conjunction with the consolidated financial statements provided under Part II, Item 8 of this Annual Report on Form 10-K.

2004 HIGHLIGHTS

NTN's financial and operating results for the year ended December 31, 2004 included the following highlights:

- On January 30, 2004, we completed the sale of 3,943,661 shares of our common stock at $3.55 per share, resulting in gross proceeds of approximately $14.0 million, pursuant to an existing shelf registration filed under the Securities Act. After commissions and expenses, the net proceeds of this offering were approximately $13.0 million. The offering was purchased primarily by a number of institutional investors and by Media General, Inc., a related party, which invested approximately $2.0 million.

- In April 2004, Time Warner Cable launched the Buzztime channel as part of its interactive television games channel in La Place, Louisiana.

- In July 2004, we launched our new NTN Blast channel on the NTN iTV Network. NTN Blast was developed to help land as customers new hospitality sites that might not be attracted to our core trivia and sports products and to retain existing hospitality sites with the expanded content offering. NTN Blast is played on our new underlying iTV2 technology, which enables us to display two video channels on the NTN iTV Network.

- In November 2004, Comcast Cable launched the Buzztime channel in its Alexandria/Arlington system and Prince William system. Both cable television systems service portions of the Northern Virginia area.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

- We record deferred costs and revenues related to the costs and related installation revenue associated with installing new customer sites. Based on Staff Accounting Bulletin 104 (SAB 104), we amortize these amounts over an estimated three-year average life of a customer relationship.

- We incur a relatively significant level of depreciation expense in relationship to our operating income. The amount of depreciation expense in any fiscal year is largely related to the estimated life of handheld, wireless Playmaker devices, VSAT satellite dishes and associated electronics and the computers located at our customer sites. The Playmakers are depreciated over a four-year life, VSAT dishes and associated electronics over a four-year life and the computers over a three-year life. The depreciable life of these assets was determined based upon their estimated useful life which considers anticipated technology changes. If our Playmakers, VSAT dishes and associated electronics and the computers turn out to have longer lives, on average, than estimated, our depreciation expense would be significantly reduced in those future periods. Conversely, if the Playmakers, VSAT dishes and associated electronics and the computers turn out to have shorter lives, on average, than estimated, our depreciation expense would be significantly increased in those future periods.

- We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is determined based on reserving for all domestic customers that have terminated our iTV Network service plus five percent of outstanding balances for all unreserved customer balances across all of our domestic businesses and, for Canadian customers, all accounts over 90 days past due. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

- We assess our inventory for estimated obsolescence or unmarketable inventory and write down the difference between the cost of inventory and the estimated market value based upon assumptions about future sales and supply on-hand. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

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

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

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

- We have a significant amount of goodwill and intangible assets on our balance sheet related to acquisitions. At December 31, 2004 the net amount of $7,669,000 of goodwill and intangible assets represented 26.1% of total assets. Goodwill represents the excess of costs over fair value of assets of businesses acquired. We adopted the provisions of SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, as of January 1, 2002. Goodwill and intangible assets acquired in a purchase combination determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, ACCOUNTING FOR IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS.

We annually perform tests for goodwill impairment as required by SFAS 142. We continually monitor for any potential indicators of impairment of goodwill and intangible assets and we have determined that no such indicators have arisen to date. Any impairment loss could have a material adverse impact on our financial condition and results of operations.

- In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" and superseding APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123R requires the Company to expense grants made under the stock option and employee stock purchase plan programs. That cost will be recognized over the vesting period of the plans. SFAS No. 123R is effective for the first interim or annual period beginning after June 15, 2005. Upon adoption of SFAS No. 123R, amounts previously disclosed under SFAS No.123 will be recorded in the consolidated income statement. We are evaluating the alternatives allowed under the standard, which we are required to adopt beginning in the third quarter of 2005. We believe that this new standard will increase our operating losses in the future but that increase will be of a non-cash nature.

We do not have any of the following:

- Off-balance sheet arrangements except for purchase orders and commitments and operating leases;

- Certain trading activities that include non-exchange traded contracts accounted for at fair value or speculative or hedging instruments; or

- Relationships and transactions with persons or entities that derive benefits from any non-independent relationship other than the related party transactions discussed in ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS (which item is incorporated by reference to our definitive proxy statement) or which are so non-material to fall below the materiality threshold of such item.

ASSESSMENTS OF FUNCTIONAL CURRENCIES. The U.S. dollar is the functional currency of all of the Company's operations except for its newly acquired Canadian operations.

BACKGROUND

Our business is developing and distributing interactive entertainment and wireless information and communications products. We operate our business principally through two operating units: the NTN Hospitality Technologies Division and Buzztime. The NTN Hospitality Technologies Division includes the NTN iTV Network, NTN Wireless and Software Solutions.

Revenues generated and operating income (loss) by our two business units are illustrated below. The data presented below includes allocations of corporate expenses and elimination of intercompany charges.

	YEARS ENDED DECEMBER 31				
	2004		2003		
Revenues					
NTN Hospitality Technologies division ..	$ 35,274,000	99%	$ 29,275,000	99%	$
Buzztime	359,000	1%	196,000	1%	
Other	22,000	-	18,000	-	
Total	$ 35,655,000	100%	$ 29,489,000	100%	$
Operating Income (Loss)					
NTN Hospitality Technologies division ..	(1,097,000)		$ 1,211,000		$
Buzztime	(3,959,000)		(3,757,000)		
Total	$ (5,056,000)		$ (2,546,000)		$

NTN Hospitality Technologies revenue is generated primarily from providing an interactive entertainment service which serves as a marketing and promotional vehicle for the hospitality industry, from its wireless business with restaurant on-site paging systems and electronic data-managed comment cards and from its hardware and software enterprise solutions. Buzztime's revenue is primarily generated from the distribution of its digital trivia game show content as well as revenue related to production services for third parties and from performance under a Trial Agreement with a major cable operator.

RESULTS OF OPERATIONS

Following is a comparative discussion by fiscal year of the results of operations for the three years ended December 31, 2004. We believe that inflation has not had a material effect on the results of operations for the periods presented.

YEAR ENDED DECEMBER 31, 2004 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2003

Operations for 2004 resulted in a net loss of $4,979,000 compared to net loss of $2,711,000 for 2003.

REVENUES

The revenues of the NTN Hospitality Technologies division increased by $6,003,000 or 20.5%, to $35,296,000 in 2004 from $29,293,000 in 2003. 2004 included twelve months of operations of the Software Solutions segment and the NTN Canada unit while 2003 included only five months and two weeks of operations from those entities, respectively.

For the purpose of this analysis, the NTN iTV Network's revenues include $22,000 and $18,000 of "other" revenues for 2004 and 2003, respectively shown on our consolidated statements of operations. The revenue contribution from the three operating segments of the division for 2004 and 2003 are shown in the following table:

COMPONENTS OF HOSPITALITY TECHNOLOGIES DIVISION REVENUE

	2004	2003	Change
NTN iTV Network	$25,925,000	$23,024,000	$2,901,000
NTN Wireless	5,337,000	4,742,000	595,000
Software Solutions	4,034,000	1,527,000	2,507,000
Total Revenue of Division	$35,296,000	$29,293,000	$6,003,000

Within the NTN iTV Network there are several revenue contributors, including our core subscription revenue, Canadian licensing revenue (in 2003), installation revenue, advertising revenue and since December 15, 2003, revenue from our Canadian operations. The primary revenue components are broken out in the following table:

COMPONENTS OF NTN ITV NETWORK REVENUE

	2004	2003	Change
Subscription Revenues	$20,885,000	$20,011,000	$874,000
Canadian License Revenue	--	745,000	(745,000)
Subscription and Installation Revenue from Canadian Operations	3,644,000	167,000	3,477,000
Advertising Revenue - United States	602,000	868,000	(266,000)
Advertising Revenue - Canada	163,000	10,000	153,000
Installation Revenue	631,000	1,223,000	(592,000)
NTN iTV Network	$25,925,000	$23,024,000	$2,901,000

As noted in the above table, our subscription revenue from core hospitality operations increased by $874,000, or 4.4%, due to an increase in net site count and average per site revenue. Licensing revenues from our Canadian licensee ceased in the fourth quarter of 2003 as we finalized the acquisition of the operations of the licensee. On December 15, 2003, we acquired the operations of our Canadian licensee, so we now show the overall revenues of the Canadian operation rather than the previous license revenue.

In 2004, the NTN iTV Network generated domestic advertising revenue of approximately $602,000 compared to approximately $868,000 in 2003. This $266,000 decrease was due to several advertising campaigns in the 2003 period that ended without comparable campaigns in the 2004 period.

Installation revenue associated with installing new customer locations decreased $592,000, or 48.4%. This was primarily due to deferred revenue associated with prior year installations becoming fully amortized. To a lesser extent, over the past two years, we have adopted a strategy of charging new sites a lower installation fee and higher recurring monthly fees than our previous pricing in order to grow our customer base. This strategy has had the beneficial impact of increasing our subscription revenues as noted in the above chart but it has also reduced the amount of deferred revenue from those new sites that is recognized as installation revenue over an average customer life of three years. This trend coupled with the falloff of amortization of deferred revenue from prior years led to this lower level of installation revenue. However, we believe this move to a lower installation fee coupled with higher recurring fees has a greater long-term financial benefit to NTN. We added 184 net new domestic sites in 2004 compared to a decrease of 46 net new domestic sites in 2003. This domestic site count increase was the largest annual net addition of sites in 7 years.

The NTN iTV Network customer site count in the United States at December 31, 2004 was 3,309. This was an increase of 184 sites over the December 31, 2003 United States site count of 3,125. Our Canadian site count at December 31, 2004 was 351. This was a decrease of 49 sites from the December 31, 2003 Canadian site count of approximately 400.

Buzztime service revenues increased $163,000, or 83.2%, to $359,000 in 2004 from $196,000 in 2003. The primary factor in the increase was $150,000 from United States and Canadian satellite operators for distribution of Buzztime trivia to their users on a subscription basis. There was no comparable satellite-related revenue in 2003. 2004 included $130,000 in revenues recognized under a development agreement with a major cable operator compared to $170,000 in 2003. The remainder of the revenue growth came from a variety of sources including increases in license revenue from SusCom, Digeo and ICTV.

As a result of the above factors, NTN's consolidated revenues increased $6,166,000, or 20.9%, to $35,655,000 in 2004 from $29,489,000 in 2003.

OPERATING EXPENSES

DIRECT OPERATING COSTS

Direct operating costs of services increased $1,111,000, or 10.0%, to $12,257,000 in 2004 from $11,146,000 in 2003. A significant amount of this increase was because 2004 had a full year of operations of Software Solutions compared to approximately five months in 2003 and because we operated NTN Canada for a full year in 2004 compared to two weeks in 2003. The following table compares the direct costs for each of our operating segments between 2004 and 2003:

DIRECT OPERATING COSTS

	2004	2003	Change
NTN iTV Network	$7,006,000	$6,821,000	$185,000
NTN Wireless	3,304,000	2,952,000	352,000
Software Solutions	656,000	211,000	445,000
Hospitality Technologies division	10,966,000	9,984,000	982,000
Buzztime	1,291,000	1,162,000	129,000
Consolidated Company	$12,257,000	$11,146,000	$1,111,000

Our direct operating costs in the NTN iTV Network increased by $185,000 in 2004. This increase was due to a $748,000 increase in our direct operating costs with NTN Canada. That $748,000 increase in Canadian direct costs was partially offset by a $563,000 decrease in domestic direct operating costs. This $563,000 decrease was primarily due to a $457,000 decrease in direct depreciation, which, in turn, was caused by an increasing level of fully depreciated broadcast equipment at our customer sites and to a $71,000 reduction of communication expenses.

The $445,000 increase in Software Solutions' direct operating costs largely related to the cost of goods sold associated with twelve months of operations in that segment in 2004 compared to five months in 2003. The gross margin of Software Solutions in 2004 was 83.7%, a 2.5% decrease from the 2003 gross margin of 86.2%. The gross margin decline was due to a larger hardware component as a percentage of revenue in 2004 than in 2003 and greater license expense relating to certain Microsoft products imbedded in our software. Our hardware revenues typically carry lower margins than our software revenues.

The $352,000 increase in the NTN Wireless direct operating costs largely related to the cost of goods sold associated with the NTN Wireless revenue increase of $595,000 in 2004 noted above. The gross margin of NTN Wireless was comparable in both years with a gross margin of 38.1% in 2004 and a gross margin of 37.7% in 2003.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased $6,436,000 or 35.0%, to $24,836,000 in 2004 from $18,400,000 in 2003. A great deal of this increase was because 2004 had a full year of operations of Software Solutions compared to approximately five months in 2003 and a full year of operations of NTN Canada in 2004 compared to two weeks in 2003. The following table compares the selling, general and administrative expenses for each of our operating segments between 2003 and 2002:

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2004	2003	Change
NTN iTV Network	$15,214,000	$12,374,000	$2,840,000
NTN Wireless	1,575,000	1,617,000	(42,000)
Software Solutions	5,153,000	1,802,000	3,351,000
Hospitality Technologies division	21,942,000	15,793,000	6,149,000
Buzztime	2,894,000	2,607,000	287,000
Consolidated Company	$24,836,000	$18,400,000	$6,436,000

The $2,840,000 SG&A increase in the NTN iTV Network segment was largely due to $1,504,000 of SG&A expenses in our new NTN Canada subsidiary compared to $162,000 in 2003, or a $1,342,000 increase. The remainder of the SG&A increase of $1,498,000 in the NTN iTV Network's domestic operations came from a variety of items including increased salaries and benefits of approximately $800,000, increased office rental expense of $111,000, increased telephone expense of $176,000, increased marketing expenses of $229,000 and increased repairs and maintenance expense of approximately $125,000. The increases in salaries and related expenses were related to the hiring of additional personnel.

SG&A expenses decreased $42,000 in the NTN Wireless segment largely due to a combination of factors including reduced bad debt expense. The $287,000 SG&A increase in the Buzztime segment was largely due to increased payroll of $476,000 partially offset by a decrease in marketing expenses of $142,000. SG&A expenses include an allocation of our corporate SG&A to the segments based on a variety of factors, including headcount, square footage of facilities and other factors.

STOCK BASED COMPENSATION EXPENSE

Stock based compensation expense increased by $61,000, or 26.3%, to $293,000 in 2004 compared to $232,000 in 2003. This increase largely arises from recognition of non-cash expense associated with the grants of certain deferred stock units to our executives in 2004 under the 2004 Performance Incentive Plan.

LITIGATION, LEGAL AND PROFESSIONAL FEES

Litigation, legal and professional fees increased $810,000, or 97.5%, to $1,641,000 in 2004 compared to $831,000 in 2003. This increase relates to $369,000 of Sarbanes-Oxley-related expenses, an increase of $227,000 in legal fees related to the Long Range Systems litigation in our Wireless segment, an increase of $67,000 in audit fees, additional legal fees for trademark registrations and generally to an increase in the scope of our business.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization not related to direct operating costs increased $258,000, or 23.5%, to $1,355,000 in 2004 from $1,097,000 in 2003 due to increases in amortization expense in Software Solutions and NTN Canada of $183,000 and $258,000, respectively. Those increases reflected a full year of amortization related to identified intangible assets compared to five months of amortization with Software Solutions and two weeks of amortization with NTN Canada. The combined amortization increase of $441,000 in Software Solutions and NTN Canada was partially offset by lower levels of depreciation and amortization throughout the remainder of NTN largely due to certain assets becoming fully depreciated

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses were $329,000 in both 2004 and 2003. Research and development expenses, which are salary expense, primarily related to projects to develop new technologies for the iTV network.

OTHER INCOME (EXPENSE)

INTEREST INCOME AND EXPENSE

Interest income increased $93,000 to $98,000 in 2004, compared to $5,000 in 2003. This increase was due to a larger amount of cash invested in short-term marketable securities in 2004 than in 2003.

Interest expense decreased $86,000, or 36.1%, to $152,000 in 2004, compared to $238,000 in 2003, due to the expiration of various capitalized leases and a paid down line of credit for the majority of the year, partially offset by the imputed interest associated with the equipment notes payable.

OTHER INCOME

Other income was $225,000 in 2004. This other income arose from the settlement of a derivative securities lawsuit. In 2003, we recorded $105,000 of other income that arose from a gain on early extinguishment of debt.

MINORITY INTEREST

Minority interest in loss of consolidated subsidiary decreased $10,000 to zero in 2004 compared to $10,000 in 2003. The 2003 figure represented an allocation of six percent of Buzztime's losses for only the first half of the month of January 2003 since Scientific-Atlanta converted their minority interest in the Buzztime subsidiary into NTN common stock on January 16, 2003.

INCOME TAXES

For the year ended December 31, 2004, the NTN Hospitality Technologies division had taxable income in Canada and a loss in the United States. In states where separate filing is required, the division will incur a state tax liability. As a result, NTN Hospitality Technologies recorded a tax provision of $94,000 in 2004. This was a $47,000 increase over the $47,000 provision for income taxes recorded in 2003.

EBITDA

Our earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by $2,364,000 to $(898,000) in 2004 from EBITDA of $1,466,000 in 2003. This EBITDA decrease was primarily due to the increased loss in 2004 of $2,268,000.

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

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

	YEAR ENDED DECEMBER 31	
	2004	2003
EBITDA CALCULATION		
Net loss per GAAP	$ (4,979,000)	$ (2,711,000)
Interest expense (net)	54,000	233,000
Depreciation and amortization	3,933,000	3,897,000
Income taxes	94,000	47,000
EBITDA	$ (898,000)	$ 1,466,000

On a segment basis, our segments generated EBITDA levels as presented below:

($000) EBITDA CALCULATION:	YEAR ENDED DECEMBER 31, 2004 NTN ITV NETWORK	NTN WIRELESS	SOFTWARE SOLUTIONS	HOSP. TECH. DIV.	BUZZTI
Net income (loss)	$1,122	$(64)	$(2,074)	$(1,016)	$(3,9
Interest expense (net)	49	1	--	50	
Depreciation and amortization	2,881	100	392	3,373	5
Income taxes	94	--	--	94	
EBITDA	$4,146	$37	$(1,682)	$2,501	$(3,3

($000) EBITDA CALCULATION:	YEAR ENDED DECEMBER 31, 2003 NTN ITV NETWORK	NTN ITV WIRELESS	SOFTWARE SOLUTIONS	HOSP. TECH. DIV.	BUZZTI
Net income (loss)	$1,772	$(171)	$(565)	$1,036	$(3,7
Interest expense (net)	232	1	--	233	
Depreciation and amortization	3,057	138	164	3,359	5
Income taxes	47	--	--	47	
EBITDA	$5,108	$(32)	$(401)	$4,675	$(3,2

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YEAR ENDED DECEMBER 31, 2003 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2002

Operations for 2003 resulted in a net loss of $2,711,000 compared to net loss of $2,189,000 for 2002.

REVENUES

The revenues of the NTN Hospitality Technologies division increased by $3,811,000 or 15%, to $29,293,000 in 2003 from $25,482,000 in 2002. For the purpose of this analysis, the NTN iTV Network's revenues include $18,000 and $17,000 of "other" revenues for 2003 and 2002, respectively shown on our consolidated statements of operations. The revenue contribution from the three operating segments of the division for 2003 and 2002 are shown in the following table:

COMPONENTS OF HOSPITALITY TECHNOLOGIES DIVISION REVENUE

	2003	2002	Change
NTN iTV Network	$23,024,000	$23,077,000	$(53,000)
NTN Wireless	4,742,000	2,405,000	2,337,000
Software Solutions	1,527,000	--	1,527,000
Total Revenue of Division	$29,293,000	$25,482,000	$3,811,000

Within the NTN iTV Network there are several revenue contributors, including our core subscription revenue, Canadian licensing revenue, installation revenue, advertising revenue and as of December 15, 2003, revenue

from our Canadian operations. The primary revenue components are broken out in the following table:

COMPONENTS OF NTN ITV NETWORK REVENUE

	2003	2002	Change
Subscription Revenues	$20,011,000	$19,165,000	$846,000
Canadian License Revenue	745,000	1,161,000	(416,000)
Subscription and Installation Revenue from Canadian Operations	167,000	--	167,000
Advertising Revenue - United States	868,000	959,000	(91,000)
Advertising Revenue - Canada	10,000	--	10,000
Installation Revenue	1,223,000	1,792,000	(569,000)
NTN iTV Network	$23,024,000	$23,077,000	$(53,000)

As noted in the above table, our core hospitality revenues increased by $846,000, or 4.4%, in 2003. Installation revenue associated with installing new customer locations decreased approximately $569,000 as some of the deferred revenue associated with prior year installations has become fully amortized.

Licensing revenues from our Canadian licensee decreased approximately $416,000 in 2003 to $745,000 from $1,161,000 in 2002 due to a smaller customer base in 2003 and to a cessation of the royalty stream in the fourth quarter as we finalized the acquisition of the operations of the licensee. On December 15, 2003, we acquired the operations of our Canadian licensee, so in future years we will show the overall revenues of the Canadian operation rather than the previous license revenue.

In 2003, the NTN iTV Network generated revenue of approximately $878,000 in national and regional advertising, including a $10,000 contribution in the two weeks that we owned NTN Canada, compared to approximately $959,000 in 2002.

The NTN iTV Network customer site count in the United States at December 31, 2003 was 3,125. This was a decrease of 46 sites over December 31, 2002.

Buzztime service revenues increased $68,000, or 53.1%, to $196,000 in 2003 from $128,000 in 2002. The increase was due to revenues recognized under a trial agreement with a major cable operator.

As a result of the above factors, NTN's consolidated revenues increased $3,879,000, or 15.1%, to $29,489,000 in 2003 from $25,610,000 in 2002.

OPERATING EXPENSES

DIRECT OPERATING COSTS

Direct operating costs of services increased $1,428,000, or 14.7%, to $11,146,000 in 2003 from $9,718,000 in 2002. A great deal of this increase was because 2003 had a full year of operations of NTN Wireless compared to approximately nine months in 2002. The following table compares the direct costs for each of our operating segments between 2003 and 2002:

DIRECT OPERATING COSTS

	2003	2002	Change
NTN iTV Network	$6,821,000	$7,276,000	$(455,000)
NTN Wireless	2,952,000	1,515,000	1,437,000
Software Solutions	211,000	--	211,000
Hospitality Technologies division	9,984,000	8,791,000	1,193,000
Buzztime	1,162,000	927,000	235,000
Consolidated Company	$11,146,000	$9,718,000	$1,428,000

As noted in the above table, the direct operating costs of our core NTN iTV Network segment actually decreased by $455,000 in 2003 compared to 2002. These savings largely arose from expense reductions in site visits, technical visits and in depreciation expense associated with equipment at the sites. These savings were achieved despite incurring operating costs of approximately $500,000 related to the conversion of approximately 20% of our sites to our new two-way VSAT technology in the second half of 2003. There was no such VSAT-related expense in 2002.

The $1,437,000 increase in the NTN Wireless direct operating costs largely related to the cost of goods sold associated with the NTN Wireless revenue increase of $2,337,000 in 2003 noted above.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased $2,856,000 or 18.4%, to $18,400,000 in 2003 from $15,544,000 in 2002. A great deal of this increase was due to the addition of the Software Solutions segment in August 2003 and the NTN Wireless business in April 2002. The following table compares the selling, general and administrative expenses for each of our operating segments between 2003 and 2002:

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2003	2002	Change
NTN iTV Network	$12,374,000	$12,516,000	$(142,000)
NTN Wireless	1,617,000	827,000	790,000
Software Solutions	1,802,000	--	1,802,000
Hospitality Technologies division	15,793,000	13,343,000	2,450,000
Buzztime	2,607,000	2,201,000	406,000

Consolidated Company	$18,400,000	$15,544,000	$2,856,000

Selling, general and administrative (SG&A) expenses in 2003 included a full year of SG&A expenses of NTN Wireless and five months of Software Solutions compared to nine months of NTN Wireless and none of Software Solutions in 2002. The SG&A increase in the NTN Wireless segment was largely due to increased payroll of approximately $280,000, commission expenses of $162,000 and marketing expenses of $96,000. However, these increases were partially due to the full year of expenses compared to the nine month period in 2002. The SG&A increase in the Buzztime segment was largely due to increased payroll of $128,000 and increased marketing expenses of $167,000. SG&A expenses include an allocation of our corporate SG&A to the segments based on a variety of factors, including headcount, square footage of facilities and other factors.

STOCK BASED COMPENSATION EXPENSE

Stock based compensation expense increased by $136,000, or 141.7%, to $232,000 in 2003 compared to $96,000 in 2002. This increase largely arises from recognition of non-cash expense associated with fair value of the grant of a warrant to an investment banking firm.

LITIGATION, LEGAL AND PROFESSIONAL FEES

Litigation, legal and professional fees increased $291,000, or 53.9%, to $831,000 in 2003 compared to $540,000 in 2002. This increase relates to additional legal fees for trademark registrations, certain litigation matters and generally to an increase in the scope of our business.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization not related to direct operating costs decreased $458,000, or 29.5%, to $1,097,000 in 2003 from $1,555,000 in 2002 due to certain assets becoming fully depreciated.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased $317,000 to $329,000 in 2003 from $12,000 in 2002, due primarily to projects to develop new technologies for the iTV network.

OTHER INCOME (EXPENSE)

INTEREST INCOME AND EXPENSE

Interest income decreased $1,000 to $5,000 in 2003, compared to $6,000 in 2002.

Interest expense decreased $273,000, or 53.4%, to $238,000 in 2003, compared to $511,000 in 2002, due to the expiration of various capitalized leases as well as to a lower average balance on our revolving line of credit.

OTHER INCOME

Other income reflected a gain on early extinguishment of debt of $105,000 that arose out of a discount recorded on the payoff of the line of credit with GF Asset Management, LLC.

MINORITY INTEREST

Minority interest in loss of consolidated subsidiary decreased $202,000 to $10,000 in 2003 compared to $212,000 in 2002. The 2002 minority interest figure represented a full year's allocation of six percent of Buzztime's losses while the 2003 figure represents an allocation of six percent of Buzztime's losses for only the first half of the month of January 2003 since Scientific-Atlanta converted their minority interest in the Buzztime subsidiary into NTN common stock on January 16, 2003.

INCOME TAXES

The NTN Hospitality Technologies division had taxable income for the year ended December 31, 2003. For federal income tax reporting purposes and in unitary states where the NTN iTV Network may file on a combined basis, taxable losses incurred by Buzztime should be sufficient to offset the division's taxable income. In states where separate filing is required, the division will incur a state tax liability. As a result, NTN Hospitality Technologies recorded a state tax provision of $47,000 in 2003. This was a $6,000 increase over the $41,000 provision for income taxes recorded in 2002.

EBITDA

Our earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by $1,816,000 to $1,466,000 in 2003 from EBITDA of $3,282,000 in 2002. This EBITDA decrease was primarily due to the increased loss in 2003 of $522,000 coupled with a decrease in depreciation expense of $1,028,000.

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

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

	YEAR ENDED DECEMBER 31	
	2003	2002
EBITDA CALCULATION		
Net loss per GAAP	$(2,711,000)	$(2,189,000)
Interest expense (net)	233,000	505,000
Depreciation and amortization	3,897,000	4,925,000
Income taxes	47,000	41,000
EBITDA	$ 1,466,000	$ 3,282,000

On a segment basis, our segments generated EBITDA levels as presented below:

($000)	YEAR ENDED DECEMBER 31, 2003				
EBITDA CALCULATION:	NTN ITV NETWORK	NTN WIRELESS	SOFTWARE SOLUTIONS	HOSP. TECH. DIV.	BUZZTIME
Net income (loss)	$1,772	$(171)	$(565)	$1,036	$(3,747)
Interest expense (net)	232	1	--	233	--
Depreciation and amortization	3,057	138	164	3,359	538
Income taxes	47	--	--	47	--
EBITDA	$5,108	$(32)	$(401)	$4,675	$(3,209)

($000)	YEAR ENDED DECEMBER 31, 2002				
EBITDA CALCULATION:	NTN ITV NETWORK	NTN ITV WIRELESS	SOFTWARE SOLUTIONS	HOSP. TECH. DIV.	BUZZTIME
Net income (loss)	$1,241	$(88)	$ --	$1,153	$(3,342)
Interest expense (net)	505	--	--	505	--
Depreciation and amortization	4,095	98	--	4,193	732
Income taxes	41	--	--	41	--
EBITDA	$5,882	$10	$ --	$5,892	$(2,610)

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2004, we had cash and cash equivalents of $6,710,000 and working capital (current assets in excess of current liabilities) of $6,644,000 compared to cash and cash equivalents of $2,503,000 and working capital of $765,000 at December 31, 2003. Net cash provided by (used in) operations was $(2,556,000) in 2004 and $1,098,000 in 2003, a $3,654,000 increase in the use of cash. The primary reason for the $3,654,000 decrease in cash provided by our operations was the increase in our net loss of $2,268,000, an increase in cash tied up in accounts receivable of $946,000 and a reduction in the amount of cash that we carried in accounts payable and accrued expenses of $545,000.

Net cash used in investing activities was $4,056,000 in 2004 and $2,961,000 in 2003. Included in net cash used in investing activities in 2004 were approximately $2,986,000 in capital expenditures, $476,000 of software development, $492,000 in deposits on broadcast equipment and $102,000 related to the acquisitions completed in prior years. The capital expenditure levels and related deposits on broadcast equipment increased largely due to our site count growth noted above and the process of converting our Canadian customer base to updated NTN iTV Network technology.

Net cash provided by financing activities was $10,766,000 in 2004 and $3,789,000. The cash provided by financing activities in 2004 included $13,001,000 in net proceeds from our public offering and $497,000 in proceeds from exercise of options and warrants. Those cash inflows were partially offset by $2,548,000 in principal payments on our equipment notes payable and our revolving line of credit as well as $184,000 in principal payments on our capital leases.

The cash provided by financing activities in 2003 included $3,712,000 of proceeds from issuance of common stock net of offering expenses and $1,843,000 of proceeds from the exercise of options and warrants. The $3,712,000 was raised in private offerings with Robert M. Bennett, one of our directors, and Media General, Inc. These proceeds were partially offset by cash used in financing activities which included $1,550,000 of net principal payments on the revolving line of credit and $216,000 of principal payments on capital leases and notes payable for VSAT equipment.

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CONTRACTUAL CASH OBLIGATIONS

A table recapping our contractual cash obligations as of December 31, 2004 is presented below:

	PAYMENTS DUE BY PERIOD			
CONTRACTUAL OBLIGATION	LESS THAN 1 YEAR	2ND & 3RD YEARS	4TH, 5TH & 6TH YEARS	T
Revolving line of credit ...	$ --	$ --	$ --	$
Equipment note payable	620,000	--	--	
Capital lease obligations ..	176,000	132,000	8,000	
Purchase commitments	683,000	531,000	--	1,
Operating leases, net of subleases	823,000	648,000	774,000	2,
Total	$ 2,302,000	$ 1,311,000	$ 782,000	$ 4,

BENNETT INVESTMENT

On January 15, 2003, we issued and sold 1,000,000 shares of restricted common stock along with fully vested warrants to purchase 500,000 shares of common stock at $1.15 per share, exercisable through January 15, 2008 through a private offering to Robert M. Bennett, one of our directors, at a price per share of $1.00 for an aggregate amount of $1.0 million. No commissions or placement agent fees were paid in connection with the offering.

CONVERTIBLE SENIOR SUBORDINATED NOTES

As of December 31, 2002, we had outstanding convertible senior subordinated notes of $2,000,000, payable February 1, 2003 and bearing interest at 8% per year. The notes permitted us to convert up to the full principal amount into shares of our common stock at maturity. On February 1, 2003, the $2,000,000 of convertible senior subordinated notes converted into 1,568,627 shares of our common stock based on the agreed conversion price of $1.275 per share.

REVOLVING LINE OF CREDIT

On July 16, 2003, we entered into a $1,000,000 line of credit arrangement with Pacific Mercantile Bank (PMB). Interest on the line is based on an independent index which is the highest rate on corporate loans posted by at least 75% of the USA's thirty largest banks known as The Wall Street Journal's Prime rate. The interest rate to be applied to the unpaid principal balance is 2% over the index. The line originally was set to mature on July 16, 2004 and contained one financial covenant based on our cash flow coverage of the balance on the line of credit. On January 7, 2004, we amended the line of credit to extend the expiration date of the facility to February 1, 2005 and to replace the cash flow-based financial covenant with a balance sheet oriented financial covenant that limits the ratio of our debt to tangible net worth to 2:1. We were in compliance with that covenant as of December 31, 2004. The line was then amended again on February 11, 2005 to extend the expiration date of the line to February 11, 2006. The line is secured by all inventories, equipment, accounts receivable and various other assets.

Prior to establishing our line of credit with PMB, we had a line of credit with Coast Business Credit (Coast) since August 1999. On February 7, 2003, Coast and its parent company, Southern Pacific Bank, were seized by the Federal Deposit Insurance Corporation (the FDIC). The FDIC then sold off the portion of Coast's loan portfolio that contained our line of credit to GF Asset Management, LLC (GF), a subsidiary of GE Capital. On July 17, 2003, we paid off our revolving line of credit with GF. The amount paid was approximately $1,411,000 which is net of a 5% settlement discount of approximately $105,000.

MEDIA GENERAL INVESTMENT

On May 6, 2003, Media General, Inc., a communications company with interests in newspapers, television stations, interactive media and diversified information services, made a $3.0 million investment in NTN. In return for the investment, we issued and sold 2,000,000 shares of unregistered NTN common stock through a private offering to Media General. Pursuant to the terms of the transaction, upon receipt of $3.0 million from Media General, we issued the unregistered shares along with fully vested warrants to purchase 500,000 shares of Buzztime common stock at $3.46 per share, exercisable through May 7, 2007. In connection with the Buzztime common stock, the parties agreed that Media General would have co-sale rights and NTN would have certain drag-along rights. Media General has the right to convert each share of Buzztime common stock into two shares of NTN common stock (subject to adjustment) on the second and fourth anniversaries of the transaction date, in the event of a sale of NTN, upon certain bankruptcy and other insolvency proceedings of Buzztime, and in certain circumstances if NTN exercises its drag-along rights. Media General has the further right to convert the warrant to purchase 500,000 shares of Buzztime common stock into a warrant to purchase 1,000,000 shares of NTN common stock at $1.73 per NTN share (subject to adjustment) in the event of bankruptcy or insolvency of Buzztime. NTN has the right to require Media General to convert its equity interests in Buzztime into equity interests in NTN if there is a sale of NTN.

Simultaneous with the transaction described above, we issued 666,667 shares of unregistered NTN common stock to license selected technology and content (Boxerjam games) from Media General to add additional game content to the Buzztime interactive television game channel and the NTN Network. The license includes a 5-year exclusive interactive television license of certain intellectual property, with options to extend the license for an additional 5 years. In September 2003, we entered into an amendment to the Boxerjam games license with Media General pursuant to which we agreed to pay to Media General a license fee in the amount of $150,000 (or $50,000 more than the original amount of $100,000) in exchange for the unilateral right to exercise the option to extend the Boxerjam games license for an additional 5 years following the initial 5 year term on a non-exclusive basis. Previously, that non-exclusive right was at Media General's option. The renewal license fee may be paid to Media General in shares of NTN common stock or, in the event Buzztime's common stock is publicly traded at the time of such renewal, Buzztime shall issue a number of shares of Buzztime common stock with an aggregate value of $150,000.

We recorded both transactions at the fair value of the consideration exchanged on May 6, 2003, and utilized a third party valuation. We used the publicly traded stock price, as of the date of the transactions, of $1.77 per share to determine the $4,720,000 fair value of the shares issued. The consideration allocated to the acquired Boxerjam game license was valued at $1.72 million and is being amortized over the estimated contractual life of 10 years, which assumes, based on management's intention that we will exercise our five year renewal option. We determined that, based on the lack of marketability of Buzztime common stock and limited convertibility into NTN common stock, the fair value of the Buzztime warrants was not material and no allocation of fair value was made.

On January 30, 2004, Media General invested approximately $2.0 million as one of the purchasers in the sale of 3,943,661 shares of our common stock at $3.55 per share. Media General participated on the same terms as the other investors in the financing.

BREAKAWAY INTERNATIONAL TRANSACTION

On July 31, 2003, we acquired all of the assets and certain liabilities of Breakaway International, Inc. (Breakaway), a privately held provider of restaurant industry hardware and software enterprise solutions. We acquired Breakaway's assets for $252,000 in cash, 1,292,614 shares of unregistered NTN common stock, transaction costs and the assumption of certain liabilities. We may pay additional contingent earn-out amounts in NTN common stock and/or cash over the first three years following the acquisition, provided that certain targets over the relevant trailing twelve month period for earnings before taxes are met for the acquired assets. The targeted amounts increase by 25% each year. No earn-out amounts were earned in the first twelve month period following the acquisition. We also entered into employment agreements with five of the executives of Breakaway.

Total consideration for the acquisition was $3,630,000, which consisted of 1,292,614 shares multiplied by the then publicly traded price of $2.44 per share, $252,000 in cash and $224,000 of transaction costs, plus the assumption of liabilities. To determine the fair value of the acquired intangible assets and the related allocation of the purchase price, we commissioned a third party valuation analysis. That third party analysis determined that the identified intangible assets and the related useful lives are developed technology ($781,000, 6 year life), customer relationships ($1,110,000, 6 year life) and non-competition agreements ($30,000, 3 year life). Results of operations from the acquisition have been included in our consolidated statements of operations since August 1, 2003.

WARRANT EXERCISE

On November 13, 2003, NorthBay Opportunities, L.P. (formerly known as BayStar Capital, L.P.) and NorthBay International Opportunities, Ltd. (formerly known as BayStar International, Ltd.) exercised warrants to purchase shares of our common stock in the amounts of 493,827 and 123,456 shares, respectively. The warrant exercise price for both firms was $1.62 per share. Those firms paid us approximately $1 million on November 13, 2003 in order to exercise those warrants. These warrants were existing instruments that were issued as part of a previous financing by those firms. The warrants were scheduled to expire on November 14, 2003.

NTN INTERACTIVE NETWORK TRANSACTION

On December 15, 2003, we acquired most of the operating assets, certain liabilities and the operations of NTN Interactive Network, Inc. (NTNIN), our long time Canadian licensee from its parent, Chell Group Corporation Inc. (Chell). We acquired NTNIN's assets for $233,000 in cash, 238,300 shares of unregistered NTN common stock, the contribution of $550,000 in unpaid licensing royalties and the assumption of certain liabilities.

Total consideration for the acquisition was approximately $1,823,000, which consisted of 238,300 shares multiplied by the then publicly traded price of $3.70 per share, $233,000 in cash, the contribution of $550,000 in unpaid licensing royalties, $122,000 of transaction costs, plus the assumption of liabilities. To determine the fair value of the acquired intangible assets and the related allocation of the purchase price, we commissioned a third party valuation analysis. That third party analysis determined that the identified intangible assets and the related useful lives are customer relationships ($720,000, 4 year life), trivia database ($345,000, 10 year life), interactive events software ($102,000, 5 year life) and trivia software ($90,000, 5 year life). NTN Canada's results of operations have been included in our consolidated statements of operations since December 15, 2003.

JANUARY 2004 FINANCING

On January 30, 2004, we completed the sale of 3,943,661 shares of our common stock at $3.55 per share, resulting in gross proceeds of approximately $14.0 million, pursuant to an existing shelf registration filed under the Securities Act. Roth Capital Partners, LLC acted as placement agent in the offering. After commissions and expenses, the net proceeds of this offering were approximately $13.0 million. The offering was purchased primarily by a number of institutional investors and by Media General, Inc., a related party, which invested approximately $2.0 million.

FUTURE FINANCING NEEDS

Our liquidity and capital resources, while stronger than in recent years, remain limited and this may constrain our ability to operate and grow our business.

In 2004 we experienced the most significant increase in iTV site sales in seven years, with 1,000 site sales compared with an average of less than 700 per year over the previous six years. We believe this sales increase can be attributed in large part to our announcement in February 2004 of the planned deployment of a wireless electronic multi-player version of the popular poker game, Texas Hold `Em, on our iTV Network in early 2005. Additionally, we are half way through the conversion of approximately 350 Canadian iTV Network sites to our newest iTV2 technology, which allows the play of Texas Hold `Em, as well as other new game content.

On February 6, 2005, we announced the deployment of Texas Hold `Em to all of our iTV2 sites, which numbered about 900 in North America. Over the first two months of 2005, we have witnessed continued strong growth of sales for the NTN iTV Network. At the Nightclub and Bar trade show in early March 2005, which is one of our strongest trade shows, we had continued strong sales success. We see no signs of this sales growth abating. Each new site requires a capital investment of approximately $5,000 when connected to the iTV Network via VSAT satellite technology. Thus, even though we believe there is a high likelihood that we have sufficient cash to operate our businesses through 2005, we may decide to bolster cash reserves during the year due to the capital requirements associated with the equipment installations arising out of these high sales levels being achieved.

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

A primary driver of capital use over the past two years has been the cost of deploying the VSAT technology in our NTN iTV Network. For more than ten years, we transmitted our data through the FM2 satellite one-way platform. In 2003, we were informed that this platform would no longer be available to us after February 2005. After considering several alternative delivery channels, we entered into equipment purchase and satellite service agreements in 2003 to convert the Network to a much higher speed, two-way VSAT (Very Small Aperture Technology) satellite technology over the two-year period ending February 2005. These agreements were with the same reseller of satellite services that provided the FM2 satellite platform to us. The VSAT technology is more expensive than FM2, and, with our strong sales in 2004, our cash usage increased to fund the new installations.

On January 20, 2005, after learning that the FM2 platform life was being extended, we amended our agreements with our satellite services provider to push out the expiration date on the FM2 satellite platform to February 2007 and to modify our VSAT equipment purchase and satellite service agreements. The amendments will help us in three ways: First, the modification to the equipment purchase agreement eliminates the requirement to purchase and install a specific amount of VSAT equipment. Second, the flexibility will enable us to utilize non-satellite based data transmission platforms, such as digital subscriber lines (DSL), wireless connectivity or cable modems, for customer sites where such platforms may be appropriate. The Company has begun installing some sites with DSL connectivity in areas that cannot be reached by VSAT, which lowers the cost of the installations by a significant amount of approximately $1,800 per site. Third, the amendment allows us to slow our rate of converting sites from the FM2 system to the new VSAT platform over the remainder of the amended FM2 satellite services agreement, which is now scheduled to end in February 2007. As of December 31, 2004, approximately 41% of our domestic sites had been converted to VSAT equipment. We anticipate that with the extension of FM2 sites, an increasing number of DSL installations and the revised VSAT agreement, North America installation costs overall and installation costs per site over the coming years will trend down from what was seen in 2003 and 2004.

We also believe that, as in 2004, NTN Canada will continue to require a significant amount of capital investment. We acquired the NTN Canada Network assets of our Canadian licensee in December 2003. The previous owner had not converted the Canadian customer base to DITV during the 1999 to 2001 period when our domestic sites were converted, and the Canadian Network had become antiquated and was rapidly losing customers. Following the purchase, we have been in the process of upgrading the technology for all 350 active sites there. Through December 31, 2004, approximately 51% of the Canadian sites had been converted to iTV2, our newest technology platform, and connected via either VSAT or DSL communication platforms. Over the next 12 months we plan to convert the remaining 49% of our current customer base at a cost on the order of $500,000. However, we believe that these Canadian capital expenditures will be financed through the operating cash flow we generate in Canada.

Beyond the capital requirements generated by growth issues discussed above, if we generate operating losses in 2005 (excluding non-cash charges) that are similar in size to the operating losses we produced in 2004 (excluding non-cash charges) and if our capital expenditure levels are comparable in 2005 to the capital expenditure levels in 2004; then we will deplete much of our cash reserve and would likely either raise additional capital or constrain our growth to generate sufficient cash to operate the business. There can be no assurance that we will be able to raise capital on acceptable terms or at all.

We also have taken actions to reduce our operating losses in two of the segments that produced losses in 2004 as follows:

Software Solutions Segment - We reduced the workforce by 7 employees in December 2004 and, in February 2005, we sold off the Vision/point of sale product line, which had produced losses, to a new venture formed by the former President of Breakaway International. We retained a 10% ownership in that new venture.

Wireless Segment - This segment would have been profitable in 2004 if it had not borne the costs of the Long Range Systems ("LRS") litigation. We recently settled that litigation and we believe that segment should produce operating profits going forward although that segment is very competitive and the gross margins of that segment remain under pressure.

RISK FACTORS

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

Our business, results of operation and financial condition could be adversely affected by a number of factors, including the following:

WE HAVE EXPERIENCED SIGNIFICANT LOSSES AND WE EXPECT TO INCUR SIGNIFICANT NET LOSSES IN THE FUTURE.

We have a history of significant losses, including net losses of $4,979,000 in 2004, $2,711,000 in 2003 and $2,189,000 in 2002, and an accumulated deficit of $86,769,000 as of December 31, 2004. We expect to incur significant operating and net losses for the next four quarters due primarily to our continued development of Buzztime. Furthermore, we may never achieve profitability, and even if we do, we may not sustain or increase profitability on a quarterly or annual basis in the future.

OUR LIMITED LIQUIDITY AND CAPITAL RESOURCES MAY CONSTRAIN OUR ABILITY TO OPERATE AND GROW OUR BUSINESS.

At December 31, 2004, our current assets exceeded our current liabilities by approximately $6,644,000. Our liquidity and capital resources remain limited and this may constrain our ability to operate and grow our business.

We have a revolving line of credit agreement with Pacific Mercantile Bank, which provides for borrowings of up to $1,000,000 and which was originally to expire in July 2004 by its terms. Effective January 7, 2004, we entered into an agreement with Pacific Mercantile to extend the maturity date of the line of credit to February 1, 2005. We subsequently extended the expiration date of the line to February 11, 2006. As of December 31, 2004, we had no amounts outstanding under the line of credit. The line of credit is secured by substantially all of our assets. Any reduction in availability under our line of credit may further constrain our liquidity.

Capital requirements in 2005 will depend primarily upon the growth of our two business units. We have three growth initiatives underway, any one of which could drive the need for additional capital. These initiatives are the potential sales growth of North American iTV Network sites beyond our historical annual average sales level of approximately 700 sites due to the launch of our Texas Hold `Em game; UK iTV Network growth as a result of the launch of eleven iTV Network trials that began there on March 1, 2005; and potential installations of the Buzztime Network if a broad deployment agreement is reached with a cable operator. If the Company follows a low growth scenario, utilization of our cash and existing $1 million line of credit is expected to be sufficient to cover our financing requirements for 2005. However, our iTV Network sales were strong through 2004 and through the first two months of 2005, therefore we may decide to bolster cash reserves during the year through an equity offering.

Beyond the capital requirements generated by growth issues discussed above, if we generate operating losses in 2005 (excluding non-cash charges) that are similar in size to the operating losses we produced in 2004 (excluding non-cash charges) and if our capital expenditure levels are comparable in 2005 to the capital expenditure levels in 2004; then we will require additional capital or will be forced to constrain our growth to generate sufficient cash to operate the business. There can be no assurance that we will be able to raise capital on acceptable terms or at all.

NEW PRODUCTS AND RAPID TECHNOLOGICAL CHANGE MAY RENDER OUR OPERATIONS OBSOLETE OR NONCOMPETITIVE.

If we do not compete successfully in the development of new products and keep pace with rapid technological change, we will be unable to achieve profitability or sustain a meaningful market position. The interactive entertainment and game industry, as well as the wireless paging and software applications industries, are becoming highly competitive and subject to rapid technological changes when compared to other industries. We are aware of other companies that are introducing interactive game products on various platforms that allow players to compete across the nation. We are also aware of other companies that are developing and introducing wireless technology and software applications that may be suitable for use in the hospitality industry. The wireless paging industry is highly competitive; we may experience pricing pressure in the wireless markets that could impact our margins with respect to our wireless product line. Some of these companies have substantially greater financial resources and organizational capital than we do, which could allow them to identify emerging trends. In addition, changes in customer tastes may render our network and its content, our technology and our wireless and software products obsolete or noncompetitive.

The emergence of new entertainment products and technologies, changes in consumer preferences and other factors may limit the life cycle of our technologies and any future products and services we develop. Accordingly, our future performance will depend on our ability to:

- identify emerging technological trends in our market;
- identify changing consumer needs, desires or tastes;
- develop and maintain competitive technology, including new product and service offerings;
- improve the performance, features and reliability of our products and services, particularly in response to technological changes and competitive offerings; and
- bring technology to the market quickly at cost-effective prices.

We may not be successful in developing and marketing new products and services that respond to technological and competitive developments and changing customer needs. Such products and services may not gain market acceptance. Any significant delay or failure in developing new or enhanced technology, including new product and service offerings, could result in a loss of actual or potential market share and a decrease in revenues.

WE MUST EFFECTIVELY COMPETE WITHIN THE HIGHLY COMPETITIVE SOFTWARE INDUSTRY.

The software industry is intensely competitive. Several large vendors develop and market database management programs, business and management applications, collaboration products and business intelligence products that compete with our NTN Software Solutions offerings. Some of these competitors have significantly greater financial and technical resources than we do. We expect to continue to face intense competition in the software market in which we compete. We could lose market share if our competitors introduce new competitive products into one or more of our markets, add new functionality into an existing competitive product, acquire a competitive product, reduce prices, or form strategic alliances with other companies. In addition, because new distribution methods and opportunities offered by the internet and electronic commerce have removed many of the barriers to entry historically faced by small and start-up companies in the software industry, we expect to face additional future competition from these companies.

IF WE FAIL TO MANAGE OUR GROWTH EFFECTIVELY, WE MAY LOSE BUSINESS AND EXPERIENCE

REDUCED PROFITABILITY.

Continued implementation of our business plan requires an effective planning and management process. Our anticipated future growth will continue to place a significant strain on our management systems and resources. If we are to grow successfully, we must:

- improve our operational, administrative and financial systems;
- expand, train and manage our workforce; and
- attract and retain qualified management and technical personnel.

THE INTERACTIVE GAMING AND ENTERTAINMENT INDUSTRY IS HIGHLY COMPETITIVE.

The entertainment business is highly competitive. We compete with other companies for total entertainment related revenues in the marketplace. Our network programming competes generally with broadcast television, direct satellite programming, pay-per-view, other content offered on cable television, and other forms of entertainment. Furthermore, certain of our competitors have greater financial and other resources available to them. The entrance of motion picture, cable and television companies in the interactive entertainment and multimedia industries will likely intensify competition in the future.

We also compete with other content and services available to consumers through online services. The expanded use of online networks and the internet provide computer users with an increasing number of alternatives to video games and entertainment software. With this increasing competition and rapidly changing factors, we must be able to compete in terms of technology, content and management strategy. If we fail to provide quality services and products, we will lose revenues to other competitors in the entertainment industry. Increased competition may also result in price reductions, fewer customer orders, reduced gross margins, longer sales cycles, reduced revenues and loss of market share.

IF INTELLECTUAL PROPERTY LAW AND PRACTICE DO NOT ADEQUATELY PROTECT OUR PROPRIETARY RIGHTS AND INTELLECTUAL PROPERTY, OUR BUSINESS COULD BE SERIOUSLY DAMAGED.

We rely on a combination of trademarks, copyrights and trade secret laws to protect our proprietary rights in some of our products. Furthermore, it is our policy that all employees and consultants involved in research and development activities sign nondisclosure agreements. Our competitors may, however, misappropriate our technology or independently develop technologies that are as good as or better than ours. Our competitors may also challenge or circumvent our proprietary rights. If we have to initiate or defend against an infringement claim in the future to protect our proprietary rights, the litigation over such claims could be time-consuming and costly to us, adversely affecting our financial condition.

From time to time, we hire or retain employees or external consultants who may work for other companies developing products similar to those offered by us. These former employers may claim that our products are based on their products and that we have misappropriated their intellectual property. Any such litigation could prevent us from exploiting our proprietary portfolio and cause us to incur substantial costs, which in turn could materially adversely affect our business.

We believe that the success of our business depends upon such factors as the technical expertise, innovative skills and marketing and customer relations abilities of our employees, as well as upon patents, copyrights, trade secrets and other intellectual property rights. As of December 31, 2004, we owned one United States patent covering certain aspects of technology related to an interactive learning system. This patent will expire in 2017. As of December 31, 2004, we had applied for two additional patents in the United States.

Our pending patent applications and any future applications might not be approved. Our patents might not provide us with competitive advantages. Third parties might challenge our patents. In addition, patents held by third parties might have an adverse effect on our ability to do business. Furthermore, third parties might independently develop similar products, duplicate our products or, to the extent patents are issued to us, design around those patents.

Others may have filed and in the future may file patent applications that are similar or identical to those of ours. To determine the priority of inventions, we may have to participate in interference proceedings declared by the United States Patent and Trademark Office. Such interference proceedings could result in substantial cost to us. Such third-party patent applications might have priority over patent applications filed by us.

WE MAY BE LIABLE FOR THE CONTENT WE MAKE AVAILABLE ON THE NTN ITV NETWORK, THE BUZZTIME TRIVIA CHANNEL AND THE INTERNET.

We make content available on the NTN iTV Network, the Buzztime trivia channel and the internet. The availability of this content could result in claims against us based on a variety of theories, including defamation, obscenity, negligence or copyright or trademark infringement. We could also be exposed to liability for third party content accessed through the links from our web sites to other web sites. We may incur costs to defend ourselves against even baseless claims, and our financial condition could be materially adversely affected if we are found liable for information that we make available. Implementing measures to reduce our exposure may require us to spend substantial resources and may limit the attractiveness of our services to users.

WE MAY FACE EXPOSURE ON SALES AND/OR USE TAXES IN VARIOUS STATES.

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

OUR GAMES AND GAME SHOWS ARE SUBJECT TO GAMING REGULATIONS.

We operate games of skill and chance that, in some instances, reward prizes. These games are regulated in many jurisdictions. The selection of prizewinners is sometimes based on chance, although none of our games require any form of monetary payment. We also operate interactive skill card games, such as Texas Hold 'Em poker and Blackjack. These skill card games are restricted in several jurisdictions. The laws and regulations that govern these games, however, are subject to differing interpretations in each jurisdiction and are subject to legislative and regulatory change in any of the jurisdictions in which we offer our games. If such changes were to happen, we may find it necessary to eliminate, modify or cancel certain components of our products that could result in additional development costs and/or the possible loss of revenue.

IF OUR CHIEF EXECUTIVE OFFICER WERE TO LEAVE US, OUR BUSINESS MAY BE ADVERSELY AFFECTED.

Our success greatly depends on the efforts of our chief executive officer. Our ability to operate successfully will depend significantly on his services and contributions. Therefore, we entered into an employment agreement with Mr. Stanley B. Kinsey on September 9, 2004 to provide for an extended term of his services as NTN CEO through February 28, 2005. This employment agreement included an increase in annual salary, a grant of 50,000 deferred stock units under the NTN Communications, Inc. 2004 Performance Incentive Plan, and a grant of options to purchase up to 300,000 shares of common stock. Mr. Kinsey continues to discharge his obligations under the September 9, 2004 agreement while the extension of this agreement is being negotiated between Mr. Kinsey and the compensation committee of our board of directors. The negotiation is expected to conclude by the end of April 2005. However, our business and operations may be adversely affected if he were to leave Before his employment agreement is renewed.

WE MAY HAVE DIFFICULTY RECRUITING PROFESSIONALS FOR OUR BUSINESS.

Our business requires experienced programmers, creative designers and application developers. Our success will depend on identifying, hiring, training and retaining such experienced, knowledgeable professionals. We must recruit talented professionals in order for our business to grow. There is significant competition for employees with the skills required to develop the products and perform the services we offer. There can be no assurance that we will be able to attract a sufficient number of qualified employees in the future to sustain and grow our business, or that we will be successful in motivating and retaining the employees we are able to attract. If we cannot attract, motivate and retain qualified professionals, our business, financial condition and results of operations will suffer.

FLUCTUATIONS IN FOREIGN CURRENCY EXCHANGE RATES COULD HARM OUR BUSINESS.

On December 15, 2003 we acquired, through NTN Canada, most of the operating assets, certain liabilities and the operations of NTNIN from Chell Group Corporation. This acquisition added an additional 350 customer sites that pay us in Canadian dollars to use our interactive technology, and to receive our game service. Since both the service fees and our Canadian subsidiary's operating expenses are recognized in Canadian dollars, our financial results could be significantly affected by fluctuations in foreign currency exchange rates or by weak economic conditions in foreign markets.

As we are currently beginning a trial of the iTV Network in the United Kingdom, our exposure to foreign currency exchange rates may continue to increase in the future.

COMMUNICATION FAILURES WITH OUR SUBSCRIBER LOCATIONS COULD RESULT IN THE CANCELLATION OF SUBSCRIBERS AND A DECREASE IN OUR REVENUES.

We rely on both satellite and telephone systems to communicate with our subscriber locations. We currently transmit the majority of our data to our hospitality customer sites via PanAmSat's Galaxy IIIR satellite and will rely upon Galaxy IIIC for data transmission in connection with our new VSAT two-way communication technology. We have currently converted approximately 41% of our domestic sites to the VSAT technology. Interruption in communications with our subscriber locations under either system could decrease customer loyalty and satisfaction and result in a cancellation of our services. We are continually reviewing alternative telephone service providers and establishing contingency plans; however, such alternative providers and contingency plans have not been finalized.

In the event that we were forced to switch to another satellite, we would incur significant costs associated with re-pointing our satellite receivers. In addition, we could experience higher operating costs to transmit data to our customers via telephone lines and the internet during the transition period.

Another potential risk is the possibility that our government could pre-empt our satellite for national security reasons, as the United States satellite operators are federally licensed. This would appear to be unlikely as our government has a strong communications infrastructure in place domestically.

RISK FACTORS ASSOCIATED WITH BUZZTIME

WE MAY SELL EQUITY INTERESTS IN BUZZTIME TO THIRD PARTIES, WHICH COULD RESULT IN THE LOSS OF CONTROL OF BUZZTIME OR DEVALUATION OF OUR EQUITY INTEREST IN BUZZTIME.

In June 2001, we sold a 6% interest in Buzztime to an affiliate of Scientific-Atlanta, a leading cable television set-top box manufacturer. While Scientific-Atlanta's investment position was converted to our common stock in January 2003, we believe there may be divergent investment preferences between the strategies pursued by the NTN iTV Network and Buzztime and may decide in the future to continue to raise additional financing by issuing and selling equity interests in Buzztime to third parties. To enhance the ability of Buzztime to raise such financing, we have previously contributed and may contribute in the future some of our assets to Buzztime in order to allow the development of a distinct identity that we believe is necessary for it to effectively grow as a separate concern. These assets include our extensive trivia game show library and our interactive play-along sports games and related intangible assets.

From an operational standpoint, we could lose control of Buzztime. If we lose control, Buzztime may no longer provide adequate support and resources for content and programming for the NTN iTV Network, affecting the ability of the NTN iTV Network to continue its operations. From a financial viewpoint, we could undervalue the stock of Buzztime when selling it to third parties or undervalue assets transferred to Buzztime and this could devalue your holdings in NTN because we would not receive the fair value for our interest in Buzztime.

IF OUR NEW BUZZTIME PROGRAMMING IS NOT ACCEPTED BY CONSUMERS, WE ARE NOT LIKELY TO GENERATE SIGNIFICANT REVENUES OR BECOME PROFITABLE.

The new Buzztime channel faces risks as to whether consumers will accept interactive television products and the trivia programming produced by Buzztime. If interactive television does not become a successful, scaleable medium or if consumers do not accept trivia and play-along sports games, then we will be unable to draw revenues from advertising, direct-marketing of third-party products, subscription fees and pay-per-play fees. Until a sufficient market develops for the digital set-top boxes enabled to run our interactive television game applications, our profit potential is uncertain. We may also be unable to attract local cable operators to add Buzztime programming as a channel to their service.

THE MARKET FOR INTERACTIVE TELEVISION GAMES AND SERVICES IS NEW AND MAY NOT DEVELOP AS ANTICIPATED.

The interactive television market currently is small and emerging. The success of Buzztime will depend on the growth and development of this market in the United States and it will depend upon the commercialization and broad acceptance by consumers and businesses of a wide variety of interactive television products. Demand and market acceptance of recently introduced products and services are subject to a high level of uncertainty and, as a result, our profit potential is unproven. In addition, the potential size of this new market opportunity and the timing of its development and deployment are currently uncertain. Development schedules of interactive television offered by our competitors have been delayed or refocused as the industry evolves. If the market for interactive television does not develop or develops more slowly than anticipated, our revenues will not grow as fast as anticipated, if at all.

COMPETITION MAY INCREASE IN THE INTERACTIVE TELEVISION INDUSTRY

The number of competitors in the game portion of the interactive television industry may increase as the industry matures. Some of those competitors may be larger and better capitalized than we are.

THE ADOPTION OF INCOMPATIBLE STANDARDS COULD RENDER OUR PRODUCTS OBSOLETE OR NON-COMPETITIVE.

If a new digital set-top box standard or middleware platform is defined, we do not know whether Buzztime's products will be compatible with such standards once defined. The establishment of multiple standards could hurt our business and significantly increase our expenses, particularly if our products require significant redevelopment in order to conform to the newly established standards. Any delay or failure on our part to respond quickly, cost-effectively and sufficiently to these developments could render our existing products and services obsolete and cause us not to be competitive, resulting in a decrease in our revenues without a corresponding decrease in our expenses. We may have to incur substantial expenditures to modify or adapt our products or services to respond to these developments. We must be able to incorporate new technologies into the products we design and develop in order to address the increasingly complex and varied needs of our customer base.

INCREASING GOVERNMENT REGULATION COULD CAUSE DEMAND FOR OUR PRODUCTS AND SERVICES TO DECLINE SIGNIFICANTLY.

We are subject not only to regulations applicable to businesses generally, but also laws and regulations that apply directly to the industry of interactive television products. Although there are currently few such laws and regulations, state and federal governments may adopt a number of these laws and regulations governing any of the following issues:

- user privacy;
- copyrights;
- consumer protection;
- the media distribution of specific material or content; and
- the characteristics and quality of interactive television products and services.

One or more states or the federal government could enact regulations aimed at companies, like us, which provide interactive television products. The likelihood of such regulation being enacted will increase as interactive television becomes more pervasive and affects the daily lives of more people. Any such legislation or regulation could dampen the growth of the industry of interactive television. If such a reduction in growth occurs, demand for our products and services may decline significantly.

On January 18, 2001, the Federal Communications Commission issued a notice of inquiry concerning interactive television. The notice raised a series of questions that suggest that cable systems might be regarded as essential, open platforms of spectrum for non-discriminatory third-party access, rather than facilities-based providers competing in a wider market. The notice sought comments on the nature of interactive television and whether cable systems will be a "superior platform" for providing interactive television. The outcome of the inquiry will determine whether or not a subsequent rulemaking will be held in order to create regulations for the interactive television industry. Any regulation of this industry could impact on Buzztime and its operations.

RISK FACTORS ASSOCIATED WITH OUR COMMON STOCK

OUR COMMON STOCK COULD BE DELISTED OR SUSPENDED FROM TRADING ON THE AMERICAN STOCK EXCHANGE.

On May 1, 2003, we received a letter from the American Stock Exchange (AMEX) stating that we are now in compliance with AMEX listing standards. Prior to that date we had been out of compliance since our shareholders' equity was below $6 million, which was the minimum threshold established by AMEX for companies with multiple years of losses. New AMEX rules effective January 2003 permit a company, such as NTN, to remain listed on AMEX if it has a total market capitalization of at least $50 million, has at least 1.1 million shares publicly held, has a market value of publicly held shares of at least $15 million and has a minimum of 400 round lot shareholders.

Should, at some future date, we fall out of compliance with the new rules (from subsequent changes in market capitalization or otherwise), we could remain compliant by maintaining a level of shareholders' equity of $6 million. If we otherwise fail to maintain compliance with the AMEX listing standards, our common stock may not remain listed on AMEX or any other exchange or quotation system in the future. If our common stock is delisted from AMEX, spreads can often be higher for securities traded on the over-the-counter market and the execution time for orders may be longer. Thus, removing our stock from AMEX may result in decreased liquidity by making the trading of our stock less efficient.

OUR STOCK PRICE HAS BEEN HIGHLY VOLATILE AND YOUR INVESTMENT COULD SUFFER A DECREASE IN VALUE.

The trading price of our common stock has been and may continue to be subject to wide fluctuations. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable, and news reports relating to trends in our markets. In addition, the stock market in general, and the market prices for technology-related companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance.

OUR CHARTER CONTAINS PROVISIONS THAT MAY HINDER OR PREVENT A CHANGE IN CONTROL OF OUR COMPANY, WHICH COULD RESULT IN OUR INABILITY TO APPROVE A CHANGE IN CONTROL AND POTENTIALLY RECEIVE A PREMIUM OVER THE CURRENT MARKET VALUE OF YOUR STOCK.

Certain provisions of our certificate of incorporation could make it more difficult for a third party to acquire control of us, even if such a change in control would benefit our stockholders. For example, our certificate of incorporation requires a supermajority vote of at least 80% of the total voting power, voting together as a single class, to amend certain provisions of such document, including those provisions relating to:

- the number, election and term of directors;
- the removal of directors and the filling of vacancies; and
- the supermajority voting requirements of our restated certificate of incorporation.

These provisions could discourage third parties from taking over control of our company. Such provisions may also impede a transaction in which you could receive a premium over then current market prices and your ability to approve a transaction that you consider in your best interests.

IF THE SHARES OF OUR COMMON STOCK ELIGIBLE FOR FUTURE SALE ARE SOLD, THE MARKET PRICE OF OUR COMMON STOCK MAY BE ADVERSELY AFFECTED.

Future sales of substantial amounts of our common stock in the public market or the anticipation of such sales could have a material adverse effect on then-prevailing market prices. As of December 31, 2004, there were approximately 10,293,000 shares of common stock reserved for issuance upon the exercise of outstanding stock options at exercise prices ranging from $0.45 to $4.94 per share. As of December 31, 2004, there were also outstanding warrants to purchase an aggregate of approximately 1,941,000 shares of common stock at exercise prices ranging from $0.77 to $3.91 per share.

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 these 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 our common stock without assuming the risk of ownership. To the extent the trading price of our common stock at the time of exercise of any such options or warrants exceeds the exercise price, such exercise will have a dilutive effect on our stockholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to risks related to currency exchange rates, stock market fluctuations, and interest rates. As of December 31, 2004, we owned common stock of an Australian company that is subject to market risk. At December 31, 2004, the carrying value of this investment was $304,000, which is net of a $513,000 unrealized loss. This investment is exposed to further market risk in the future based on the operating results of the Australian company and stock market fluctuations. Additionally, the value of the investment is further subject to changes in Australian currency exchange rates. At December 31, 2004, a hypothetical 10% decline in the value of the Australian dollar would result in a reduction of $30,000 in the carrying value of the investment.

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

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Schedule on page F-1, for a listing of the Consolidated Financial Statements and Schedule filed with this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As noted in our SEC filings, we changed our independent public accountants in third quarter 2004 from KPMG LLP (KPMG) to Haskell & White LLP. We have agreed to indemnify and hold KPMG LLP harmless against and from any and all legal costs and expenses incurred by KPMG in successful defense of any legal action or proceeding that arises as a result of KPMG's consent to the incorporation by reference of its audit report on the Company's past financial statements into our Registration Statements on Form S-8 and Form S-3.

ITEM 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

We maintain "disclosure controls and procedures", as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed, in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have carried out an evaluation as of the end of the period covered by this report under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon their evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that there were no significant deficiencies or material weaknesses in our disclosure controls and procedures, that, except for the material weakness disclosed in Item 9A below, such disclosure controls and procedures were effective as of the end of the period covered by this report in providing reasonable assurance of achieving the desired control objectives, and therefore there were no corrective actions taken.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of NTN is responsible for establishing and maintaining adequate internal control over financial reporting. NTN's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Throughout much of 2004, management pursued the analysis of its internal controls using significant management and staff time at all levels of the organization; the hiring of a dedicated internal auditor, and the full-time use of an external consulting firm specializing in internal control documentation and testing to guide us in the process. The team reviewed, tested and documented hundreds of internal controls in our significant business cycles and processes to determine where deficiencies in the system might occur in a comprehensive evaluation as to who and/or how the control was initiated, authorized, recorded, processed, or reported.

As of December 31, 2004, the management of NTN represents that in its review of all internal controls deemed to be significant, it did have one material weakness due to inadequate documentation of the design and testing of controls over relevant assertions related to certain significant accounts and disclosures. This pertains to documenting to the degree appropriate how certain controls were initiated, authorized, recorded, processed, tested or reported. Our review found no material deficiencies in the functioning of the underlying control activities themselves. We did not have any audit adjustments to the consolidated financial statements as of and for the year ended December 31, 2004.

According to the guidelines established by INTERNAL CONTROL - INTEGRATED FRAMEWORK issued by the Committee of Sponsoring Organizations of the Treadway Commission, one or more material weaknesses renders a company's internal control over financial reporting ineffective. Accordingly, based on the matter discussed above, management has concluded that NTN did not maintain effective internal control over financial reporting as of December 31, 2004.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 has been audited by Haskell & White LLP, an independent registered public accounting firm, as stated in their report which is included herein on page F-2.1.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is taking steps to strengthen and refine the Company's documentation of the design and testing of those certain controls over relevant assertions related to certain significant accounts and disclosures that were deemed to be in need of strengthening, as follows:

- We are evaluating certain software programs to help us with the level of detail of our documentation

- We plan over the coming quarters to expand our current documentation to a greater level of detail.

- Our internal audit function has made this area the primary focus of our 2005 internal audit plan.

Except as disclosed above, there has been no change in our internal control over financial reporting identified in connection with our management's evaluation of any change in our internal control over financial reporting that occurred during the fourth fiscal quarter in 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

MANAGEMENT

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information responsive to Part III, Item 10 is included in the definitive Proxy Statement, to be filed by Registrant with the SEC pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive and Director Compensation" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 11. EXECUTIVE COMPENSATION

Information responsive to Part III, Item 11 is included in the definitive Proxy Statement to be filed by Registrant with the SEC pursuant to Regulation 14A, under the captions therein entitled "Election of Directors", "Executive and Director Compensation" and "Equity Compensation Plan Information" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information responsive to Part III, Item 12 is included in the definitive Proxy Statement, to be filed by Registrant with the SEC pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive and Director Compensation" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information responsive to Part III, Item 13 is included in the definitive Proxy Statement, to be filed by Registrant with the SEC pursuant to Regulation 14A, under the caption therein entitled "Election of Directors" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information responsive to Part III, Item 14 is included in the definitive Proxy Statement, to be filed by Registrant with the SEC pursuant to Regulation 14A, under the caption therein entitled "Principal Accounting Firm Fees" and is incorporated herein by reference pursuant to General Instruction G(3).

PART IV

ITEM 15. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this report:

CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE. The consolidated financial statements and schedule of the Company and its consolidated subsidiaries are set forth in the "Index to Consolidated Financial Statements and schedule" on page F-1.

EXHIBITS. The following exhibits are filed as a part of this report:

EXHIBIT NO.		DESCRIPTION
3.1	--	Amended and Restated Certificate of Incorporation of the Company, as amended (4)
3.2	--	Certificate of Designations, Rights and Preferences of Series B Convertible Preferred Stock (7)
3.3	--	Certificate of Amendment to Restated Certificate of Incorporation of the Company, dated March 22, 2000 (8)
3.4	--	Certificate of Amendment to Restated Certificate of Incorporation of the Company, dated March 24, 2000 (8)
3.5	--	By-laws of the Company (2)
3.6	--	Certificate of Amendment to Restated Certificate of Incorporation of the Company, dated May 27, 2003 (16)
4.1	--	Specimen Common Stock Certificate (10)

4.2*	--	Stock Option Agreement, dated October 7, 1998, by and between NTN Communications, Inc. and Stanley B. Kinsey (5)
4.3*	--	Stock Option Agreement, dated October 7, 1999, by and between NTN Communications, Inc. and Stanley B. Kinsey (6)
4.4*	--	Stock Option Agreement, dated January 26, 2001, by and between NTN Communications, Inc. and Stanley B. Kinsey (12)
4.5	--	Warrant Certificate issued January 13, 2003 by NTN Communications, Inc. to Robert M. and Marjie Bennett, Trustees The Bennett Family Trust dated 11-17-86 (19)
4.6	--	NTN Investor Rights Agreement, dated May 7, 2003, by and between NTN Communications, Inc. and Media General, Inc. (18)
4.7	--	Buzztime Investor Rights Agreement, dated May 7, 2003, by and among NTN Communications, Inc., Buzztime Entertainment, Inc. and Media General, Inc. (18)
4.8	--	Common Stock Purchase Warrant dated May 7, 2003 issued to Media General, Inc. exercisable for 500,000 shares of common stock of Buzztime Entertainment, Inc. (18)
4.9	--	Form of Common Stock Purchase Warrant by and between Roth Capital Partners, LLC and NTN Communications, Inc. (14)
10.1	--	License Agreement with NTN Canada (3)
10.2*	--	Employment Agreement, dated October 7, 1998, by and between NTN Communications, Inc. and Stanley B. Kinsey (5)
10.3	--	Subscription Agreement dated January 13, 2003 between NTN Communications, Inc. and Robert M. and Marjie Bennett, Trustees The Bennett Family Trust dated 11-17-86 (19)
10.4	--	Scientific-Atlanta Strategic Investments, L.L.C. Notice of Exchange of Buzztime Preferred Stock for NTN Common Stock, dated January 16,

		2003 (19)
10.5	--	Securities Purchase Agreement dated May 5, 2003 by and among NTN Communications, Inc., Buzztime Entertainment, Inc. and Media General, Inc. (18)
10.6	--	Placement Agency Agreement dated January 26, 2004 by and between Roth Capital Partners, LLC and NTN Communications, Inc. (14)
10.7	--	Manufacturing Agreement, dated November 25, 1997, by and between NTN Communications, Inc. and Climax Technology Co., Ltd. (9)
10.8	--	Office Lease, dated July 17, 2000, between Prentiss Properties Acquisition Partners, L.P. and NTN Communications, Inc. (11)
10.9	--	Asset Purchase Agreement dated July 30, 2003 by and among NTN Software Solutions, Inc., NTN Communications, Inc., Breakaway International, Inc. and the Seller Shareholders (17)
10.10	--	Asset Purchase Agreement dated December 15, 2003 by and among NTN Canada, Inc., NTN Communications, Inc., NTN Interactive Network, Inc. and Chell Group Corporation (15)
10.11*	--	Employment Agreement, dated September 9, 2004, by and between NTN Communications, Inc. and Stanley B. Kinsey (20)
14.0	--	Code of Ethics for Senior Financial Officers (13)
16.1	--	Letter, dated August 20, 2004, from KPMG to the Securities and Exchange Commission regarding change in certifying accountant of NTN (21)
21.1	--	Subsidiaries of Registrant (1)
23.1	--	Consent of HASKELL & WHITE LLP (1)
23.2	--	Consent of KPMG LLP (1)
31	--	Certification of Officers pursuant to Rule 13a-14(a) (1)
32	--	Certification of Officers pursuant to Rule 13a-14(b) (22)

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* Management Contract or Compensatory Plan.

(1) Filed herewith.

(2) Previously filed as an exhibit to NTN's registration statement on Form S-8, File No. 33-75732, and incorporated by reference.

(3) Previously filed as an exhibit to NTN's report on Form 10-K for the fiscal year ended December 31, 1990, and incorporated by reference.

(4) Previously filed as an exhibit to NTN's report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated by reference.

(5) Previously filed as an exhibit to NTN's report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated by reference.

(6) Previously filed as an exhibit to NTN's report on Form 10-K for the fiscal year ended December 31, 1999 and incorporated herein by reference.

(7) Previously filed as an exhibit to NTN's report on Form 8-K dated October 31, 1997 and incorporated herein by reference.

(8) Previously filed as an exhibit to NTN's report on Form 10-K/A filed on April 5, 2000 and incorporated herein by reference.

(9) Previously filed as an exhibit to NTN's report on Form 10-K/A filed on March 5, 2001 and incorporated herein by reference.

(10) Previously filed as an exhibit to NTN's registration statement on Form 8-A, File No. 0-19383, and incorporated by reference.

(11) Previously filed as an exhibit to NTN's report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated by reference.

(12) Previously filed as an exhibit to NTN's report on Form 10-Q for the quarterly period ended March 31, 2001 and incorporated by reference.

(13) Previously filed as an exhibit to NTN's Form 10-K dated for the fiscal year ended December 31, 2002 and incorporated herein by reference.
(14) Previously filed as an exhibit to NTN's report on Form 8-K filed on January 29, 2004 and incorporated herein by reference.
(15) Previously filed as an exhibit to NTN's registration statement on Form S-3, File No. 333-111538, filed on December 24, 2003 and incorporated herein by reference.
(16) Previously filed as an exhibit to NTN's Form 10-Q for the quarterly period ended June 30, 2003 and incorporated herein by reference.
(17) Previously filed as an exhibit to NTN's report on Form 8-K dated July 31, 2003 and incorporated herein by reference.
(18) Previously filed as an exhibit to NTN's registration statement on Form S-3, File No. 333-105429, filed on May 21, 2003 and incorporated herein by reference.
(19) Previously filed as an exhibit to NTN's Form 10-Q for the quarterly period ended March 31, 2003 and incorporated herein by reference.
(20) Previously filed as an exhibit to NTN's Form 10-Q for the quarterly period ended September 30, 2004, and incorporated herein by reference.
(21) Previously filed as an exhibit to NTN's report on Form 8-K dated August 23, 2004 and incorporated herein by reference.
(22) Furnished concurrently herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NTN COMMUNICATIONS, INC.

By: /S/ JAMES B. FRAKES

James B. Frakes
Chief Financial Officer

Dated: May 2, 2005

KNOW ALL PERSONS BY THESE PRESENTS, that each of the persons whose name appears below appoints and constitutes Stanley B. Kinsey and James B. Frakes, and each one of them, acting individually and without the other, as his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to execute any and all amendments to this Report on Form 10-K and to file the same, together with all exhibits thereto, with the Securities and Exchange Commission, and such other agencies, offices and persons as may be required by applicable law, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ STANLEY B. KINSEY Stanley B. Kinsey	Chief Executive Officer and Chairman of the Board	May 2, 2005
/S/ BARRY BERGSMAN Barry Bergsman	Director	May 2, 2005
/S/ ROBERT M. BENNETT Robert M. Bennett	Director	May 2, 2005
/S/ ESTHER L. RODRIGUEZ Esther L. Rodriguez	Director	May 2, 2005
/S/ GARY ARLEN Gary Arlen	Director	May 2, 2005
/S/ ROBERT B. CLASEN Robert B. Clasen	Director	May 2, 2005
/S/ NEAL FONDREN Neal Fondren	Director	May 2, 2005
/S/ MICHAEL FLEMING Michael Fleming	Director	May 2, 2005

NTN COMMUNICATIONS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
NTN Communications, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of NTN Communications, Inc. and subsidiaries as of December 31, 2004 and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the year ended December 31, 2004. In connection with our audit of the consolidated financial statements, we have also audited the financial statement schedule for the year ended December 31, 2004. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NTN Communications, Inc. and subsidiaries at December 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related 2004 information in the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ HASKELL & WHITE LLP

Irvine, California
March 11, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Shareholders of
NTN Communications, Inc.
Carlsbad, CA

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that NTN Communications, Inc. (NTN) did not maintain effective internal control over financial reporting as of December 31, 2004, because of the effects of the material weakness identified in the adequacy of the documentation of the design and testing of controls over financial reporting, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). NTN's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment. Management concluded that it had a material weakness in the Company's internal control over financial reporting due to inadequate documentation of the design and testing of controls over relevant assertions related to certain significant accounts and disclosures. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2004 consolidated financial statements, and this report does not affect our report dated March 11, 2005 on those consolidated financial statements.

In our opinion, management's assessment that NTN Communications, Inc. did not maintain effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, NTN Communications, Inc. has not maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control-Integrated Framework issued by COSO.

/s/ HASKELL & WHITE LLP

Irvine, California
April 28, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
NTN Communications, Inc.:

We have audited the accompanying consolidated balance sheet of NTN Communications, Inc. and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2003. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule for each of the years in the two-year period ended December 31, 2003. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, 2003, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related 2003 and 2002 information in the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

San Diego, California
March 15, 2004

NTN COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

ASSETS (Pledged)

	2004	2003
Current Assets:		
Cash and cash equivalents	$ 6,710,000	$ 2,503,
Restricted cash	66,000	
Accounts receivable, net of allowance for doubtful accounts of $762,000 in 2004 and $811,000 in 2003	3,405,000	2,324,
Inventory	399,000	404,
Investments available-for-sale	304,000	189,
Deposits on broadcast equipment	534,000	34,
Deferred costs	960,000	493,
Prepaid expenses and other current assets	1,128,000	757,
Total current assets	13,506,000	6,704,

Broadcast equipment and fixed assets, net	6,451,000	4,398,
Software development costs, net of accumulated amortization of $993,000 in 2004 and $689,000 in 2003	763,000	676,
Deferred costs	922,000	505,
Goodwill	3,658,000	3,490,
Intangible assets, net	4,011,000	4,800,
Other assets	77,000	57,
Total assets	$ 29,388,000	$ 20,630,
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,590,000	$ 612,
Accrued expenses	1,125,000	2,270,
Sales tax payable	465,000	219,
Accrued salaries	447,000	375,
Accrued vacation	635,000	529,
Income taxes payable	93,000	39,
Obligations under capital leases - current portion	148,000	165,
Equipment note payable - current portion	620,000	46,
Deferred revenue	1,448,000	1,478,
Deferred revenue-Buzztime	291,000	206,
Total current liabilities	6,862,000	5,939,
Obligations under capital leases, excluding current portion	123,000	181,
Revolving line of credit	--	1,000,
Deferred revenue	368,000	262,
Other long-term liabilities	--	184,
Total liabilities	7,353,000	7,566,
Commitments and contingencies		
Shareholders' equity:		
Series A 10% cumulative convertible preferred stock, $.005 par value, $161,000 liquidation preference, 5,000,000 shares authorized; 161,000 shares issued and outstanding at December 31, 2004 and December 31, 2003	1,000	1,
Common stock, $.005 par value, 84,000,000 shares authorized; 53,026,000 and 48,623,000 shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively	264,000	242,
Additional paid-in capital	109,008,000	95,239,
Accumulated deficit	(86,769,000)	(81,790,
Accumulated other comprehensive loss	(469,000)	(628,
Total shareholders' equity	22,035,000	13,064,
Total liabilities and shareholders' equity	$ 29,388,000	$ 20,630,

See accompanying notes to consolidated financial statements

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NTN COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003
Revenues:		
NTN Hospitality Technologies revenues	$ 35,274,000	$ 29,275,
Buzztime service revenues	359,000	196,
Other revenues	22,000	18,
Total revenues	35,655,000	29,489,
Operating expenses:		
Direct operating costs of services (includes depreciation of $2,578,000, $2,800,000 and $3,370,000 for 2004, 2003 and 2002, respectively)	12,257,000	11,146,
Selling, general and administrative	24,836,000	18,400,
Litigation, legal and professional fees	1,641,000	831,
Stock based compensation	293,000	232,
Depreciation and amortization	1,355,000	1,097,
Research and development	329,000	329,
Total operating expenses	40,711,000	32,035,
Operating loss	(5,056,000)	(2,546,
Other income (expense):		
Interest income	98,000	5,
Interest expense	(152,000)	(238,
Gain on early extinguishment of debt	--	105,
Gain from litigation settlement	225,000	
Total other income (expense)	171,000	(128,
Loss before income taxes and minority interest in loss of consolidated subsidiary	(4,885,000)	(2,674,
Provision for income taxes	(94,000)	(47,
Minority interest in loss of consolidated subsidiary	--	10,
Net loss	$ (4,979,000)	$ (2,711,
Net loss per common share - basic and diluted	$ (0.09)	$ (0

Weighted average shares outstanding -- basic and diluted	52,599,000	45,446,

NTN COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003
Net loss	$ (4,979,000)	$ (2,711,
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	44,000	
Unrealized holding gain in investment-available-for-sale	115,000	11,
Other comprehensive income	159,000	11,
Comprehensive net loss	$ (4,820,000)	$ (2,700,

See accompanying notes to consolidated financial statements

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NTN COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	SERIES A CUMULATIVE CONVERTIBLE PREFERRED STOCK	
	SHARES	AMOUNT
Balance, December 31, 2001	161,000	$ 1,000
Issuance of stock for exercise of warrants and options	--	--
Issuance of stock in lieu of interest	--	--
Issuance of stock in lieu of dividends	--	--
Issuance of stock in payment of accrued board compensation	--	--
Issuance of stock for acquisitions	--	--
Stock-based compensation	--	--
Unrealized holding gain on investments available-for-sale	--	--
Net loss	--	--

Balance, December 31, 2002	161,000	$ 1,000
Issuance of stock for exercise of warrants and options	--	--
Issuance of stock in lieu of interest	--	--
Issuance of stock in lieu of dividends	--	--
Issuance of stock in payment of accrued board compensation	--	--
Issuance of stock for acquisitions	--	--
Convertible note payable converted to common stock	--	--
Issuance of stock in private placement, net of issuance costs	--	--
Conversion of Buzztime preferred series A to NTN common stock	--	--
Stock-based compensation	--	--
Unrealized holding gain on investments available for sale	--	--
Net loss	--	--
Balance, December 31, 2003	161,000	$ 1,000
Issuance of stock for exercise of warrants and options	--	--
Issuance of stock in lieu of dividends	--	--
Issuance of stock in public offering, net of issuance costs	--	--
Stock options granted below market	--	--
Options and warrants granted to non-employees	--	--
Deferred stock units granted to employees	--	--
Accumulated other comprehensive loss	--	--
Net loss	--	--
Balance, December 31, 2004	161,000	$ 1,000

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NTN COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE LOSS
Balance, December 31, 2001	$ 80,639,000	$ (76,890,000)	$ (643,00
Issuance of stock for exercise of warrants and options	134,000	--	-
Issuance of stock in lieu of interest	159,000	--	-
Issuance of stock in lieu of dividends	--	--	-
Issuance of stock in payment of accrued board compensation	(135,000)	--	-
Issuance of stock for acquisitions	318,000	--	-
Stock-based compensation	96,000	--	-
Unrealized holding gain on investments available-for-sale	--	--	4,00
Net loss	--	(2,189,000)	-

Balance, December 31, 2002	$ 81,211,000	$ (79,079,000)	$ (639,00
Issuance of stock for exercise of warrants and options	1,836,000	--	-
Issuance of stock in lieu of interest	54,000	--	-
Issuance of stock in lieu of dividends	--	--	-
Issuance of stock in payment of accrued board compensation	(156,000)	--	-
Issuance of stock for acquisitions	4,028,000	--	-
Convertible note payable converted to common stock	1,992,000	--	-
Issuance of stock in private placement, net of issuance costs	5,451,000	--	-
Conversion of Buzztime preferred series A to NTN common stock	591,000	--	-
Stock-based compensation	232,000	--	-
Unrealized holding gain on investments available for sale	--	--	11,00
Net loss	--	(2,711,000)	-
Balance, December 31, 2003	$ 95,239,000	$ (81,790,000)	$ (628,00
Issuance of stock for exercise of warrants and options	495,000	--	-
Issuance of stock in lieu of dividends	--	--	-
Issuance of stock in public offering, net of issuance costs	12,981,000	--	-
Stock options granted below market	2,000	--	-
Options and warrants granted to non-employees	151,000	--	-
Deferred stock units granted to employees	140,000	--	-
Accumulated other comprehensive loss	--	--	159,00
Net loss	--	(4,979,000)	-
Balance, December 31, 2004	$ 109,008,000	$ (86,769,000)	$ (469,00

See accompanying notes to consolidated financial statements

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NTN COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003
Cash flows (used in) provided by operating activities:		
Net loss	$ (4,979,000)	$ (2,711,
Adjustments to reconcile net loss to net cash (used in) provided by operating activities (net of effects of acquisitions):		
Depreciation and amortization	3,933,000	3,897,

Provision for doubtful accounts	436,000	243,
Provision for obsolete inventory	(16,000)	
Provision for warranty reserve	17,000	
Gain on early extinguishment of debt	--	(105,
(Gain) loss from disposition of equipment	164,000	81,
Stock-based compensation charges	293,000	232,
Non-cash interest expense	--	14,
Accreted interest expense	--	3,
Minority interest in loss of subsidiary	--	(10,
Changes in assets and liabilities:		
Restricted cash	(66,000)	102,
Accounts receivable	(1,482,000)	(536,
Inventory	21,000	(128,
Prepaid expenses and other assets	(383,000)	(128,
Accounts payable and accrued expenses	219,000	764,
Income taxes payable	13,000	9,
Deferred costs	(883,000)	(136,
Deferred revenue	157,000	(493,
Net cash (used in) provided by operating activities	(2,556,000)	1,098,
Cash flows used in investing activities:		
Capital expenditures	(2,986,000)	(1,664,
Software development expenditures	(476,000)	(371,
Deposits on broadcast equipment	(492,000)	(34,
Acquisition of businesses, net of cash acquired	(102,000)	(892,
Net cash used in investing activities	(4,056,000)	(2,961,
Cash flows provided by (used in) financing activities:		
Principal payments on capital leases	(184,000)	(216,
Borrowings from revolving line of credit	--	16,631,
Principal payments on note payable and revolving line of credit	(2,548,000)	(18,181,
Proceeds from issuance of common stock, net of issuance costs	13,001,000	3,712,
Proceeds from exercise of warrants and options	497,000	1,843,
Net cash provided by (used in) financing activities	10,766,000	3,789,
Net increase (decrease) in cash and cash equivalents	4,154,000	1,926,
Effect of exchange rate on cash	53,000	
Cash and cash equivalents at beginning of year	2,503,000	577,
Cash and cash equivalents at end of year	$ 6,710,000	$ 2,503,

See accompanying notes to consolidated financial statements

NTN COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 152,000	$ 223,
Income taxes	$ 57,000	$ 38,
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock in payment of interest	$ --	$ 54,
Issuance of treasury stock in payment of board compensation	$ --	$ 54,
Equipment acquired under capital leases and notes payable	$ 2,003,000	$ 744,
Convertible notes exchanged for common stock	$ --	$ 2,000,
Conversion of Buzztime preferred series A into common stock	$ --	$ 596,
Unrealized holding gain/(loss) on investments available for sale	$ 115,000	$ 11,
Issuance of common stock for licensed technology	$ --	$ 1,720,
Issuance of common stock in payment of dividends	$ 16,000	$ 16,
Supplemental non-cash disclosure of acquisition of businesses:		
Accounts receivable (net)	$ --	$ 18,
Inventory	--	35,
Prepaid expenses	--	50,
Fixed assets	--	151,
Goodwill and intangibles	25,000	6,301,
Accounts payable and accrued liabilities	--	(1,155,
Deferred revenue	--	(587,
Capital lease obligations	--	(44,
Line of credit	--	
Common stock issued	--	(4,036,

See accompanying notes to consolidated financial statements

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NTN COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

We develop and distribute interactive communications and entertainment products for the home and for the hospitality industry. Our reportable segments have been determined based on the nature of the services offered to customers, which include the Buzztime segment, the NTN Interactive Television Network (NTN iTV Network), NTN Wireless and NTN Software Solutions segments, which combine to form the NTN Hospitality Technologies division. NTN Hospitality Technologies revenue is generated primarily from providing an interactive entertainment service which serves as a marketing and promotional vehicle for the hospitality industry. Additional revenue is derived from advertising sold for distribution via the interactive entertainment service, from its wireless business with restaurant on-site paging systems and from its hardware and software enterprise solutions. Buzztime, our wholly-owned subsidiary formed in December 1999, owns the exclusive rights to one of the largest known digital trivia game show libraries and many unique "TV Play-along" sports games. Buzztime's mission is to deploy our interactive games in the home through digital cable television.

BASIS OF ACCOUNTING PRESENTATION

The consolidated financial statements include the accounts of NTN and its wholly owned subsidiaries, IWN Inc. (IWN), IWN, L.P., Buzztime, NTN Canada, Inc., NTN Software Solutions, Inc. and NTN Wireless Communications, Inc. (collectively NTN or the Company). IWN and IWN, L.P. are dormant subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Unless otherwise indicated, references to "NTN", "we", "us" and "our" include NTN and its consolidated subsidiaries.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to deferred costs and revenues, depreciation of broadcast equipment, bad debts, investments, intangible assets, financing operations, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

- We record deferred costs and revenues related to the costs and related installation revenue associated with installing new customer sites. Based on Staff Accounting Bulletin No. 104, we amortize these amounts over an estimated three-year average life of a customer relationship. If a significant number of our customers leave us before the estimated life of each customer is attained, amortization of those deferred costs and revenues would accelerate, which would result in net incremental revenue.

- We incur a relatively significant level of depreciation expense in relationship to our operating income. The amount of depreciation expense in any fiscal year is largely related to the estimated life of handheld, wireless Playmaker devices, VSAT satellite dishes and associated electronics and the computers located at our customer sites. The Playmakers are depreciated over a four-year life, VSAT dishes and associated electronics over a four-year life and the computers over a three-year life. The depreciable life of these assets was determined based upon their estimated useful life which considers anticipated technology changes. If our Playmakers, VSAT dishes and associated electronics and the computers turn out to have longer lives, on average, than estimated, our depreciation expense would be significantly reduced in those future periods. Conversely, if the Playmakers, VSAT dishes and associated electronics and the computers turn out to have shorter lives, on average, than estimated, our depreciation expense would be significantly increased in those future periods.

- We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is determined based on reserving for all domestic customers that have terminated our iTV Network service plus five percent of outstanding balances for all unreserved customer balances across all of our domestic businesses and, for Canadian customers, all accounts over 90 days past due. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

- We assess our inventory for estimated obsolescence or unmarketable inventory and write down the difference between the cost of inventory and the estimated market value based upon assumptions about future sales and supply on-hand. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

- Revenues from sales of software generally contain multiple elements, and are recognized in accordance with Statement of Position (SOP) No. 97-2, "SOFTWARE REVENUE RECOGNITION", as amended. Along with the basic software license agreement purchase, customers generally are provided annual support and maintenance (PCS) for an additional fee based on a stipulated percentage of the license fee. In order to continue to use the licensed software, customers are required to annually renew the PCS contracts.

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

- We have a significant amount of goodwill and intangible assets on our balance sheet related to acquisitions. At December 31, 2004 the net amount of $7,669,000 of goodwill and intangible assets represented 26.1% of total assets. Goodwill represents the excess of costs over fair value of assets of businesses acquired. We adopted the provisions of SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, as of January 1, 2002. Goodwill and intangible assets acquired in a purchase combination determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, ACCOUNTING FOR IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS.

We performed our annual test for goodwill impairment as required by SFAS 142 for our Software Solutions segment and our NTN Canada unit subsequent to the end of the third quarter in conjunction with the preparation of the September 30, 2004 financial statements. We retained a third-party valuation firm to assist in calculating the fair values of Software Solutions and NTN Canada. The analysis was based upon consideration of (1) the market value of comparable publicly traded companies, (2) the market value of similar companies involved in business combinations, and (3) an income approach of discounting the projected cash flows of operations. The projections of those units involved a number of assumptions and estimates, including revenue growth and operating margins, which management believes are reasonable based upon existing operations and prospective business opportunities. We completed our evaluation and concluded that goodwill was not impaired as the fair value of Software Solutions and NTN Canada exceeded their carrying value, including goodwill. The amount of goodwill as of December 31, 2004 was $3,658,000. Future events could cause us to conclude that impairment indicators exist and that goodwill and other intangible assets associated with our acquired businesses are impaired.

We performed step one of our annual goodwill impairment test related to the Wireless segment in the fourth quarter of 2004 and concluded that there was not an indication of impairment. Accordingly, step two was not required.

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

We do not have any of the following:

- Off-balance sheet arrangements except for purchase orders and commitments and operating leases

- Certain trading activities that include non-exchange traded contracts accounted for at fair value or speculative or hedging instruments; or

- Relationships and transactions with persons or entities that derive benefits from any non-independent relationship other than the related party transactions discussed in Note 16 - Related Parties or in Note 21 -- Subsequent Events or which are immaterial.

CASH AND CASH EQUIVALENTS

For the purpose of financial statement presentation, we consider all highly liquid investment instruments with original maturities of three months or less to be cash equivalents. Cash equivalents at December 31, 2004 and 2003 consist primarily of investments in short term debt instruments of United States government agencies and money market accounts.

RESTRICTED CASH

The restricted cash balance at December 31, 2004 represents cash invested in an interest bearing restricted account at a Canadian bank that collateralizes a letter of credit issued by that bank in favor of the landlord of our Canadian office.

INVENTORY

Inventory consists of wireless paging equipment and computer hardware and is stated at the lower of cost (weighted average cost basis, which approximates FIFO) or market.

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 future minimum lease payments. Depreciation of fixed assets is computed using the straight-line method over the estimated useful lives of the assets (three to seven years). Depreciation of broadcast equipment is computed using the straight-line method over the estimated useful lives of the assets (two to four years). Depreciation 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

We recognize revenue from three sources: NTN Hospitality Technologies division revenues, Buzztime service revenues, and other sources. Revenue is not recognized until collectibility of fees is reasonably assured. To the extent our arrangements contain multiple deliverables; we evaluate the criteria in EITF Issue No. 00-21 to determine whether such deliverables represent separate units of accounting. In order to be considered a separate unit of accounting the delivered items in an arrangement must have stand alone value to the customer and there must be objective and reliable evidence of fair value for any undelivered elements. Our arrangements for the transmission of the NTN iTV Network contain two deliverables; the installation of our equipment for which we receive an upfront fee, and the transmission of our network content for which we receive monthly broadcast fees. As the installation deliverable does not have stand alone value to the customer, it does not represent a separate unit of accounting and therefore all installation fees received are deferred and recognized as revenue on a straight-line basis of 36 months, the estimated life of the customer relationship. Installation fees not recognized in revenue have been recorded as deferred revenue in the accompanying consolidated balance sheets. In addition, the direct expenses of the installation, setup and training are deferred and amortized on a straight-line basis over 36 months and are classified as deferred costs on the accompanying consolidated balance sheets.

NTN iTV Network revenue is generated primarily from distributing content and advertising. Revenues generated from transmitting content to subscriber locations is recognized ratably over the contract term as the content is broadcast 15 hours a day/seven days a week. Consistent with the terms of advertising agreements, advertising is aired a specified number of times per hour everyday and therefore, revenues are recognized ratable over the contract term. Included in NTN Network revenues are amounts earned under a previous license agreement with our Canadian licensee, which operated approximately 350 hospitality locations. Revenue under this license agreement was recognized on a monthly basis as broadcast content was aired similar to NTN Network revenue. We acquired the operations of our Canadian licensee on December 15, 2003 (see Note 15 - Acquisitions).

Revenues from NTN Wireless consist primarily of sales of wireless paging equipment. Wireless paging equipment revenue is recognized upon the shipment of equipment to the customer.

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

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

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

Buzztime service revenues are recognized as the service is provided.

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

SOFTWARE DEVELOPMENT COSTS

We capitalize 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.

We capitalize web site development costs in accordance with Emerging Issues

Task Force Issue No. 00-02, ACCOUNTING FOR WEB SITE DEVELOPMENT COSTS. Costs incurred during the planning and operating stages are expensed as incurred while costs incurred during the web site application and infrastructure development stage are capitalized and amortized on a straight-line basis over their expected useful life of three years. These costs are included in software development costs on the accompanying consolidated balance sheets.

Amortization expense for software development costs was $597,000, $284,000 and $232,000 in 2004, 2003 and 2002, respectively.

STOCK-BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION-TRANSITION AND DISCLOSURE-AN AMENDMENT OF FASB STATEMENT NO. 123 (SFAS No. 148). SFAS 148 amends FASB Statement No. 123; ACCOUNTING FOR STOCK-BASED COMPENSATION (SFAS No. 123), to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We adopted the disclosure provisions of SFAS No. 148 beginning with our annual financial statements for the year ended December 31, 2002.

The per share weighted-average fair value of stock options granted during 2004, 2003 and 2002 was $1.874, $1.106 and $0.95, 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: 2004 - dividend yield of 0%, risk-free interest rate of 3.24%, expected volatility of 93.91%, and expected life of 4.73 years and 2003 - dividend yield of 0%, risk-free interest rate of 2.86%, expected volatility of 113.17%, and expected life of 4.58 years, and 2002 -- dividend yield of 0%, risk-free interest rate of 4.05%, expected volatility of 123%, and expected life of 4.6 years. In compliance with APB No. 25, NTN expensed $2,000, $6,000 and $6,000 in 2004, 2003, and 2002, respectively, associated with the grants of 600,000 options in 1999 below market value pursuant to the Option Plan. No options were granted below market value in 2004, 2003 and 2002 pursuant to the Option Plan.

We apply APB Opinion No. 25 and related interpretations in accounting for our 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 unless the grants were issued with exercise prices below market value. Had compensation cost related to employees for our stock-based compensation plans been determined consistent with SFAS No. 123 as amended by SFAS No. 148, our net loss and net loss per share applicable to common stock would have been increased to the pro forma amounts indicated below.

		2004	
Net loss	As reported	$ 4,979,000	$ 2

	Add: stock-based employee compensation expense included in reported net loss, net of related tax effects	(2,000)	
	Deduct: stock-based employee compensation expense, net of related tax effects ...	1,523,000	1
	Pro forma	$ 6,500,000	$ 3
Basic and diluted net loss per share	As reported	$ 0.09	$
	Pro forma	$ 0.12	$

We account for options and warrants issued to non-employees in exchange for services in accordance with SFAS No. 123 and EITF 96-18, ACCOUNTING FOR EQUITY INSTRUMENTS THAT ARE ISSUED TO OTHER THAN EMPLOYEES FOR ACQUIRING, OR IN CONJUNCTION WITH SELLING, GOODS OR SERVICES. We estimate the fair value of options and warrants using the Black-Scholes option-pricing model. For agreements which require the achievement of specific performance criteria be met in order for the options or warrants to vest, the measurement date is the date at which the specific performance criteria are met. Prior to the measurement date, options and warrants subject to vesting based on the achievement of specific performance criteria that, based on different possible outcomes, result in a range of aggregate fair values are measured at each financial reporting period at their lowest aggregate then-current fair value, while options and warrants which vest over the service period or at completion of the service period are measured at each financial reporting period at their then-current fair value, for purposes of recognition of costs during those periods. For agreements which provide for services to be rendered without the requirement of specific performance criteria, the company measures the fair value of the options and warrants at the earlier of the date the services are completed or the date the options and warrants vest and are non-forfeitable. Generally, services are not rendered prior to the grant date and the related agreements do not contain performance commitments. Accordingly, the measurement date for compensation expense occurs subsequent to the grant date. From the grant date to the measurement date, compensation expense is estimated at each financial reporting period and is recorded over the service period. The unvested options and warrants continue to be remeasured at each financial reporting period until they vest or until the services are completed. For agreements which provide options and warrants for services already rendered, the options and warrants immediately vest and the measurement date is the date of grant. Modifications that increase the fair value of the warrants are treated as an exchange of the original warrant for a new one. Additional compensation expense related to modifications, if any, is recorded over the remaining service period.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of costs over fair value of assets of businesses acquired. We adopted the provisions of SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, as of January 1, 2002. Goodwill and intangible assets acquired in a purchase combination that are determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, ACCOUNTING FOR IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. Amortization expense for intangible assets was $842,000, $406,000 and $104,000 in 2004, 2003 and 2002, respectively.

As of December 31, 2004 intangible assets were comprised of the following:

	COST	ACCUMULATED AMORTIZATION	NET
Customer relationships	$ 1,980,000	$ 587,000	$ 1,393,000
License agreements	1,739,000	298,000	1,441,000
Developed technology	1,047,000	232,000	815,000
Trivia database	345,000	36,000	309,000
Non-competition agreements	30,000	14,000	16,000
Employment agreements	140,000	140,000	--
Trademarks	149,000	112,000	37,000
Total	$ 5,430,000	$ 1,419,000	$ 4,011,000

As of December 31, 2003 intangible assets were comprised of the following:

	COST	ACCUMULATED AMORTIZATION	NET
Customer relationships	$ 1,980,000	$ 172,000	$ 1,808,000
License agreements	1,761,000	126,000	1,635,000
Developed technology	973,000	56,000	917,000
Trivia database	345,000	1,000	344,000
Non-competition agreements	30,000	4,000	26,000
Employment agreements	140,000	123,000	17,000
Trademarks	149,000	96,000	53,000
Total	$ 5,378,000	$ 578,000	$ 4,800,000

The estimated aggregate amortization expense relating to our intangible assets for each of the five succeeding years is as follows:

Year	2005	2006	2007	2008
Estimated aggregate amortization expense	$801,000	$776,000	$757,000	$567,000

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

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 (See Note 17). Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary, results in a reduction in the carrying amount to fair value. Any resulting impairment is charged to operations and a new cost basis for the security is established.

The one investment available-for-sale that we hold is a 2,518,260 share investment in our Australian licensee, eBet Limited (eBet - an Australian gaming technology corporation). Our cost basis in the eBet shares is AUD $0.50 per share. Our initial investment in 1999 was for 4,000,000 shares and at various points in 2000, we sold 1,481,740 eBet shares, leaving our existing holding of 2,518,260 shares, which represents less than 1.6% of eBet's current shares outstanding.

eBet's stock price has traded below our AUD $0.50 cost since September 2000. At December 31, 2004, their stock traded at AUD $0.17, which when combined with the AUD/US$ exchange rate represented an unrealized loss of approximately US $513,000, which is recorded as accumulated other comprehensive loss. On March 11, 2005, their stock price had further recovered to AUD $0.28.

We have tracked eBet's performance since 1999 and remain in contact with their management team. We believe that eBet's stock fell late in 2000 along with many internet technology companies in the worldwide post-internet "bubble." We believe that the impairment of our investment in eBet is temporary in nature for several reasons, including:

1. eBet's continuing business operations achieved profitability for the first time ever in their first half year ended December 31, 2003 and also for their fiscal year ended June 30, 2004.

2. eBet achieved profitable operations based on only a 10% penetration of their gaming systems sales in their home state of New South Wales coupled with sales into the state of Queensland, Australia and in New Zealand. We believe this low level of market penetration in the growing Australian gaming market represents significant upside to their future revenues in their home market, which should ultimately translate into a higher stock price.

3. eBet has made progress in its plans for entry into the US gaming market where it intends to expand its product offering and vary its business model to include participation options for casino operators. In line with this, eBet management disclosed in March 2004 that it has entered into an exclusive licensing agreement with TAB Limited (ASX: TAB) (TAB) to exploit TAB's wide-area linked jackpot brands.

   The agreement, which has an initial 5-year term, provides eBet with exclusive rights to exploit the brands, trade marks and associated material and images in Native American casinos for supplying, installing and operating gaming systems, software and games for electronic gaming machines, including the operation of wide-area linked jackpot systems such as those operated by TAB in Australia. They have also begun to deploy their gaming technology in several casinos in Russia.

In a public release on the Australian Sock Exchange dated February 21, 2005, eBet management stated that they had launched their Maximillion$ Wide Area Link Progressive Jackpot System in two Native American casinos in California. While the timing and financial impact of the eBet's move into the US remains subject to market conditions and acceptance, they believe that it will present a unique product offering and business proposition in the US that will have strong market appeal.

We believe that the combination of eBet's recent emergence into profitability, low but growing penetration of their core markets and their Russian and U.S. opportunities provide evidence that the impairment is not other than temporary in nature. However, we continue to track eBet's performance and if further penetration of their home market, the Russian casino market and/or the U.S. casino market does not materialize over the remainder of 2005, then we may determine that our investment is not "other-than-temporarily impaired."

FAIR VALUE OF FINANCIAL INSTRUMENTS

We believe 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, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the revolving line of credit approximates its 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.

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 costs and marketing-related advertising costs are expensed as incurred. Research and development costs amounted to $329,000, $329,000 and $12,000 in 2004, 2003 and 2002, respectively. Marketing-related advertising costs amounted to $1,575,000, $1,316,000 and $1,065,000 in 2004, 2003 and 2002, respectively, and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

CONCENTRATION OF CREDIT RISK

In our iTV Network segment, which represented 77% of our overall revenues in 2004, we provide services to group viewing locations, generally restaurants, sports bars and lounges throughout North America. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers comprising our customer base, and their dispersion across many different geographies. We perform ongoing credit evaluations of our customers and generally require no collateral. We maintain an allowance for doubtful accounts to provide for credit losses.

BASIC AND DILUTED EARNINGS PER COMMON SHARE

We compute 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 our earnings. Options, warrants, convertible preferred stock, deferred stock units and convertible notes representing approximately 12,384,000, 11,453,000 and 12,435,000 shares were excluded from the computations of diluted net loss per common share for the years ended December 31, 2004, 2003 and 2002, respectively, as their effect is anti-dilutive.

RECLASSIFICATIONS

We have reclassified certain items in the 2003 and 2002 consolidated financial statements to conform to the 2004 presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 149, AMENDMENT OF STATEMENT 133 ON DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The changes in this Statement improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. The adoption of this Interpretation did not have a material effect on our financial statements.

In May 2003, the FASB issued SFAS No. 150, ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS WITH BOTH LIABILITIES AND EQUITY. This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The effective date for certain provisions of SFAS No. 150 has been deferred indefinitely for specified mandatorily redeemable non-controlling interests. The adoption of this statement is not expected to have a material effect on our financial statements.

In December 2003, the FASB issued FIN 46R, Consolidation of Variable Interest Entities (VIE's). This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. FIN 46R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was issued in January 2003. The unmodified provisions of the Interpretation to special-purpose entities must be applied by the end of the first reporting period ending after December 15, 2003. The revised Interpretation must be applied to all entities that are not special-purpose entities by the end of the first reporting period beginning after December 15, 2003. The adoption of this Interpretation did not have a material effect on our financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs-an amendment of ARB No. 43, Chapter 4," to amend the guidance in Accounting Research Bulletin, or ARB, No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This Statement amends Paragraph 5 of ARB 43, Chapter 4, which previously stated that "...under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges..." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We believe there will be no material effect on our financial statements upon adoption of this statement.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" and superseding APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123R requires the Company to expense grants made under the stock option and employee stock purchase plan programs. That cost will be recognized over the vesting period of the plans. SFAS No. 123R is effective for the first interim or annual period beginning after June 15, 2005. Upon adoption of SFAS No. 123R, amounts previously disclosed under SFAS No.123 will be recorded in the consolidated income statement. We are evaluating the alternatives allowed under the standard, which we are required to adopt beginning in the third quarter of 2005. We believe that this new standard will increase our operating losses but that increase will be of a non-cash nature.

(2) BROADCAST EQUIPMENT AND FIXED ASSETS

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

	2004	2003
Broadcast equipment	$ 15,139,000	$ 11,531,000
Furniture and fixtures	745,000	727,000
Machinery and equipment	9,840,000	9,131,000
Leasehold improvements	978,000	898,000
Equipment under capital lease:		
Broadcast equipment	1,127,000	1,462,000
Machinery and equipment	1,715,000	1,715,000
Other equipment	108,000	22,000
	29,652,000	25,486,000
Accumulated depreciation and amortization	(23,201,000)	(21,088,000)

	$ 6,451,000	$ 4,398,000

(3) COMMON STOCK OPTIONS, WARRANTS AND DEFERRED STOCK UNITS

OPTIONS

We have two active stock option plans. The 2004 Performance Incentive Plan (the "2004 Plan") was approved by our shareholders in September 2004 in a Special Meeting of Shareholders (Special Meeting). Our previous plan (the 1995 Plan) had approximately 77,000 available for grant in September 2004. As noted in our Proxy for the Special Meeting, the number of shares of Common Stock that remained available for award grants under the 1995 Plan immediately prior to the Special Meeting became available for award grants under the 2004 Plan. Under the 2004 Plan, options for the purchase of our common stock or other instruments such as deferred stock units may be granted to officers, directors and employees. Options may be designated as incentive stock options or as nonqualified stock options and generally vest over four years, 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 2004 Plan as of December 31, 2004 was 2,577,000. As of the effective date of the 2004 Plan, a total of 9,946,000 shares of Common Stock were then subject to outstanding awards granted under the 1995 Plan and any such awards that expire, are cancelled or otherwise terminate after will also be available for award grant purposes under the 2004 Plan.

In addition, we have 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 issued and outstanding under the Special Plan as of December 31, 2004 is 500,000.

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

A summary of stock option activity during 2004, 2003 and 2002 is as follows:

	SPECIAL PLAN		OPTION PLAN	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AV EXERCISE P
OUTSTANDING DECEMBER 31, 2001	604,000	2.81	7,468,000	1.

Granted	--	--	1,096,000	0.
Exercised	--	--	(191,000)	0.
Cancelled	(104,000)	2.81	(661,000)	2.
OUTSTANDING DECEMBER 31, 2002	500,000	2.81	7,712,000	1.
Granted	--	--	2,311,000	1.
Exercised	--	--	(643,000)	1.
Cancelled	--	--	(206,000)	1.
OUTSTANDING DECEMBER 31, 2003	500,000	$2.81	9,174,000	$1.
Granted	--	--	1,221,000	2.
Exercised	--	--	(384,000)	1.
Cancelled	--	--	(218,000)	1.
OUTSTANDING AS OF DECEMBER 31, 2004	500,000	$2.81	9,793,000	$1.

A summary of options outstanding and exercisable by exercise price range at December 31, 2004 is as follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABL	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED EXERCISE
Special Plan:					
$2.81	500,000	2 years	$ 2.81	500,000	$ 2
Option Plan:					
$0.45-$1.50	6,468,000	6 years	$ 0.91	5,655,000	$ 0
$1.51-$3.00	3,073,000	6 years	$ 2.45	2,122,000	$ 2
$3.01-$4.94	252,000	7 years	$ 3.36	92,000	$ 3
	9,793,000			7,869,000	

DEFERRED STOCK UNITS

In 2004, we granted 150,000 deferred stock units to certain employees. These grants of stock units will be paid in an equal number of shares of Common Stock on the vesting date of the award, subject to any deferred payment date that the holder may elect. A stock unit award will be paid only to the extent vested. Vesting generally requires the continued employment by the award recipient through the respective vesting date, subject to accelerated vesting in certain circumstances. The measurement date for these initial stock unit grants was the September 30, 2004 date of the Special Meeting of Stockholders. Since the deferred stock units are to be paid in an equal number of shares of Common Stock without any kind of offsetting payment by the employee, the measurement of cost should be based on the quoted market price of the stock at the measurement date, which was $2.60.

WARRANTS

In 2004, 2003 and 2002, we granted 236,000, 514,000 and 685,000 warrants to non-employees. The warrant issued in 2004 was an underwriter's warrant that was issued to Roth Capital Partners, LLC in connection with our public offering in

January 2004 and was valued at approximately $655,000. Since that warrant was issued in connection with the public offering the cost of this warrant was accounted for as a deduction from equity. We expensed $0, $226,000 and $90,000 in 2004, 2003 and 2002, respectively, associated with the grant of these warrants.

The following summarizes warrant activity during 2004, 2003 and 2002:

	OUTSTANDING WARRANTS	WEIGHTED AVERAGE EXERCISE PRICES
DECEMBER 31, 2001	1,789,000	2.03
Granted	685,000	0.98
Exercised	--	--
Canceled	(412,000)	2.05
DECEMBER 31, 2002	2,062,000	1.68
Granted	514,000	1.15
Exercised	(771,000)	1.46
Canceled	(25,000)	2.38
DECEMBER 31, 2003	1,780,000	$ 1.61
Granted	236,000	3.91
Exercised	(70,000)	1.25
Canceled	(5,000)	1.30
DECEMBER 31, 2004	1,941,000	$ 1.91
BALANCE EXERCISABLE AT DECEMBER 31, 2004	1,891,000	$ 1.93

A summary of warrants outstanding and exercisable by exercise price range at December 31, 2004 is as follows:

	WARRANTS OUTSTANDING			WARRANTS EXERCISAB	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED EXERCIS
$0.45-$0.99	70,000	1 year	$0.84	70,000	$0
$1.00-$1.30	1,100,000	4 years	$1.07	1,050,000	$1
$1.31-$3.91	771,000	3 years	$3.20	771,000	$3
	1,941,000			1,891,000	

At December 31, 2004, the range of exercise prices and the weighted-average remaining contractual life of outstanding warrants were $0.77 to $3.91 and 3 years, respectively. The table above does not include warrants issued to S-A to obtain an additional 159,236 shares of Buzztime's Series A Convertible Preferred

Stock (the "S-A Warrants"). The S-A warrants vest in 10% increments as cable system operators sign on for the Buzztime channel. The exercise price of the S-A warrants is $1.57 per share. Based on the two Buzztime deployments with SusCom, 20% of the warrants vested during 2003.

(4) COMMON STOCK

On January 30, 2004, we completed the sale of 3,943,661 shares of our common stock at $3.55 per share, resulting in gross proceeds of approximately $14.0 million, pursuant to an existing shelf registration filed under the Securities Act. Roth Capital Partners, LLC acted as placement agent in the offering. After commissions and expenses, the net proceeds of this offering were approximately $13.0 million. The offering was purchased primarily by a number of institutional investors and by Media General, Inc. (see Note 12 - Media General Investment), a related party, which invested approximately $2.0 million.

(5) CUMULATIVE CONVERTIBLE PREFERRED STOCK

We have 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).

At December 31, 2004 and 2003, 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 10 cents per share, payable in semi-annual installments in June and December. Dividends may be paid in cash or with shares of common stock. In 2004, 2003 and 2002, we issued approximately 6,000, 6,000 and 14,000 common shares, respectively, for payment of dividends. At December 31, 2004, 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 our 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 2004, 2003 and 2002, there were no conversions. There are no mandatory conversion terms or dates associated with the Series A Preferred Stock.

(6) RETIREMENT AND SAVINGS PLANS

During 1994, we 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 one month of service and have reached age 21 to defer up to 20% of their pay on a pre-tax basis. In 2002, we amended the plan to permit employees who have reached age 18 to defer up to 50% of their pay on a pre-tax basis. We may at our discretion contribute to the plan. For the years ended December 31, 2004, 2003 and 2002, we made no such contributions.

(7) INCOME TAXES

For each of the years ended December 31, 2004, 2003 and 2002, there was no provision for current deferred U.S. federal income taxes. Current state and foreign tax provisions and foreign deferred tax assets were recorded for the years ended December 31, 2004 and 2003 as follows:

	2004	2003	2002
Current Tax Provision:			
Federal	--	--	--
State	25,000	47,000	41,000
Foreign	86,000	--	--
Total	111,000	47,000	41,000
Deferred Tax Asset:			
Federal	--	--	--
State	--	--	--
Foreign	(17,000)	--	--
Total	(17,000)	--	--
Total Tax Provision:			
Federal	--	--	--
State	25,000	47,000	41,000
Foreign	69,000	--	--
Total	94,000	47,000	41,000

The components that comprise deferred tax assets and liabilities at December 31, 2004 and 2003 are as follows:

	2004	2003
Deferred tax assets:		
NOL carryforwards	$ 22,246,000	$ 20,515,000
Legal and litigation accruals	11,000	45,000
Allowance for doubtful accounts	148,000	536,000
Compensation and vacation accrual	325,000	258,000
Operating accruals	172,000	548,000
Allowance for equipment obsolescence	--	21,000
Deferred revenue	176,000	34,000
Research and experimentation credit	186,000	186,000
Amortization	631,000	183,000
Depreciation	1,008,000	1,220,000
Foreign	18,000	--
Charitable contributions	2,000	1,000
Total gross deferred tax assets ...	24,923,000	23,547,000
Valuation allowance	(24,239,000)	(22,909,000)
Deferred tax assets	684,000	638,000
Deferred tax liabilities:		
Capitalized software	296,000	638,000
Deferred revenue	306,000	--
Amortization	64,000	--
Total deferred liabilities	666,000	638,000
Net deferred tax assets	$ 18,000	$ --

The reconciliation of computed expected income tax (benefit) to effective income taxes by applying the federal statutory rate of 34% is as follows:

	2004	2003	2002
Tax at federal income tax rate	$ (1,660,000)	$ (909,000)	$ (802,000)
State taxes net of federal benefit	(257,000)	(143,000)	(115,000)
Foreign Income	103,000	--	--
Change in valuation allowance	1,330,000	(120,000)	1,354,000
Change in beginning deferred tax assets	--	256,000	(2,155,000)
Expiration and adjustments of net operating loss carryforwards	568,000	1,029,000	1,748,000
Other	10,000	(66,000)	11,000
	$ 94,000	$ 47,000	$ 41,000

In assessing the realizability of deferred tax assets, we consider 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. We consider 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 of taxable income for the future, we have determined that it cannot be determined more likely than not that the portion of deferred tax assets not utilized through the reversal of deferred tax liabilities will be realized. Accordingly, we recorded a valuation allowance to reduce domestic deferred tax assets to the amount of deferred tax liabilities. Approximately $508,000 of the valuation allowance, if realized, will be recognized as a credit to paid in capital. There can be no assurance that we will be able to realize the benefit of some or all of the federal and state loss carryforwards either due to ongoing operating losses, expiry of the carryforward period or due to ownership changes, which may limit the usefulness of the loss carryforwards.

At December 31, 2004, we have available net operating loss carryforwards of approximately $62,450,000 for federal income tax purposes, which begin to expire in 2005. The net operating loss carryforwards for state purposes, which begin to expire in 2005, are approximately $16,875,000. Federal and state tax laws impose restrictions on the utilization of net operating loss and tax credit carryforwards in the event of an "ownership change" for tax purposes as defined under Section 382 of the Internal Revenue Code. Although we do not anticipate that such limitations will be material to our ability to use our net operating losses and credit carryforwards, this conclusion was based upon a preliminary analysis. Therefore, the extent of such limitations is not definitely known.

(8) COMMITMENTS

OPERATING LEASES

We lease office and production facilities and equipment under agreements which expire at various dates. Certain leases contain renewal provisions and generally require us to pay utilities, insurance, taxes and other operating expenses. Additionally, we entered into lease agreements for certain equipment used in broadcast operations and the corporate computer network. Lease expense under operating leases totaled $962,000, $775,000 and $725,000 in 2004, 2003 and 2002, respectively, net of sublease income of $78,000, $156,000 and $265,000 in 2004, 2003 and 2002, respectively.

Future minimum lease obligations under noncancelable operating leases, net of contractual sublease payments, at December 31, 2004 are as follows:

YEAR ENDING	LEASE PAYMENT	SUBLEASE PAYMENT	NET
2005	$ 846,000	$ 23,000	$ 823,000
2006	462,000	--	462,000
2007	186,000	--	186,000
2008	180,000	--	180,000
2009	149,000	--	149,000
Thereafter	445,000	--	445,000
Total	$ 2,267,000	$ 23,000	$ 2,245,000

CAPITAL LEASES

We lease certain equipment under capital leases. Future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2004 are as follows:

YEAR ENDING	TOTAL
2005	$ 176,000
2006	100,000
2007	32,000
2008	8,000
2009	--
Total minimum lease payments	316,000
Less: Amount representing interest ranging from 9.81 % to 29.95%	(45,000)
Present value of net minimum lease payments	271,000
Less current portion	(148,000)
Long term portion	$ 123,000

Property held under capital leases is as follows:

	2004	2003
Equipment	$ 2,950,000	$ 3,199,000
Accumulated depreciation ...	(2,624,000)	(2,807,000)
	$ 326,000	$ 392,000

PURCHASE COMMITMENTS

We have a commitment under a long-term agreement to purchase equipment over a three year period which began in March 2004. Future minimum payments under the agreement are as follows:

YEAR ENDING	TOTAL
2005	$ 683,000
2006	531,000
Total of net minimum payments	$ 1,214,000

(9) DEBT

REVOLVING LINE OF CREDIT

Prior to establishing our line of credit with PMB, we had a line of credit with Coast Business Credit (Coast). In August 1999, we entered into an agreement with Coast for a revolving line of credit not to exceed $4,000,000. Interest was charged on the outstanding balance at a rate equal to the prime rate plus 1.5% per annum, but could not be less than 9% per annum. The line of credit was secured by substantially all of our assets. Total loan fees of $120,000 were payable in three annual installments and were amortized over the life of the loan, which originally matured on August 31, 2002. Our revolving line of credit agreement with Coast was then amended in May 2001. The line of credit provided for borrowings not to exceed the lesser of (i) a designated maximum amount, (ii) three times trailing monthly collections, or (iii) three times annualized trailing adjusted EBITDA. The amendment called for a gradual reduction in the line from $4,000,000 on April 1, 2001 to $2,750,000 on December 31, 2001. We completed that pay down process on December 31, 2001.

On February 25, 2002, we further amended our revolving line of credit to extend the expiration date of the revolving line of credit to June 30, 2003. The amendment also required further line reductions of $250,000 each on June 30, 2002, January 31, 2003, and on March 31, 2003. The amendment deleted our minimum tangible effective net worth financial covenant and replaced it with two cash flow-oriented covenants.

On February 4, 2003, we amended our revolving line of credit to extend the maturity date on the line of credit to June 30, 2004. The amendment also struck the previously scheduled March 31, 2003 $250,000 paydown on the line of credit, deleted the trailing cash flow multiplier element of the borrowing base and modified the cash flow oriented covenants.

On February 7, 2003, Coast and its parent company, Southern Pacific Bank, were seized by the Federal Deposit Insurance Corporation (the "FDIC"). The FDIC then sold off the portion of Coast's loan portfolio that contained our line of credit to GF Asset Management, LLC (GF), a subsidiary of GE Capital. On July 17, 2003, we paid off our revolving line of credit with GF. The amount paid was approximately $1,411,000 which is net of a 5% settlement discount of approximately $105,000.

On July 16, 2003, we entered into a $1,000,000 line of credit arrangement with Pacific Mercantile Bank (PMB). Interest on the line is based on an independent index which is the highest rate on corporate loans posted by at least 75% of the USA's thirty largest banks known as The Wall Street Journal's Prime rate. The interest rate to be applied to the unpaid principal balance is 2% over the index. The arrangement precludes us from paying cash dividends.

The PMB line originally was set to mature on July 16, 2004 and contained one financial covenant based on our cash flow coverage of the balance on the line of credit. On January 7, 2004, we amended the line of credit to extend the expiration date of the facility to February 1, 2005 and to replace the cash flow-based financial covenant with a balance sheet oriented financial covenant that limits the ratio of our debt to tangible net worth to 2:1. We were in compliance with that covenant as of December 31, 2004. The line was then amended again on February 11, 2005 to extend the expiration date of the line to February 11, 2006. The line is secured by all inventories, equipment, accounts receivable and various other assets.

AMENDMENTS TO SATELLITE AGREEMENTS

On January 20, 2005 but effective as of December 31, 2004, we amended our agreements with our satellite services provider to push out the expiration date on the FM2 satellite platform to February 2007 and to modify our VSAT equipment purchase and satellite service agreements. The modification to the equipment purchase agreement eliminates the requirement to purchase and install a specific amount of VSAT equipment. The amendment to the equipment purchase agreement also called for us to pay off immediately approximately $278,000 of the equipment notes payable to the satellite services provider, which we paid in January 2005, and the remaining $342,000 of the equipment notes payable over 2005. This flexibility may also enable us to utilize non-satellite based data transmission platforms, such as digital subscriber lines, wireless connectivity or cable modems, for customer sites where such platforms may be appropriate.

The amendment to FM2 data transmission agreement and the revisions to the VSAT equipment purchase and satellite service agreements allow us to spread any conversions to the new VSAT platform over the remainder of the VSAT satellite services agreement, which is now scheduled to end in April 2009. The amendments also allow us the flexibility to keep existing FM2 sites on the existing platform for another two years and they do not require us to have defined levels of VSAT sites by any certain date.

8% SENIOR SUBORDINATED CONVERTIBLE NOTES

In 1999, we reacquired our 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 at the annual rate of 7% per annum. Interest was due and payable in quarterly installments, in arrears. An allocation was 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 was recorded against the convertible notes due to the allocation. As a result of this allocation, we recorded interest expense, at an effective interest rate of 11% per year, throughout the term of the convertible notes, which began in the first quarter of 1999. Interest expense of approximately $3,000 and $39,000 has been accreted for the years ended December 31, 2003 and 2002, respectively.

In January 2001, we reached agreement with the holders of our convertible notes to extend the maturity date of the aggregate $4 million face value in promissory notes from February 1, 2001 to February 1, 2003. The promissory notes remained convertible at $1.275 per share, but the terms were modified to reduce the interest rate from 7% to 4% and to permit us to convert up to the full principal amount of the promissory notes into NTN common stock at maturity at a conversion price of $1.275 per share. In addition, if our common stock closes above $2.50 for more than 20 consecutive trading days, we can force conversion of the promissory notes at $1.275 per share.

In December 2001, NTN reached an agreement with the holders of the convertible notes to convert $2 million of the outstanding convertible notes payable into approximately 1,639,000 of common stock at $1.22 per share and increase the interest rate on the remaining notes payable to 8%. Upon conversion of the principal, debt conversion costs of approximately $189,000 were recorded.

The balance of the convertible notes plus accreted interest at December 31, 2002 was $1,997,000.

On February 1, 2003 the outstanding balance of $2.0 million on the notes was converted into 1,568,628 shares of common stock at a conversion price of $1.275 per share.

(10) STRATEGIC PARTNERSHIP AND INVESTMENT IN BUZZTIME

On June 8, 2001, Buzztime entered into a development, license and marketing agreement (the Marketing Agreement) with Scientific-Atlanta, Inc. (S-A) to co-develop an application to enable the operation of a Buzztime interactive trivia game show channel on S-A's Explorer digital interactive set-top network, for distribution by cable operators to their subscribers. Buzztime will be responsible for the trivia game channel content including ongoing programming and player promotions. The channel will derive revenue from cable operator license fees, premium subscription fees and advertising revenue. Under the Marketing Agreement, Buzztime and S-A have predetermined commission arrangements based on sales and support of Buzztime's products to the cable system operators.

In connection with the Marketing Agreement, Scientific-Atlanta Strategic Investments, L.L.C., a Delaware limited liability company and affiliate of S-A, invested $1.0 million in Buzztime for 636,943 shares of Buzztime's Series A Convertible Preferred Stock, representing 6% of Buzztime's common shares outstanding on an as-converted basis, and warrants to obtain an additional 159,236 shares of Series A Convertible Preferred Stock (the S-A Warrants). Each share of preferred stock was convertible into one share of Buzztime's common stock, subject to future adjustment, and entitled to a non-cumulative dividend of 8%, if, when and as declared by Buzztime's board of directors. The $1.0 million investment may only be used towards development of the application for S-A and fulfillment of Buzztime's obligations under the Marketing Agreement, which are currently Buzztime's primary focus.

NTN granted S-A the right to exchange its shares of Buzztime's preferred stock into shares of NTN common stock upon the earlier of (i) Buzztime being unable to obtain additional equity financing of $2.0 million before June 8, 2002, (ii) the liquidation, dissolution or bankruptcy of Buzztime before June 8, 2002, (iii) the failure of Buzztime to conduct a qualified public offering by June 8, 2004, or (iv) a change in control of Buzztime before June 8, 2002. The exchange price was the 20-day average closing price of NTN's common stock immediately preceding the date S-A gives notice of its intent to exercise its rights.

The exercise price of the S-A warrants is $1.57 per share. The warrants vest in 10% increments as cable system operators sign on for the Buzztime channel. Based on the two Buzztime deployments with Susquehanna Cable (SusCom), 20% of the warrants are vested as of December 31, 2003. No expense has been recorded for the year ended December 31, 2003 as the fair value of the warrants is not material.

On January 16, 2003, the 636,943 shares of Buzztime Series A Convertible Preferred Stock were converted to 1,000,000 shares of NTN common stock. For purposes of the exchange, the Series A liquidation preference was $1.57 per share of Buzztime Series A preferred stock. The conversion price of the NTN common stock was $1.00 per share.

(11) MINORITY INTEREST ACCOUNTING

We retained majority ownership of Buzztime following the S-A investment and, as a result, continued to consolidate Buzztime's operations in our financial statements. No gain or loss was recorded by us on this sale of Buzztime's shares in accordance with Staff Accounting Bulletin Topic 5h - Miscellaneous Accounting, ACCOUNTING FOR SALES OF STOCK IN A SUBSIDIARY, as the realization of the gain is not assured given Buzztime's history of losses from operations, net operating loss carryforwards, which are generally not available to offset capital gains, and the start-up nature of Buzztime's products designed for the interactive television market. In addition, the ongoing business relationship with S-A through the Marketing Agreement and restrictions placed on the use of proceeds were additional factors considered in accounting for the sale of Buzztime's shares. As a result, the investment was reflected as a capital transaction.

The investment in Buzztime was presented as a minority interest in consolidated subsidiary on our consolidated balance sheet until S-A converted its Buzztime interest into NTN common stock in January 2003 (see Note 10 - Strategic Partnership and Investment in Buzztime). As a result, there was no minority interest account on our balance sheet on December 31, 2003 or December 31, 2004. Prior to S-A's conversion of its interest from Buzztime into NTN common stock in January 2003, the minority interest balance was reduced by S-A's share of Buzztime's net losses in the amount of $10,000 and $212,000 for the years ended December 31, 2003 and 2002, respectively.

(12) MEDIA GENERAL INVESTMENT

On May 6, 2003, Media General, Inc., a communications company with interests in newspapers, television stations, interactive media and diversified information services, made a $3.0 million investment in NTN. In return for the investment, we issued and sold 2,000,000 shares of unregistered NTN common stock through a private offering to Media General. Pursuant to the terms of the transaction, upon receipt of $3.0 million from Media General, we issued the unregistered shares along with fully vested warrants to purchase 500,000 shares of Buzztime common stock at $3.46 per share, exercisable through May 7, 2007. In connection with the Buzztime common stock, the parties agreed that Media General would have co-sale rights and NTN would have certain drag-along rights. Media General has the right to convert each share of Buzztime common stock into two shares of NTN common stock (subject to adjustment) on the second and fourth anniversaries of the transaction date, in the event of a sale of NTN, upon certain bankruptcy and other insolvency proceedings of Buzztime, and in certain circumstances if NTN exercises its drag-along rights. Media General has the further right to convert the warrant to purchase 500,000 shares of Buzztime common stock into a warrant to purchase 1,000,000 shares of NTN common stock at $1.73 per NTN share (subject to adjustment) in the event of bankruptcy or insolvency of Buzztime. NTN has the right to require Media General to convert its equity interests in Buzztime into equity interests in NTN if there is a sale of NTN.

Simultaneous with the transaction described above, we issued 666,667 shares of unregistered NTN common stock to license selected technology and content (Boxerjam games) from Media General to add additional game content to the Buzztime interactive television game channel and the NTN Network. The license includes a 5-year exclusive interactive television license of certain intellectual property, with options to extend the license for an additional 5 years. In September 2003, we entered into an amendment to the Boxerjam games license with Media General pursuant to which we agreed to pay to Media General a license fee in the amount of $150,000 (or $50,000 more than the original amount of $100,000) in exchange for the unilateral right to exercise the option to extend the Boxerjam games license for an additional 5 years following the initial 5 year term on a non-exclusive basis. Previously, that non-exclusive right was at Media General's option. The renewal license fee may be paid to Media General in shares of NTN common stock or, in the event Buzztime's common stock is publicly traded at the time of such renewal, Buzztime shall issue a number of shares of Buzztime common stock with an aggregate value of $150,000.

We recorded both transactions at the fair value of the consideration exchanged on May 6, 2003. We used the publicly traded stock price, as of the date of the transactions, of $1.77 per share to determine the $4,720,000 fair value of the shares issued. The consideration allocated to the acquired Boxerjam game license was valued at $1.72 million and is being amortized over the estimated contractual life of 10 years, which assumes, based on management's intent, that we will exercise our five year renewal option. We determined that, based on the lack of marketability of Buzztime common stock and limited convertibility into NTN common stock, the fair value of the Buzztime warrants was not material and no allocation of fair value was made.

The terms of the transaction called for us to file a resale registration statement with the Securities and Exchange Commission (SEC) to register the 2,666,667 shares issued to Media General. Subsequent to the transaction, we filed the resale registration statement on which we also registered the Bennett shares (Note 16) and Scientific-Atlanta conversion shares (Note 10) and the SEC declared effective the resale registration statement in June 2003.

Also in connection with the investment, we agreed to increase the size of our Board of Directors and appoint Neal F. Fondren, Vice President of Media General and President of Media General's Interactive Media Division to fill the vacancy. Media General's ability to maintain that seat on our Board of Directors is subject to Media General retaining ownership of certain percentages of the shares they purchased. Media General also received preemptive rights to purchase on a pro rata basis any new securities that NTN or Buzztime may subsequently offer. The preemptive rights also are dependent upon Media General maintaining ownership of certain percentages of the shares they purchased.

(13) CONTINGENCIES

We are subject to litigation from time to time in the ordinary course of our business. There can be no assurance that any or all of the following claims will be decided in our favor and we are not insured against all claims made. During the pendency of such claims, we will continue to incur the costs of our legal defense. Other than set forth below, there is no material litigation pending or threatened against us.

INTERACTIVE NETWORK, INC.

On April 14, 2004, we settled the lawsuit filed against us in 1992 by IN (now Two Way TV (US), Inc.) The litigation involved licensing and patent infringement issues in Canada. These actions related to the delivery of the NTN iTV Network to subscribers of our former Canadian licensee (we acquired our licensee's operations in December 2003) and did not extend to our network operations in the United States or elsewhere. We settled the matter for $116,500. We recorded expense related to this matter, including the settlement amount, of approximately $200,000 in the first quarter of 2004 and we recorded further legal fees of approximately $92,000 relating to this matter in the third quarter of 2004.

LONG RANGE SYSTEMS

On March 21, 2003, Long Range Systems, Inc. (LRS) filed in the United States District Court, Northern District of Texas, a patent infringement complaint against our NTN Wireless subsidiary. This complaint alleged trade dress and patent infringement and unfair competition. We were served with this complaint on March 27, 2003. In February 2004, LRS amended their complaint to eliminate certain allegations relating to infringement of its utility patent for wireless pagers. This complaint related to our repair and replacement activities of LRS pagers, which is not a significant percentage of our NTN Wireless business.

On or about April 23, 2003, we filed a complaint in the Superior Court of the State of California, County of San Diego, against LRS alleging defamation and trade libel, intentional interference with prospective economic advantage, Lanham Act (trademark violations) and California unfair competition. The case was subsequently transferred to the United States District Court, Southern District of California. Our complaint alleged that LRS made false statements in its complaint and press release regarding our products infringing LRS patents, that LRS intentionally made false statements to disrupt our business relationships with our clients, and that LRS registered the domain name www.ntnwireless.com in violation of our trademark rights.

On February 28, 2005, we agreed with LRS to settle and dismiss both lawsuits. Under the terms of the settlement, NTN and LRS each agreed to settle and dismiss the two lawsuits without liability or any payment to the other party. Each party is responsible for its own legal costs. On March 2, 2005, the court dismissed the LRS lawsuit based on this agreement.

OPEN TABLE

In March 2004, we received correspondence from Open Table, Inc. (Open Table) alleging breach of the non-compete provisions of the Asset Purchase Agreement entered into by and between Open Table and Breakaway International, Inc. (Breakaway) in February 2002. Our NTN Software Solutions, Inc. subsidiary assumed certain obligations of Breakaway pursuant to the Asset Purchase Agreement we entered into with Breakaway in July 2003. In March 2004, we acknowledged receipt of the Open Table correspondence and advised Open Table that we were investigating the allegations set forth in such correspondence. On April 23, 2004, Open Table filed a complaint in the Superior Court of the State of California, County of San Francisco, against NTN Communications, Inc. f/k/a Breakaway International, Inc., alleging breach of contract, breach of implied covenant of good faith and fair dealing, intentional interference with economic relationship, negligent interference with economic relationship, fraud, accounting, constructive trust and declaratory relief. On December 2004, we agreed with Open Table to settle and dismiss this lawsuit. We paid Open Table $15,000 under the terms of the settlement.

There is no material litigation currently pending or threatened against us.

CANADIAN TAX MATTER

In previous filings, we disclosed as a contingency that our Canadian licensee was in discussions with the Canada Customs and Revenue Agency (CCRA) regarding a liability relating to withholding tax on certain amounts previously paid to us by our Canadian licensee. Our licensee was assessed approximately $649,000 Canadian dollars by the CCRA and they had appealed the assessment. At that time, it was unclear as to what, if any, liability we might have in the matter. We had an understanding with our licensee that we would equally share the eventual assessment, if any was assessed, at the end of the appeal process. On December 15, 2003, through a newly formed subsidiary, NTN Canada, Inc., we acquired the assets, the operations and a number of the liabilities of our Canadian licensee including this withholding tax matter with the CCRA (see Note 15 -- Acquisitions). In February 2004, we entered into a settlement agreement with the CCRA that reduced the assessment from Canadian $788,000 to Canadian $443,000 (or approximately $609,000 to approximately $342,000 U.S. dollars). That amount will be further reduced by approximately $80,000 for the application of a partial refund from payments made during the period of January 2002 through March 2003. To be consistent with our previous agreement, we recorded one-half of this settlement as operating expense and recorded one-half as a liability recorded through the purchase accounting when we acquired NTN Interactive Network, Inc. (see Note 15 - Acquisitions).

SALES AND USE TAX

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

We evaluate such inquiries on a case-by-case basis and have favorably resolved these tax issues in the past without any material adverse consequences. During 2003, the state of Texas, our largest state in terms of NTN Network sites, began a sales tax audit. They concluded that our services are subject to sales taxes on an amusement services basis. On January 12, 2004, the state assessed us for approximately $1,115,000 for the five year audit period ended December 31, 2002. We have objected to this approach since our services are provided to the consumers for free as a promotional service, which we believe falls outside the definition of amusement services as defined by the Texas tax code. We have successfully argued this position regarding amusement services with other states. We have appealed the assessment and the matter is currently at the administrative appeals level. We have retained a team of sales and use tax specialists in Texas to assist us in this matter. If we are able to reach a mutually agreeable conclusion at the administrative appeals level, we expect that a conclusion may be reached by the end of 2005. In the event the matter is not resolved at administrative appeals, we would likely take the matter before the District Court. At the District Court level, we would anticipate a resolution no earlier than 2006. While we believe that we have a strong position in this matter, there can be no assurance that we will resolve this matter in our favor.

(14) DEFERRED REVENUE - BUZZTIME

In February 2003, we entered into a Trial Agreement with a major cable operator that involves developing the Buzztime channel for potential deployment on two different cable technology platforms within that operator's system. The Trial Agreement runs through December 2005. During the year ended December 31, 2003, the cable operator paid us an initial non-refundable amount of $100,000 and an additional payment of $200,000 under the Trial Agreement. The $200,000 payment was related to entering a trial on one of the two specified technology platforms. The cable operator has the right under the Trial Agreement to apply 50% of any amount paid under the agreement against future development and/or license fees paid by that operator to us for the carriage of the Buzztime channel. During the year ended December 31, 2003, we recognized $150,000 of revenue related to this agreement. The remaining 50% of the two payments received to date, or $150,000, was reflected as deferred revenue-Buzztime on the accompanying December 31, 2003 consolidated balance sheet.

During the year ended December 31, 2004, the cable operator paid us an additional payment of $200,000 under the Trial Agreement and we recognized 50% of that payment as revenue and the other 50% was recorded as deferred revenue-Buzztime. As of December 31, 2004, we carried $250,000 in deferred revenue-Buzztime related to the Trial Agreement.

We had $291,000 of deferred revenue related to Buzztime on December 31, 2004. As noted above, $250,000 of that amount related to the Trial Agreement. The remaining $41,000 of the deferred revenue - Buzztime on the accompanying consolidated balance sheet relates to deferred revenue arising from our agreements with Digeo Interactive LLC (Digeo), Airborne Entertainment Inc. and ICTV, Inc.

(15) ACQUISITIONS

ZOOM COMMUNICATIONS AND HYSEN TECHNOLOGIES

On April 5, 2002, through a newly formed subsidiary, NTN Wireless Communications, Inc. (Wireless), we acquired the net assets of ZOOM Communications (ZOOM), a company in the restaurant wireless paging industry, from Brandmakers, Inc. We entered into separate 2-year employment contracts with each of ZOOM's two principals to join NTN as Vice President of Operations and Vice President of Sales in the Wireless business. Based out of suburban Atlanta, Georgia, the Wireless segment now serves as a regional office and distribution center for us.

We also entered into a distribution agreement on March 11, 2002 with Brandmakers, Inc., for the non-exclusive right to sell and service certain products relating to the manufacture, service and distribution of wireless paging systems and stored value gift and loyalty card programs for ZOOM. The agreement was cancelled on April 5, 2002 upon the acquisition of the assets of ZOOM.

On May 17, 2002, we acquired the net assets of Hysen Technologies, Inc. (Hysen), another company in the hospitality paging industry. The assets acquired included Hysen's existing inventory and intellectual property, including Hysen's customer base. The assets of Hysen were combined into the Wireless segment.

Total consideration for the 2002 purchases was $655,000, which includes $320,000 in common stock and $102,000 of transaction costs. In addition to the above consideration, we entered into, in connection with the ZOOM purchase, an earn-out arrangement with the two principals. The earn-out was paid to each principal at 25% of the excess of which the adjusted gross profit exceeded $900,000 for the twelve month period after the acquisition. As this calculation included the collection of the accounts receivable related to the sales and gross profit over that twelve month earn-out period, the final calculation of the earn-out amount was delayed to allow for either the collection (or lack thereof) of those receivables. The principals were paid a combined final earn-out amount of approximately $218,000 over 2003 and 2004, which was added to the purchase price of the ZOOM transaction by increasing the amount of goodwill to $449,000.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Of the $754,000 of acquired intangible assets, $464,000 was assigned to goodwill and is not subject to amortization. $140,000 was assigned to employment agreements and we are amortizing that over the estimated contractual life of 2 years. $150,000 was assigned to customer lists and we are amortizing that over the estimated useful life of 3 years. The line of credit of $72,000 was paid in full immediately after the closing date of April 5, 2002.

ASSETS ACQUIRED AND LIABILITIES ASSUMED

	ZOOM COMMUNICATIONS	HYSEN TECHNOLOGIES	TOTAL ACQUISITIONS
Accounts receivable, net	$ 121,000	$ --	$ 121,000
Inventory	48,000	41,000	89,000
Fixed assets	38,000	--	38,000
Goodwill	449,000	15,000	464,000
Intangibles assets	280,000	10,000	290,000
Total assets acquired	936,000	66,000	1,002,000
Accounts payable and accrued liabilities	244,000	31,000	275,000
Line of credit	72,000	--	72,000
Total liabilities assumed	316,000	31,000	347,000
Net assets acquired	$ 620,000	$ 35,000	$ 655,000

If the acquisitions had occurred on January 1, 2002, our results of operations for fiscal 2002 would not have been materially different from the reported results and as such, no pro forma results of operations are included.

BREAKAWAY INTERNATIONAL

On July 31, 2003, we acquired, through NTN Software Solutions, Inc. (Software Solutions), a wholly owned subsidiary of NTN, all of the assets and certain liabilities of Breakaway International, Inc. (Breakaway), a privately held provider of restaurant industry hardware and software enterprise solutions. We acquired Breakaway's assets for $252,000 in cash, 1,292,614 shares of unregistered NTN common stock, transaction costs and the assumption of certain liabilities. We may pay additional contingent earn-out amounts in NTN common stock and/or cash over the first three years following the acquisition, provided that certain targets for earnings before taxes are met for the acquired assets. The targeted amounts increase by 25% each year. No earn-out amounts were earned in the first twelve month period following the acquisition. NTN also entered into employment agreements with five of the executives of Breakaway.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Total consideration for the acquisition was $3,630,000, which consisted of 1,292,614 shares multiplied by the then publicly traded price of $2.44 per share, $252,000 in cash and $224,000 of transaction costs. To determine the fair value of the acquired intangible assets and the related allocation of the purchase price, we commissioned a third party valuation analysis. Based upon that third party analysis, we determined that the identified intangible assets and the related useful lives are developed technology ($781,000, 6 year life), customer relationships ($1,110,000, 6 year life) and non-competition agreements ($30,000, 3 year life). Breakaway's results of operations have been included in our consolidated statements of operations since August 1, 2003 and include $461,000 of amortization of the identified intangibles based upon the estimated lives.

BREAKAWAY INTERNATIONAL, INC.
ASSETS ACQUIRED AND LIABILITIES ACQUIRED

Accounts receivable, net	$ 333,000
Inventory, net	35,000
Fixed assets, net	108,000
Developed technology	781,000
Customer relationships	1,110,000
Non-competition agreements	30,000
Goodwill	2,235,000
Total assets acquired	$ 4,632,000
Accounts payable and accruals	$ 482,000
Deferred revenue	520,000
Total liabilities assumed	1,002,000
Net assets acquired	$ 3,630,000

The above amounts have changed from our initial purchase accounting as follows: goodwill has increased by $10,000 to reflect $7,000 of additional transaction costs and $3,000 of additional liabilities that were recorded, accounts payable and accruals increased by $3,000 to reflect the additional liabilities that were recorded and, as a result, the overall purchase price increased by $7,000 from the initial amount of $3,623,000 to $3,630,000.

NTN CANADA

On December 15, 2003, we acquired most of the operating assets, certain liabilities and the operations of NTN Interactive Network, Inc. (NTNIN), our long time Canadian licensee from its parent, Chell Group Corporation Inc. (Chell). We acquired NTNIN's assets for $233,000 in cash, 238,300 shares of unregistered NTN common stock, the contribution of $550,000 in unpaid licensing royalties and the assumption of certain liabilities.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Total consideration for the acquisition was approximately $1,823,000, which consisted of 238,300 shares multiplied by the then publicly traded price of $3.70 per share, $233,000 in cash, the contribution of $550,000 in unpaid licensing royalties, $122,000 of transaction costs, plus the assumption of liabilities.

NTN INTERACTIVE NETWORK, INC.
ASSETS ACQUIRED AND LIABILITIES ACQUIRED

Cash	$ 20,000
Accounts receivable, net	235,000
Other current assets	21,000
Fixed assets, net	43,000
Customer relationships	720,000
Trivia database	345,000
Interactive events software	102,000
Trivia software	90,000
Licenses	12,000
Goodwill	974,000
Total assets acquired	$ 2,562,000
Accounts payable and accruals	$ 628,000
Leases	44,000
Deferred revenue	67,000
Total liabilities assumed	739,000
Net assets acquired	$ 1,823,000

To determine the fair value of the acquired intangible assets and the related allocation of the purchase price, we commissioned a third party valuation analysis. Based upon that third party analysis, we determined that the identified intangible assets and the related useful lives are customer relationships ($720,000, 4 year life), trivia database ($345,000, 10 year life), interactive events software ($102,000, 5 year life) and trivia software ($90,000, 5 year life). Results of operations from the acquisition have been included in our consolidated statements of operations since December 15, 2003 and include $203,000 of amortization of the identified intangibles based upon the estimated lives.

The above amounts have changed from our initial purchase accounting as follows: (1) goodwill has increased by $99,000 to reflect a variety of factors including the final calculation of the cash component of the purchase price based on the final closing balance sheet, which generated an additional payment to Chell of approximately $10,000 and a payment to the president of NTNIN on behalf of Chell of approximately $23,000, (2) the final calculation of the transaction costs (an increase of $38,000), (3) recording $12,000 of additional liabilities, and (4) making $16,000 of other adjustments to the final balance sheet. The overall purchase price increased by $37,000 from the initial amount of $1,786,000 to $1,823,000.

Our pro forma results of operations for fiscal 2002 and 2003 if we had owned both the Breakaway and Canadian operations in those years would have been as follows:

	2003	2002
Revenues:		
NTN actual revenues	$ 29,489,000	$ 25,610,000
Incremental Breakaway revenues	2,332,000	4,432,000
Incremental Canadian revenues	4,288,000	4,818,000
Pro forma revenues	$ 36,109,000	$ 34,860,000
Net loss:		
NTN actual loss	$ (2,711,000)	$ (2,189,000)
Incremental Breakaway loss	(579,000)	(1,129,000)
Incremental Canadian income	284,000	381,000
Pro forma loss	$ (3,006,000)	$ (2,937,000)
Loss per share:		
NTN actual loss per share	$ (0.06)	$ (0.06)
Pro forma loss per share	$ (0.06)	$ (0.07)

(16) RELATED PARTIES

On May 8, 2001, we entered into an advertising sales representative agreement with Baron Enterprises, Inc., a corporation wholly-owned and operated by Barry Bergsman, a member of our board of directors, pursuant to which Baron provides advertising sales representation services to us under the direction of the NTN Network's president and chief operating officer. For Baron's services under the advertising sales representative agreement, we granted Baron a three-year warrant to purchase 20,000 shares of Common Stock at an exercise price of $0.50 per share. The warrant vests and becomes exercisable as to 1/12 of the total shares on the last business day of each of the twelve months commencing April 2001, subject to Baron continuing to provide services to us. In addition, Baron will receive a commission in the amount of 35% of net advertising revenues received by the NTN Network from any advertising contract solicited by Baron. We paid Baron a monthly recoverable cash advance against commissions to be earned in the amount of $5,000 per month, not to exceed an aggregate of $60,000 per year. The advertising sales representative agreement expired on April 1, 2002. An amendment to the agreement was entered into in

October 2002, to extend the contract to October 31, 2003, to reduce the rate of commission to 25% of net advertising revenues received by us and to include bartered advertising. Under the amended agreement, Baron was paid $15,000 in commissions in 2002. In September, 2003, we entered into a three year agreement with Baron to negotiate on our behalf with a third party advertising representative. Baron was to receive commissions of 3% to 10% based upon the period of time over which the negotiated advertising would run and upon the related advertising revenue. This arrangement has been extinguished.

In May 2002, Michael Fleming was appointed Chairman of the Board of our Buzztime subsidiary, after having served, since January 8, 2002, as an independent consultant. Pursuant to the consulting arrangement, Mr. Fleming provided general consulting services to us in connection with Buzztime's cable television initiatives. We paid Mr. Fleming approximately $2,000 per month for these consulting services. This arrangement was discontinued in September 2003.

In January 2002, we entered into a consulting agreement with Robert Clasen, one of our directors, whereby Mr. Clasen provides consulting services to us with respect to Buzztime's cable television initiatives. We paid Mr. Clasen $2,000 per month for the services provided under the consulting agreement. The initial term of this agreement expired on December 31, 2002. We then continued the consulting relationship on a month to month basis through June 2003 when we mutually agreed to discontinue the arrangement.

On January 15, 2003, we issued and sold 1,000,000 shares of restricted common stock through a private offering to Robert M. Bennett, one of our directors, at a price per share of $1.00. Pursuant to the terms of the transaction, upon receipt of $1.0 million from Mr. Bennett, we issued the restricted shares along with fully vested warrants to purchase 500,000 shares of common stock at $1.15 per share, exercisable through January 15, 2008. No commissions or placement agent fees were paid in connection with the offering.

On January 30, 2004, Media General, Inc. (see Note 12 - Media General Investment), a related party, purchased $2 million of our common stock as part of a group of institutional investors that invested $14 million into our company. (see Note 4 - Common Stock). Media General invested on the same terms as the other investors.

(17) ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss is the combination of accumulated net unrealized losses on investment available for sale and the accumulated gains or losses from foreign currency translation adjustments. We translated the assets and liabilities of NTN Canada into U.S. dollars using the period end exchange rate. Revenue and expenses were translated using the average exchange rates for the reporting period. For the year ended December 31, 2004 and 2003, the components of accumulated other comprehensive loss ere as follows:

	Year Ended	
	December 31, 2004	December 31, 2003
Beginning balance	$ (628,000)	$ (639,000)

Unrealized gain (loss) during period in investment available-for-sale	115,000	11,000
Foreign currency translation adjustments	44,000	--
Ending balance	$ (469,000)	$ (628,000)

For the year ended December 31, 2004 and 2003, the comprehensive losses were as follows:

	Year Ended	
	December 31, 2004	December 31, 2003
Beginning balance	$ (628,000)	$ (639,000)
Net loss	$ (4,979,000)	$ (2,711,000)
Comprehensive income (loss)	159,000	11,000
Comprehensive net loss	$ (4,820,000)	$ (2,700,000)

(18) AMERICAN STOCK EXCHANGE LISTING

On May 1, 2003, we received a letter from the American Stock Exchange (AMEX) stating that NTN was now in compliance with AMEX listing standards. In our SEC filings over the prior twelve months, we had disclosed that we needed to achieve $6 million of shareholders' equity to be in compliance with AMEX listing standards. However, as a result of new AMEX rules effective January 2003, the AMEX determined that we were in compliance with their listing standards. The new rules permit a company to remain listed on AMEX if it, like NTN, has a total market capitalization of at least $50 million, has at least 1.1 million shares publicly held, has a market value of publicly held shares of at least $15 million and has a minimum of 400 round lot shareholders. As of December 31, 2004, we had satisfied these requirements.

In the event we no longer satisfy the requirements of the new rule (from subsequent changes in market capitalization or otherwise), we would be subject to other AMEX listing requirements for companies that have not reported profits during the past five years. As of December 31, 2004, we had also met the requirement of $6 million of shareholders' equity.

(19) SEGMENT INFORMATION

We operate our businesses principally through four reportable segments: the NTN iTV Network, NTN Wireless and Software Solutions, which combine to form the NTN Hospitality Technologies Division, and our Buzztime Entertainment, Inc. subsidiary (Buzztime). The NTN Hospitality Technologies Division provides entertainment promotional services and on-site communications and management products to the hospitality industry. Buzztime operates our live broadcast studio, produces our trivia and live sports "Play-Along" content to both the NTN Network and new consumer interactive platforms, and is selling the Buzztime(R) interactive television channel to U.S. cable TV operators.

Our 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 Buzztime segment and the three segments within the NTN Hospitality Technologies Division. NTN Hospitality Technologies revenue is generated primarily from providing an interactive entertainment service which serves as a marketing and promotional vehicle for the hospitality industry, from advertising sold for distribution via the interactive entertainment service, from its wireless business with restaurant on-site paging systems, electronic data-managed comment cards and from its hardware and software enterprise solutions. NTN Hospitality Technologies revenues comprise 99% of our total revenue for the year ended December 31, 2004. Buzztime's revenue 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 and from performance under a Trial Agreement with a major cable operator. Included in the operating loss and depreciation and amortization for three segments included in the NTN Hospitality Technologies Division and the Buzztime segment is an allocation of corporate expenses, while the related corporate assets are not allocated to the segments.

The following tables set forth certain information regarding our segments and other operations that conforms to the consolidated balance sheet and

statement of operations presentated in this Report:

	2004	2003
Revenues		
NTN iTV Network (includes "other revenues")	$ 25,925,000	$ 23,024,0
NTN Wireless	5,337,000	4,742,0
NTN Software Solutions	4,034,000	1,527,0
NTN Hospitality Technologies division	35,296,000	29,293,0
Buzztime	449,000	287,0
Eliminations	(90,000)	(91,0
Total revenue	$ 35,655,000	$ 29,489,0
Operating income (loss)		
NTN iTV Network	$ 1,040,000	$ 1,946,0
NTN Wireless	(63,000)	(170,0
NTN Software Solutions	(2,074,000)	(565,0
NTN Hospitality Technologies division	(1,097,000)	1,211,0
Buzztime	(3,959,000)	(3,757,0
Operating loss	$ (5,056,000)	$ (2,546,0
Net income (loss)		
NTN iTV Network	$ 1,122,000	$ 1,772,0
NTN Wireless	(64,000)	(171,0
NTN Software Solutions	(2,074,000)	(565,0
NTN Hospitality Technologies division	(1,016,000)	1,036,0
Buzztime	(3,963,000)	(3,747,0
Net loss	$ (4,979,000)	$ (2,711,0

Total assets		
NTN iTV Network	$ 13,289,000	$ 9,300,0
NTN Wireless	1,690,000	474,0
NTN Software Solutions	4,816,000	3,283,0
NTN Hospitality Technologies division	19,795,000	13,057,0
Buzztime	2,600,000	2,640,0
Corporate	6,993,000	4,933,0
Total assets	$ 29,388,000	$ 20,630,0
Capital expenditures and Software Development Costs		
NTN iTV Network	$ 2,307,000	$ 1,224,0
NTN Wireless	92,000	57,0
NTN Software Solutions	177,000	34,0
NTN Hospitality Technologies division	2,576,000	$ 1,315,0
Buzztime	555,000	529,0
Corporate	331,000	191,0
Total Capital Expenditures and Software Development Costs	$ 3,462,000	$ 2,035,0

Depreciation and Amortization		
NTN iTV Network	$ 2,881,000	$ 3,057,0
NTN Wireless	100,000	138,0
NTN Software Solutions	392,000	164,0
NTN Hospitality Technologies division	3,373,000	$ 3,359,0
Buzztime	560,000	538,0
Total Depreciation and Amortization	$ 3,933,000	$ 3,897,0
Interest Expense (Income), net		
NTN iTV Network	$ 49,000	$ 232,0
NTN Wireless	1,000	1,0
NTN Software Solutions	--	
NTN Hospitality Technologies division	$ 50,000	233,0
Buzztime	4,000	
Total Interest Expense (Income), net	$ 54,000	$ 233,0
Provision for Income Taxes		
NTN iTV Network	$ 94,000	$ 47,0
NTN Wireless	--	
NTN Software Solutions	--	
NTN Hospitality Technologies division	$ 94,000	$ 47,0
Buzztime	--	

Total Provision for Income Taxes	$ 94,000	$ 47,0

(20) SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED) (AMOUNTS IN THOUSANDS EXCEPT PER SHARE)

	THREE-MONTH PERIOD ENDED			
	MARCH 31, 2004	JUNE 30, 2004	SEPTEMBER 30, 2004	DECEM 2
Total revenue	$ 8,844	$ 8,528	$ 8,772	$
Total operating expenses	10,098	9,810	9,986	
Operating loss	(1,254)	(1,282)	(1,214)	
Other income (expense), net	(19)	220	(6)	
Net loss before income taxes	(1,273)	(1,062)	(1,220)	
Income taxes	(21)	(12)	(12)	
Net loss	$ (1,294)	$ (1,074)	$ (1,232)	$
Per share amounts:				
Net loss	$ (.02)	$ (.02)	$ (.02)	$
Weighted-average shares outstanding	51,871	52,703	52,868	

	THREE-MONTH PERIOD ENDED			
	MARCH 31, 2003	JUNE 30, 2003	SEPTEMBER 30, 2003	DECEM 2
Total revenue	$ 7,339	$ 6,701	$ 7,267	$
Total operating expenses	7,511	7,463	8,048	
Operating loss	(172)	(762)	(781)	
Other income (expense), net	(93)	(71)	73	
Net loss before income taxes and minority interest in loss of consolidated subsidiary	(265)	(833)	(708)	
Income taxes	(8)	(7)	(8)	
Minority interest in loss of consolidated subsidiary	10	--	--	
Net loss	$ (263)	$ (840)	$ (716)	$
Per share amounts:				

Net loss	$ (.01)	$ (.02)	$ (.02)	$
Weighted-average shares outstanding	42,088	44,756	46,939	

(21) SUBSEQUENT EVENTS

INTURA SOLUTIONS TRANSACTION

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

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

We have engaged a third party valuation firm to estimate the value of our 10% ownership interest in Intura. We expect to finalize that accounting during the first quarter of 2005.

LINE OF CREDIT AMENDMENT

In February 2005, we amended our line of credit with Pacific Mercantile Bank to extend the maturity date from February 1, 2005 to February 11, 2006 (see Note 9 -- Debt).

LRS LITIGATION SETTLEMENT

On February 28, 2005, we agreed with LRS to settle and dismiss both lawsuits. Under the terms of the settlement, NTN and LRS each agreed to settle and dismiss the two lawsuits without liability or any payment to the other party. Each party is responsible for its own legal costs. On March 2, 2005, the court dismissed the LRS lawsuit based on this agreement.

SCHEDULE II
NTN COMMUNICATIONS, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	ADDITIONS	BALANCE AT

ALLOWANCE FOR DOUBTFUL ACCOUNTS	BALANCE AT BEGINNING	CHARGED TO EXPENSE	DEDUCTIONS(A)	END OF PERIOD
2004................	$ 811,000	436,000	485,000	$ 762,000
2003................	$ 437,000	243,000	(131,000)	$ 811,000
2002................	$ 440,000	529,000	532,000	$ 437,000

(a) Reflects trade accounts receivable written off during the year, net of amounts recovered.

See accompanying report of independent registered public accounting firm.

INDEX TO EXHIBITS

EXHIBIT NO.		DESCRIPTION
3.1	--	Amended and Restated Certificate of Incorporation of the Company, as amended (4)
3.2	--	Certificate of Designations, Rights and Preferences of Series B Convertible Preferred Stock (7)
3.3	--	Certificate of Amendment to Restated Certificate of Incorporation of the Company, dated March 22, 2000 (8)
3.4	--	Certificate of Amendment to Restated Certificate of Incorporation of the Company, dated March 24, 2000 (8)
3.5	--	By-laws of the Company (2)
3.6	--	Certificate of Amendment to Restated Certificate of Incorporation of the Company, dated May 27, 2003 (16)
4.1	--	Specimen Common Stock Certificate (10)
4.2*	--	Stock Option Agreement, dated October 7, 1998, by and between NTN Communications, Inc. and Stanley B. Kinsey (5)
4.3*	--	Stock Option Agreement, dated October 7, 1999, by and between NTN Communications, Inc. and Stanley B. Kinsey (6)
4.4*	--	Stock Option Agreement, dated January 26, 2001, by and between NTN Communications, Inc. and Stanley B. Kinsey (12)
4.5	--	Warrant Certificate issued January 13, 2003 by NTN Communications, Inc. to Robert M. and Marjie Bennett, Trustees The Bennett Family Trust dated 11-17-86 (19)
4.6	--	NTN Investor Rights Agreement, dated May 7, 2003, by and between NTN Communications, Inc. and Media General, Inc. (18)
4.7	--	Buzztime Investor Rights Agreement, dated May 7, 2003, by and among NTN Communications, Inc., Buzztime Entertainment, Inc. and Media General, Inc. (18)
4.8	--	Common Stock Purchase Warrant dated May 7, 2003 issued to Media General, Inc. exercisable for 500,000 shares of common stock of Buzztime Entertainment, Inc. (18)
4.9	--	Form of Common Stock Purchase Warrant by and between Roth Capital Partners, LLC and NTN Communications, Inc. (14)
10.1	--	License Agreement with NTN Canada (3)
10.2*	--	Employment Agreement, dated October 7, 1998, by and between NTN Communications, Inc. and Stanley B. Kinsey (5)

10.3	--	Subscription Agreement dated January 13, 2003 between NTN Communications, Inc. and Robert M. and Marjie Bennett, Trustees The Bennett Family Trust dated 11-17-86 (19)
10.4	--	Scientific-Atlanta Strategic Investments, L.L.C. Notice of Exchange of Buzztime Preferred Stock for NTN Common Stock, dated January 16, 2003 (19)
10.5	--	Securities Purchase Agreement dated May 5, 2003 by and among NTN Communications, Inc., Buzztime Entertainment, Inc. and Media General, Inc. (18)
10.6	--	Placement Agency Agreement dated January 26, 2004 by and between Roth Capital Partners, LLC and NTN Communications, Inc. (14)
10.7	--	Manufacturing Agreement, dated November 25, 1997, by and between NTN Communications, Inc. and Climax Technology Co., Ltd. (9)
10.8	--	Office Lease, dated July 17, 2000, between Prentiss Properties Acquisition Partners, L.P. and NTN Communications, Inc. (11)
10.9	--	Asset Purchase Agreement dated July 30, 2003 by and among NTN Software Solutions, Inc., NTN Communications, Inc., Breakaway International, Inc. and the Seller Shareholders (17)
10.10	--	Asset Purchase Agreement dated December 15, 2003 by and among NTN Canada, Inc., NTN Communications, Inc., NTN Interactive Network, Inc. and Chell Group Corporation (15)
10.11*	--	Employment Agreement, dated September 9, 2004, by and between NTN Communications, Inc. and Stanley B. Kinsey (20)
14.0	--	Code of Ethics for Senior Financial Officers (13)
16.1	--	Letter, dated August 20, 2004, from KPMG to the Securities and Exchange Commission regarding change in certifying accountant of NTN (21)
21.1	--	Subsidiaries of Registrant (1)
23.1	--	Consent of HASKELL & WHITE LLP (1)
23.2	--	Consent of KPMG LLP (1)
31	--	Certification of Officers pursuant to Rule 13a-14(a) (1)
32	--	Certification of Officers pursuant to Rule 13a-14(b) (22)

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* Management Contract or Compensatory Plan.

(1) Filed herewith.

(2) Previously filed as an exhibit to NTN's registration statement on Form S-8, File No. 33-75732, and incorporated by reference.

(3) Previously filed as an exhibit to NTN's report on Form 10-K for the fiscal year ended December 31, 1990, and incorporated by reference.

(4) Previously filed as an exhibit to NTN's report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated by reference.

(5) Previously filed as an exhibit to NTN's report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated by reference.

(6) Previously filed as an exhibit to NTN's report on Form 10-K for the fiscal year ended December 31, 1999 and incorporated herein by reference.

(7) Previously filed as an exhibit to NTN's report on Form 8-K dated October 31, 1997 and incorporated herein by reference.

(8) Previously filed as an exhibit to NTN's report on Form 10-K/A filed on April 5, 2000 and incorporated herein by reference.

(9) Previously filed as an exhibit to NTN's report on Form 10-K/A filed on March 5, 2001 and incorporated herein by reference.

(10) Previously filed as an exhibit to NTN's registration statement on Form 8-A, File No. 0-19383, and incorporated by reference.

(11) Previously filed as an exhibit to NTN's report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated by reference.

(12) Previously filed as an exhibit to NTN's report on Form 10-Q for the quarterly period ended March 31, 2001 and incorporated by reference.
(13) Previously filed as an exhibit to NTN's Form 10-K dated for the fiscal year ended December 31, 2002 and incorporated herein by reference.
(14) Previously filed as an exhibit to NTN's report on Form 8-K filed on January 29, 2004 and incorporated herein by reference.
(15) Previously filed as an exhibit to NTN's registration statement on Form S-3, File No. 333-111538, filed on December 24, 2003 and incorporated herein by reference.
(16) Previously filed as an exhibit to NTN's Form 10-Q for the quarterly period ended June 30, 2003 and incorporated herein by reference.
(17) Previously filed as an exhibit to NTN's report on Form 8-K dated July 31, 2003 and incorporated herein by reference.
(18) Previously filed as an exhibit to NTN's registration statement on Form S-3, File No. 333-105429, filed on May 21, 2003 and incorporated herein by reference.
(19) Previously filed as an exhibit to NTN's Form 10-Q for the quarterly period ended March 31, 2003 and incorporated herein by reference.
(20) Previously filed as an exhibit to NTN's Form 10-Q for the quarterly period ended September 30, 2004, and incorporated herein by reference.
(21) Previously filed as an exhibit to NTN's report on Form 8-K dated August 23, 2004 and incorporated herein by reference.
(22) Furnished concurrently herewith.