



## NTN Buzztime, Inc.

(NTN - \$1.13)

### *NTN Embarks on a New Strategic Direction*

EPS						Revenue*			
Fiscal Year: December	2005A	2006A	06/05 Change	2007E	07/06 Change	Fiscal Year: December	2006A	2007E	07/06 Change
<b>Q1</b>	(0.03)	0.00	-	(0.01)A	-	<b>Q1</b>	8.3	7.7A	-7.2%
<b>Q2</b>	(0.02)	(0.04)	-	(0.00)	-	<b>Q2</b>	7.9	7.9	-
<b>Q3</b>	0.00	(0.00)	-	(0.01)	-	<b>Q3</b>	8.3	8.2	-1.2%
<b>Q4</b>	0.00	(0.05)	-	(0.01)	-	<b>Q4</b>	8.5	8.4	-1.2%
<b>Year</b>	(0.04)	(0.09)	-	(0.04)	-	<b>Year</b>	33.0	32.3	-2.1%
<b>P/E</b>	-	-	-	-	-	<b>xRev</b>	1.9x	1.9x	
TRADING DATA					VALUATION DATA				
52-Week Range:			\$1.70—\$1.08		EBITDA (MM) FY07E:			\$2.7	
Market Cap. (MM):			\$62.4		Enterprise Value (MM):			\$51.3	
Shares Outstanding (MM):			55.2		EV/EBITDA FY07E			18.7x	
Estimated Float (MM):			51.3		Cash Per Share:			\$0.20	
Insider Ownership			18.7%		Book Value Per Share:			\$0.32	
Average Volume			115,000		Total Debt (MM):			\$0	

*Business: NTN Buzztime is a provider of interactive, multi-player trivia and games for the hospitality market.*

- **New NTN management has outlined a strategic roadmap focused on long-term growth and profitability.** Key initiatives of the strategic roadmap were implemented in 3Q06.
- **NTN believes it can grow its Buzztime iTV Network to 10,000 sites over the next several years.** Opportunities include growth in its core North American market as well as a green field opportunity in the United Kingdom.
- **The company possesses a significant potential catalyst with distribution of Buzztime branded content to cable television operators.** The interactive cable television opportunity has been slow to develop however we believe NTN is well positioned to be a major player if the market emerges.
- **NTN is successfully divesting non-core businesses.** The company closed the sale of its Wireless segment in 1Q07 and plans to divest its Software Solutions unit by 2Q07.
- **We believe NTN maintains a solid financial position to execute its strategic roadmap.** The company presently holds \$11.1 million in cash with no long-term indebtedness.

## INVESTMENT OVERVIEW

NTN Buzztime offers interactive, multi-player trivia and game programming principally serving hospitality customers such as bars and restaurants. The company was founded in 1984 and has leveraged the strength of its programming content to deliver Buzztime iTV Network into 3,954 sites across North America and the United Kingdom as of 1Q07.

Despite strong adoption of the company's programming, NTN has historically struggled to combat churn rates that have averaged in the mid-to-low 20% range. The appointment in June 2006 of Dario Santana as President and CEO brought the company extensive media and broadband leadership as well as experience in managing churn. Following a review of operations, management outlined a strategic roadmap in 3Q06 to increase site count and reduce churn. Key initiatives include reorganizing the structure of its sales force, rollout of a national media relations campaign, creation of a "Rookie Site" retention program, new product segmentation and an improved look and feel of its game content.

Management has also accelerated a plan to divest NTN of its non-core Hospitality Division, comprised of Wireless and Software Solutions. Management sold Wireless in 1Q07 and expects to divest itself of Software Solutions by 2Q07. We believe the divestiture of both segments will reduce the complexity of NTN's business model and allow management to concentrate on expanding the Buzztime iTV Network.

We believe NTN possesses a sizable market opportunity to grow the Buzztime iTV Network. In addition to an estimated market opportunity of 50,000 sites in North America, NTN has also gained an overseas foothold for the iTV Network through its expansion into the United Kingdom. The company has activated 54 sites in the U.K. and, alongside an agreement with large pub operator Greene King, has the ability to penetrate an end market of more than 40,000 pubs.

A large potential catalyst for NTN remains cable TV. The company has agreements to distribute Buzztime games to cable giants such as Comcast and Time Warner Cable as well as a number of smaller regional operators such as Susquehanna Communications (SusCom) and Blue Ridge. A nationwide rollout by Comcast and Time Warner of Buzztime games is yet to materialize and there has been no indication given as to when a rollout may occur. However, as traditional cable operators experience heightened competition in the home cable market from phone companies we believe there may be greater impetus to add unique content such as interactive games.

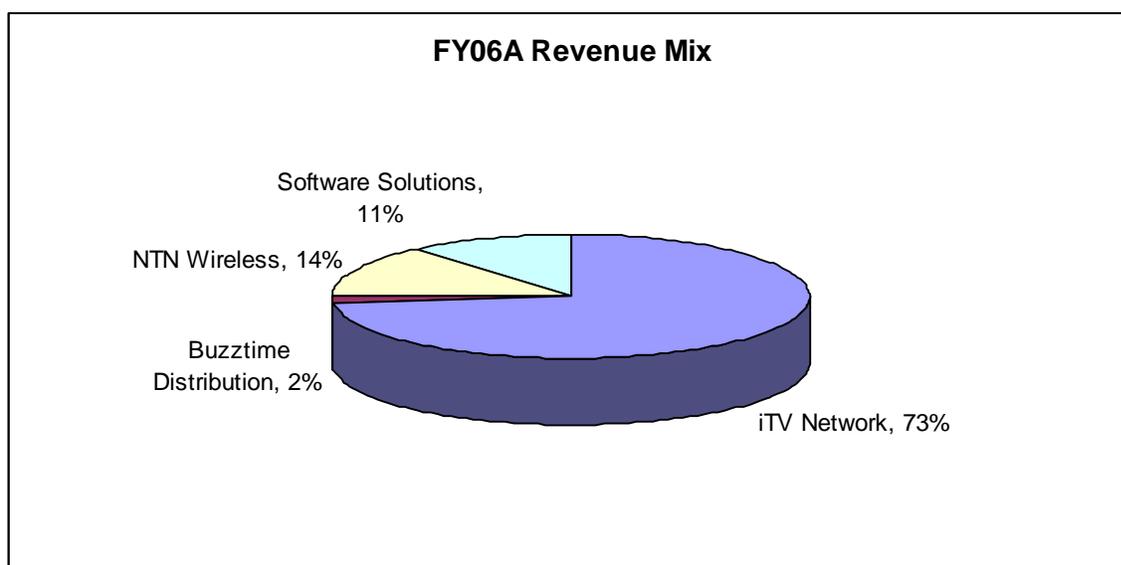
NTN is generating strong cash flow despite flat near-term growth. We believe part of the company's success has been a steep reduction in user activation expense through the deployment of DSL Broadband. The estimated cost of activating a new user has declined to \$3,100, a reduction of 38%. We estimate this cost reduction has brought the company's breakeven threshold to 3,600 active sites. Based on the company's average revenue per user, we believe NTN generates incremental net income of \$1 million for every 200 new sites that are activated.

We believe NTN Buzztime possesses a unique blend of interactive content and has the financial resources available to materially increase its site count over the next several years. The success of its current growth strategy is dependent on the company's ability to effectively reduce churn and find new markets to introduce its programming in addition to the continued penetration of the existing hospitality market. The adoption by major cable TV operators provides NTN with the potential for significant revenue upside although the market has largely discounted this opportunity due to inactivity. Near-term, we believe NTN's focus on operating efficiency and the divestiture of Wireless and Software should allow the company to strengthen and grow EBITDA.

## BUSINESS OVERVIEW

NTN Buzztime is a leading developer and distributor of interactive entertainment content and technology. The company currently generates revenue from four sources: the licensing and broadcasting of interactive game content, licensing, wireless paging systems and seating and reservation management. NTN markets its products and services to the hospitality industry using a combination of direct sales, independent agents and representatives.

NTN segments its four operating businesses into two divisions: Entertainment and Hospitality. The Entertainment Division consists of the Buzztime iTV Network and Buzztime Distribution. The Hospitality Division consists of NTN Wireless and Software Solutions. NTN sold Wireless in 1Q07 and plans to divest Software by 2Q07. Both units are now reported as discontinued operations.



## *ENTERTAINMENT DIVISION*

### **Buzztime iTV Network**

In 1985, NTN penetrated the interactive television entertainment market with the introduction of the Buzztime iTV Network. Operating out of a state-of-the-art broadcast studio, Buzztime iTV Network transmits unique single-player and multi-player interactive programming to subscribing hospitality venues across North America and the U.K. The company's major revenue source, iTV Network accounted for approximately 74% of total consolidated revenue in FY06. Management expects this percentage to increase to 95% of revenue following divestiture of its non-core business segments.

Buzztime iTV Network has been profitable in five of the last nine quarters, generating revenue from three sources: recurring subscription fees, one-time on-premise installation fees, and advertising. Target markets include national and regional hospitality chains and local independent hospitality venues. The iTV Network is positioned in the market as a cost-effective means of generating customer traffic, loyalty and repeat business to its installed client base. As a turnkey solution, iTV also creates cost benefits due to limited onsite employee involvement required to operate the system.

### *Game Content*

Buzztime iTV Network game content includes trivia, play along games, casino-style games and causal games, is developed internally through Buzztime Distribution or purchased externally through third party licensing. NTN installs equipment directly at the customer site to transmit and broadcast its content. Users play games viewable on television screens using a wireless device (Playmaker).

### *Trivia Games*

NTN offers a wide range of premium trivia quiz games to its subscriber locations. Popular with traditional players, the company holds competitions during evening when the venues tend to be busiest. Players can compete for prizes in their local venues, as well as on a regional and national scale.

### *Sports Games*

NTN distributes a number of interactive sports games, principally under the Predict to Play® genre. This category of game enables participants to predict the outcome of events before they happen, primarily in an intensive play-by-play method. Under license from the NFL, the company broadcasts its highly popular QB1™ game whereby users attempt to predict upcoming football plays. Other games include Race Day and Brackets.

### **QB1 Sports Game**



### *Turn-Based Games*

In 2005, NTN released on its iTV2 channel (see below), a series of new “turn-based” games. Designed with young adults in mind, turn-based games allow users to take turns playing games while socializing. The goal of turn-based games is to penetrate hospitality venues not attracted to its core trivia and sports products as well as to provide additional programming to current subscriber locations. Turn-based products include multi-player card games such as Blackjack and Texas Hold’Em poker, Crazy Golf, a miniature golf game and Cutthroat, a billiards game.

### **Texas Hold'em**



### *Technology*

When originally launched, the Buzztime iTV Network was a DOS-based, single channel platform that transmitted its programming data through a one-way FM2 satellite to a PC server located at the subscribing hospitality venue. In 1999, NTN upgraded to DITV, a newer platform that uses Windows-based development tools and multimedia capabilities to create enhanced, high resolution graphics and full motion video. This new technology improved overall performance and reliability as well as creating an opportunity to increase advertising revenue. DITV allowed advertisers to use existing video footage for ads rather than static billboards in its network.

NTN further upgraded its platform capabilities with the development and installation of iTV2 in 2005. iTV2 has the same graphic and video characteristics as DITV but allows two channels of programming to be transmitted to subscriber locations. With iTV2, subscribing venues now have the flexibility to offer patrons dual game content options. Management believes that two channels of programming is a stronger value proposition for subscribing locations and will help with site retention efforts. As of Q406, 70% of sites have iTV2 technology while 30% have only DITV.

NTN has also improved network connectivity as new technology emerges. In late 2003, iTV began to shift network connectivity away from FM2 satellites towards newer, much faster, two-way VSAT satellite technology. Utilizing VSAT technology allowed the company to eliminate the telecommunication standard associated with FM2 satellites. In late 2004, NTN began connecting subscribing sites to the iTV network via two-way DSL broadband. This shift in network connectivity helped reduce capital cost per site for new installations by 38%. As of Q406, 48% of sites receive data via DSL broadband, 30% via VSAT and 22% via FM2 satellites.

### **Buzztime Playmaker**



Buzztime iTV Network users play games on wireless devices called Playmakers. Playmakers have specialized keyboards that provide the capability to enter choices and selections for users to play each of NTN's broadcast games. iTV2 systems currently use a 900 MHz wireless Playmaker although the company is currently rolling out a more advanced 2.4 GHz Playmaker.

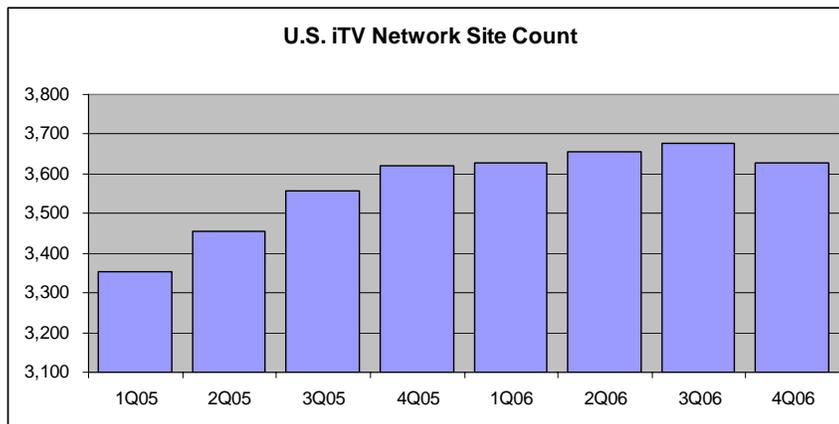
### **Competition**

Buzztime iTV Network currently has no direct competitors that provide a similar form of programming to hospitality locations. We believe iTV's main competition comes from other forms of entertainment available to hospitality venues, such as music-based systems, live entertainment and coin-operated single-player games/amusements. Key differentiating factors among services include price, installation ease, support availability, functionality, performance, and return on investment.

### **Customer Base**

Site count is a key measure of iTV Network growth and incoming management has set an aggressive long-term goal of distributing its programming to 10,000 sites worldwide over the next several years. As of 1Q07, the network had 3,954 subscribing sites, 3,573 in the U.S., 327 in Canada and 54 in the U.K. The company recently reacquired full distribution rights in the U.K.

A key challenge in stimulating overall site growth is combating the company's relatively high rate of customer churn. The past two quarters have witnessed churn rates fluctuate from historical levels in the low 20% range into the upper 20% range. Internal research recently revealed that 50% of new venue subscribers are leaving iTV network within the first year and that two thirds of all cancellations come in the first 18 months. As part of its plan to grow overall site count and reduce churn, management outlined a strategic roadmap to address these challenges in 3Q06.



#### *BUZZTIME iTV NETWORK STRATEGIC ROADMAP*

With the sale of NTN Wireless and planned divestiture of Software Solutions, the company plans to focus on the long-term growth of its core Buzztime iTV Network. To mitigate churn and achieve its goal of 10,000 sites, management has outlined four main initiatives as part of its strategic roadmap.

- Grow the iTV Network player community
- Improve iTV Network product segmentation
- Increase marketing focus on national accounts
- Grow its advertising revenue

**Grow the iTV Network player community.** Management plans to focus new marketing initiatives on growing its community of iTV Network players. Central to this plan is to conduct a national media relations campaign to generate favorable coverage of the network and build awareness among both new and existing players. The company also plans to promote the iTV Network and increase participation and game play through local events including tournaments, endorsements, championships and prizes that will be sanctioned by NTN. This plan will be augmented by a field promotion effort to organize these events and drive marketing support to customers.

Beginning early this year, NTN began an initiative to improve the look & feel and entertainment value of its content by porting all of its games to a platform that is more robust and visually enhanced. This initiative is designed to improve the overall play hours of its games at individual venues.

NTN will also leverage its online resources with a plan to increase traffic to its player website through events such as online trivia challenges to generate additional interest in its games and venues. Manage-

ment believes these initiatives will broaden interest within its current player community of Buzztime iTV Network and drive incremental gains in the number of new players and game hours played. The ultimate beneficiaries of these initiatives will be the company's customers resulting in what is expected to be higher player traffic and reduced overall churn.

**Improve iTV Network product segmentation.** As a means of improving win rates on sales leads and further reduce churn, the company took a comprehensive look at the needs of its customers and created a segmented offering of its games. This segmentation plan abandoned its previous "one size fits all" strategy and offers new game packages featuring various options on functionality and pricing to appeal to differing venues both large and small. Management believes this improved product segmentation will open up new venues that may have previously declined service due to factors such as pricing. Management reported that product segmentation directly contributed to a 10% reduction in terminations during the month of April 2007.

The company has also introduced a Rookie Program designed to reduce high churn levels associated with new subscriber locations. The Rookie Program will increase the amount of touches per new subscriber location to insure customers are fully utilizing the iTV Network, encouraging player participation and maximizing return on investment expectations. Management believes this Rookie Program will have a materially positive impact on churn.

**Increase marketing focus on national accounts.** At present, 28% of all customers to iTV Network in the U.S., Canada and the U.K. are national accounts, accounts that have multiple locations spread across different geographies. Considering the highly successful integration of the iTV Network into the entertainment strategy of certain national accounts such as Buffalo Wild Wings, the company plans to aggressively focus on growing its national account base. Management believes that offering customized solutions specific to the revenue, promotional, branding and operational needs of these national accounts will result in greater traction in attracting site growth.

**Grow iTV advertising revenue.** Historically, NTN has generated nominal revenue from advertising sponsors on its iTV Network and has contracted a third party to stimulate these sales. Over the last two years the company has averaged less than \$1 million per year in advertising revenue. Management believes that advertising dollars generated through the iTV Network will serve as a tremendous untapped source of revenue growth. On November 2, 2006 NTN engaged Webber Communications Intl. to formulate a multi-year plan to drive advertising revenue through the Buzztime iTV Network. We believe the company will begin generating higher advertising revenue in the second half of fiscal 2007.

### **Buzztime Distribution**

Buzztime Distribution rounds out NTN's Entertainment Division and is engaged in providing the distribution and licensing of all Buzztime-branded game content and related technology to a wide array of consumer platforms. In addition, Distribution creates, develops and produces single-player and multi-player games for both one-way and two-way consumer platforms. The games are designed for broad audiences and include many of the games associated with Buzztime iTV Network: trivia, Predict-the-Play games, multi-player card and billiard games as well as single-player card, arcade, puzzle and board games. NTN's primary focus is on interactive networks such as cable and satellite TV and mobile phones. The company invested heavily in interactive TV gaming for cable operators beginning in 2000 in anticipation of lucrative and barrier free entrance into the interactive cable television market.

Despite several successful deployments, NTN to-date has been unable to achieve a large-scale national deployment of its content with major partners Comcast and Time Warner Cable. Buzztime games are

currently delivered to approximately 300,000 digital cable subscribers in eight cable systems in the U.S. including SusCom and Blue Ridge Communications. Buzztime games are also available via satellite through Echostar DISH and Bell Canada ExpressVu on a premium subscription basis. The company recently began targeting mobile phone companies and Buzztime multi-player trivia games are now available as a premium subscription service on many advanced mobile phones via popular wireless networks in North America. Buzztime also provides home electronic games, trivia player cards and trivia books that are available in thousands of retail and online stores through licensed partners.

Buzztime Distribution represented only 2% of total NTN revenue in 1Q07. We believe that absent major cable operator deployment, the company's Distribution business will continue to contribute negligibly to overall revenue.

## **HOSPITALITY DIVISION**

### **Wireless Communications**

NTN acquired its wireless communications business in 2002 with the goal of leveraging its sales and services infrastructure associated with the Buzztime iTV Network installed base. Wireless markets a paging system consisting of a small tabletop transmitter and a group of pager units to restaurants and other venues under brand names GuestCall and ServerCall. GuestCall provides a signal to restaurant patrons when their table is ready. ServerCall alerts servers through a pager when prepared food is ready.

Wireless has generated seven consecutive profitable quarters and accounted for 55% of total FY06 Hospitality Divisional revenue. NTN sold Wireless to HME Electronics in 1Q07 for net proceeds of \$2 million, resulting in a gain of approximately \$396,000.

### **Software Solutions**

NTN Software Solutions was formed in 2003 following the acquisition of Breakaway Intl. By combining Software with Wireless, management's goal was the creation of a comprehensive customer management solution that addressed the "Speed of Service" initiative prevalent in the hospitality industry. As a turnkey service, Software Solutions provides customers with a database-driven reservation management solution as well as a table management/waitlist management solution.

The seating management software is designed to increase the number of guests that a restaurant can effectively seat and serve. Reservation management software is designed to accept advance reservations for single or multiple locations. Since inception, Software Solutions has installed its software in over 3,300 food service locations for more than 300 companies. 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.

The bulk of Software Solution revenue is derived through the licensing of its proprietary seating and reservation management system software. Additional revenue is generated from professional help desk services and outsourced software development, support and maintenance services to Domino's Pizza and other customers. In contrast to Wireless, Software Solutions has suffered significant losses during the past eight quarters, culminating in a \$3.1 million loss in 4Q06 that included a \$2.7 million charge for goodwill impairment. Management is actively seeking to divest this unit and plans to close a transaction by the end of 2Q07.

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## MANAGEMENT\*

### **Dario Santana – Chief Executive Officer**

Dario Santana was most recently President of Tyco Fire & Security - Latin America, a services and technology company with annual revenues approaching \$300 million. Prior to joining Tyco in October 2002, he was the President and COO of Aerocast, Inc. a streaming media start-up, which delivered entertainment quality video to the broadband enabled home. Mr. Santana was an executive with General Instrument/Motorola Broadband from 1992 until 2000; his last role at Motorola was VP/GM Advanced Network Systems. He holds an MBA from the Harvard Business School and an engineering degree from Purdue University.

### **Kendra Berger – Chief Financial Officer**

Kendra Berger has been a Director of the Company since July 2005. Ms. Berger has served as the Executive Director of Finance and Controller of Nventa Biopharmaceuticals Corporation and formerly was the Vice President, Finance and Controller of Discovery Partners International, Inc. Prior to joining Discovery Partners International, Inc. in 2001, Ms. Berger was the Chief Financial Officer of NTN Buzztime, Inc. Ms. Berger was employed by Price Waterhouse (now PricewaterhouseCoopers) for seven years prior to joining the Company. She is a Certified Public Accountant and earned a B.S. in Business Administration from Ohio University.

### **Michele Richards – Chief Technology Officer**

Michele Richards was formerly president and chief technology officer for eBet, Inc., an Internet software engineering company that allowed high-security gaming and eCommerce applications in North America, New Zealand and Australia. There her responsibilities included software engineering, systems administration, system design, handling product support with customer interaction and database design. Her background also includes the role of chief technology officer for Red Tide Consulting, a software consulting firm, and prior served in the same position for Scantron Corporation, a data capture and educational software company. Richards has spearheaded technology development and product vision for companies such as CommerceWAVE, InfoQuest and Cox Communications.

### **John Boozer – Senior Vice President of Global Sales**

John Boozer is responsible for worldwide sales of the Buzztime Network within the restaurant, bar and hospitality industries and has been affiliated with NTN Buzztime since 1995. Mr. Boozer has served as Vice President of Sales, Director of Sales, Manager of Sales Development and Regional Manager within the company where he has consistently led the company in sales. In January 2000, he accepted the position of Vice President of Sales for Fun e-Business a Valencia, Spain-based technology company that was affiliated with Comytel, a European leader in designing and deploying internet appliances. Prior to joining NTN Buzztime in 1998, he was Territory Manager for Interactive Entertainment Systems, Inc., the most successful independent reseller within NTN Buzztime's hospitality business. Mr. Boozer attended the Georgia Institute of Technology where he studied Bio-Medical Engineering.

\*Information obtained directly from company reports.

## FIRST QUARTER RESULTS

NTN's 1Q07 reflected a transitional quarter for the company due to various organizational and operational changes implemented over the past three quarters. Revenue of \$7.7 million fell 6.5% y/y excluding Wireless and Software revenue that is now listed as discontinued operations. Including Wireless and Software, overall revenue dropped to \$10.3 million, down 6.7% y/y and 6.8% sequentially. Gross margins increased 100 basis points to 72%. Excluding a charge of \$452,000 relating to the restructuring of its Canadian operations, NTN generated a net loss of \$315,000 resulting in EPS of (\$0.01) on a diluted share count of 54.7 million. The company generated EBITDA of \$288,000 in the quarter and net cash of \$2.3 million.

Buzztime iTV Network site count fell by 85 subscribers in the quarter. iTV network's gross margins as a percentage of revenue improved slightly, reflecting the costs benefits of DSL broadband cable installation. Management expects further cost reductions related to installation, site visits, communication and shipping throughout FY07. These cost reductions offset increases in SG&A associated with its new sales and marketing strategy.

Buzztime Distribution posted revenue of \$139,000 down 23% y/y and 15% sequentially with an overall loss of \$176,000. We believe Distribution revenue will continue to track in \$100-200,000 range ahead of any significant cable deployment.

The company's Hospitality Division, which comprises both Wireless and Software, reported a 9% y/y revenue decline to \$2.6 million. Software remains a major operational drag as the company's divisional loss widened to \$462,000 versus \$315,000 in 1Q06. NTN sold Wireless late this quarter and we believe new management is committed to divesting Software Solutions in a timely fashion.

The company generated one-time revenue of \$81,000 in the quarter from the sale of certain assets related to the restructuring of Canadian operations.

## FINANCIAL OUTLOOK

**The following details are model assumptions based on continuing operations and exclude Wireless and Software results.**

We are estimating FY07 revenue from continuing operations of \$32.2 million, down 2.2% y/y. We expect gross margins to track in the 70-72% range over the next several quarters, reflecting installation cost savings. We believe NTN will continue to report reduced losses for the remainder of FY07 and achieve essentially breakeven results by 4Q07.

For FY08, we estimate revenue from continuing operations to climb 5.4% y/y to \$34.2 million. We expect gross margins to improve to 72.5% for the year on further operating efficiencies. With the divestiture of non-core businesses, we believe NTN will return to profitability in FY08 and we estimate full-year EPS of \$0.04.

### Entertainment Division

We estimate Buzztime iTV Network revenue will decline 1.6% y/y to \$31.7 million. We expect iTV will continue to generate the lion's share of Entertainment Divisional revenue. We expect iTV revenue will grow to \$33.7 million in FY08, up 6.2%, reflecting strong site growth in the U.K.

Although the company experienced unexpectedly high site churn in 1Q07, we believe this trend will normalize and begin to improve in 2H07 on measures associated with its strategic roadmap. We believe

U.S site count will grow marginally from 1Q07 numbers and accelerate toward the end of FY07. We anticipate significant site contribution from the U.K. in late FY07 and into FY08.

We have modeled FY07 gross margins of 72.5% for iTV Network. We believe management's shift to DSL broadband installation and operating improvements will overcome margin compression as a result of its new product segmentation.

Revenue from Buzztime Distribution is expected to decline to \$574,000 in FY07 and increase to \$750,000 in FY08 based on new initiatives in the mobile phone market and growth in licensing revenue. Distribution continues to hold significant revenue potential in the deployment of its game content to major cable operators although we have not modeled any revenue through FY08.

### **Hospitality Division**

We believe management will successfully divest Software Solutions by the end of 2Q07. As such, we are excluding Hospitality revenue from our model.

## **RISKS**

### STRATEGIC ROADMAP

NTN Buzztime has historically experienced inconsistent growth due to a high churn rate and fluctuating interest in its products. Our model assumptions assume some degree of success in the implementation of the company's strategic roadmap. Inability to increase site count in both North America and the U.K. as well as failure to reduce historical churn rates will have a material impact on our estimates.

### STATE AND FEDERAL LAWS

Several jurisdictions including New Jersey ban multi-player card games such as NTN's Texas Hold'em. In addition, the Federal Communications Commission regulates the company's wireless Playmakers and in 2001 issued a Notice of Inquiry concerning interactive television that may result in new industry regulations. Changes to State and Federal laws might adversely impact the company's ability to conduct business and could have a material impact on our estimates.

### SATELLITE COMMUNICATIONS

NTN relies on various communication platforms including satellite to broadcast content to its subscriber locations. As of December 31, 2006, 52% of the company's sites were connected by satellite via PanAmSat's Galaxy IIIIR. Any interruption in communications with subscriber locations could have an adverse impact on operations and materially impact our estimates.

### Companies mentioned in this report

*Buffalo Wild Wings (NDQ-BWLD, not rated) \$79.17*

*Comcast (NDQ-CMCSA, not rated) \$26.90*

*Time Warner Cable (NYSE-TWC, not rated) \$37.66*

*EchoStar Communications (NDQ-DISH, not rated) \$48.48*

**NTN Buzztime, Inc. (NTN)**  
**Income Statement**

(\$ in thousands, except per share data)

Fiscal Year: December	Q105A	Q205A	Q305A	Q405A	FY05A	Q106A	Q206A	Q306A	Q406A	FY06A	Q107A	Q207E	Q307E	Q407E	FY07E	FY08E
Revenue																
Buzztime iTV Network	6,793	6,920	7,385	8,276	29,374	8,089	7,822	7,978	8,291	32,180	7,594	7,750	8,100	8,300	31,744	33,700
Buzztime Distribution	295	232	515	333	1,375	180	107	354	164	805	139	143	145	147	574	750
<b>Total Revenue</b>	<b>7,088</b>	<b>7,152</b>	<b>7,900</b>	<b>8,609</b>	<b>30,749</b>	<b>8,269</b>	<b>7,929</b>	<b>8,332</b>	<b>8,455</b>	<b>32,985</b>	<b>7,733</b>	<b>7,893</b>	<b>8,245</b>	<b>8,447</b>	<b>32,318</b>	<b>34,450</b>
Cost and Expenses																
iTV Direct Costs	2,255	2,199	2,270	2,480	9,204	2,364	2,434	2,445	2,291	9,534	2,108	2,131	2,218	2,264	8,721	9,474
Gross Margins %	66.8%	68.2%	69.3%	70.0%	68.7%	70.8%	68.9%	69.4%	72.4%	70.4%	72.2%	72.5%	72.6%	72.7%	72.5%	71.9%
Distribution Direct Costs	147	279	119	109	654	112	127	130	126	495	105	109	110	113	437	458
Gross Margins %	50.2%	-20.3%	76.9%	67.3%	52.4%	37.8%	-18.7%	63.3%	23.2%	38.5%	24.5%	23.8%	24.4%	23.0%	23.9%	38.9%
SG&A	4,917	5,302	4,864	4,788	19,871	5,340	5,869	4,916	5,032	21,157	5,691	5,722	5,936	5,955	23,305	21,531
Litigation, Legal & Professional fees	342	155	232	416	1,145	-	329	413	743	1,485	-	-	-	-	-	-
Depreciation & Ammortization	219	165	212	313	909	171	208	205	238	822	153	158	165	169	645	689
Restructuring charge											452	-	-	-	-	-
Research and development	59	66	70	53	248	66	56	56	29	207	36	39	41	42	159	207
<b>Total costs and expenses</b>	<b>7,939</b>	<b>8,166</b>	<b>7,767</b>	<b>8,159</b>	<b>32,031</b>	<b>8,053</b>	<b>9,023</b>	<b>8,165</b>	<b>8,459</b>	<b>33,700</b>	<b>8,545</b>	<b>8,160</b>	<b>8,470</b>	<b>8,543</b>	<b>33,718</b>	<b>32,359</b>
<b>Income from Operations</b>	<b>(851)</b>	<b>(1,014)</b>	<b>133</b>	<b>450</b>	<b>(1,282)</b>	<b>216</b>	<b>(1,094)</b>	<b>167</b>	<b>(4)</b>	<b>(715)</b>	<b>(812)</b>	<b>(267)</b>	<b>(225)</b>	<b>(96)</b>	<b>(1,400)</b>	<b>2,091</b>
Interest expense, net	2	(24)	(35)	(33)	(90)	(15)	(21)	26	22	12	28	32	33	34	126	138
Other expense	0	0	0	0	0	0	(652)	0	0	(652)	81	0	0	0	81	0
Income before income taxes	(849)	(1,038)	98	417	(1,372)	201	(1,767)	193	18	(1,355)	(703)	(235)	(192)	(63)	(1,193)	2,229
Income tax benefit	(33)	(43)	50	(53)	(79)	(27)	(31)	(25)	(69)	(152)	(60)	(39)	(41)	(42)	(183)	(334)
<b>Net Income from continuing ops</b>	<b>(882)</b>	<b>(1,081)</b>	<b>148</b>	<b>364</b>	<b>(1,451)</b>	<b>174</b>	<b>(1,798)</b>	<b>168</b>	<b>(51)</b>	<b>(1,507)</b>	<b>(763)</b>	<b>(275)</b>	<b>(233)</b>	<b>(105)</b>	<b>(1,376)</b>	<b>1,895</b>
Net Income from discontinue ops	(467)	(11)	98	(188)	(568)	(98)	(58)	(223)	(2,887)	(3,266)	(4)	(493)	0	0	(497)	0
<b>Net Income</b>	<b>(1,349)</b>	<b>(1,092)</b>	<b>246</b>	<b>176</b>	<b>(2,019)</b>	<b>76</b>	<b>(1,856)</b>	<b>(55)</b>	<b>(2,938)</b>	<b>(4,773)</b>	<b>(767)</b>	<b>(767)</b>	<b>(233)</b>	<b>(105)</b>	<b>(1,873)</b>	<b>1,895</b>
Basic net income per common share	(0.03)	(0.02)	0.00	0.00	(0.04)	0.00	(0.03)	(0.00)	(0.05)	(0.09)	(0.01)	(0.01)	(0.00)	(0.00)	(0.03)	0.04
Diluted net income per common share	(0.03)	(0.02)	0.00	0.00	(0.04)	0.00	(0.03)	(0.00)	(0.05)	(0.09)	(0.01)	(0.01)	(0.00)	(0.00)	(0.03)	0.04
Shares used in computing basic net income per share	53,222	53,403	53,604	53,769	53,501	53,928	54,157	54,427	54,627	54,267	54,754	54,250	54,000	54,000	54,251	53,000
Shares used in computing diluted net income per share	53,222	53,403	60,632	60,819	53,501	60,931	54,157	54,427	54,627	54,267	54,754	54,250	54,000	54,000	54,251	53,000
<b>% of Total Revenue</b>																
Revenue																
Buzztime iTV Network	96%	97%	93%	96%	96%	98%	99%	96%	98%	98%	98%	98%	98%	98%	98%	98%
Buzztime Distribution	4%	3%	7%	4%	4%	2%	1%	4%	2%	2%	2%	2%	2%	2%	2%	2%
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost and Expenses																
iTV direct Costs	31.8%	30.7%	28.7%	28.8%	29.9%	28.6%	30.7%	29.3%	27.1%	28.9%	27.3%	27.0%	26.9%	26.8%	27.0%	27.5%
Distribution Direct Costs	33.9%	34.6%	30.2%	30.1%	32.1%	29.9%	32.3%	30.9%	28.6%	30.4%	28.6%	28.4%	28.2%	28.1%	28.3%	1.3%
SG&A	69.4%	74.1%	61.6%	55.6%	64.6%	64.6%	74.0%	59.0%	59.5%	64.1%	73.6%	72.5%	72.0%	70.5%	72.1%	62.5%
Litigation, Legal & Professional fees	4.8%	2.2%	2.9%	4.8%	3.7%	0.0%	4.1%	5.0%	8.8%	4.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation & Ammortization	3.1%	2.3%	2.7%	3.6%	3.0%	2.1%	2.6%	2.5%	2.8%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Research and development	0.8%	0.9%	0.9%	0.6%	0.8%	0.8%	0.7%	0.7%	0.3%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%
Total costs and expenses	112.0%	114.2%	98.3%	94.8%	104.2%	97.4%	113.8%	98.0%	100.0%	102.2%	110.5%	103.4%	102.7%	101.1%	104.3%	93.9%
Income from Operations																
Interest income	0.0%	-0.3%	-0.4%	-0.4%	-0.3%	-0.2%	-0.3%	0.3%	0.3%	0.0%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Other expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-8.2%	0.0%	0.0%	-2.0%	1.0%	0.0%	0.0%	0.0%	0.3%	0.0%
Income before income taxes	-12.0%	-14.5%	1.2%	4.8%	-4.5%	2.4%	-22.3%	2.3%	0.2%	-4.1%	-9.1%	-3.0%	-2.3%	-0.7%	-3.7%	6.5%
Income tax benefit	-0.5%	-0.6%	0.6%	-0.6%	-0.3%	-0.3%	-0.4%	-0.3%	-0.8%	-0.5%	-0.8%	-0.5%	-0.5%	-0.5%	-0.6%	-1.0%
Net Income from continuing ops	-12.4%	-15.1%	1.9%	4.2%	-4.7%	2.1%	-22.7%	2.0%	-0.6%	-4.6%	-9.9%	-3.5%	-2.8%	-1.2%	-4.3%	5.5%

## NTN Buzztime, Inc. (NTN)

### Balance Sheet

(\$ in thousands)

<i>Assets</i>	<u>1Q07</u>	<u>FY06</u>	<u>FY05</u>
Cash and Cash Equivalents	11,052	8774	5,982
Restricted Cash	45	58	69
Accounts Receivable, Net	1,099	1874	3,630
Inventory			371
Investments Available For Sale	304	337	258
Deposits on Broadcast Equipment	514	381	799
Deferred Costs	1,016	1067	1,118
Prepaid Expenses and Other	637	908	955
Assets Held for Sale	1,428	2659	
<i>Total Current Assets</i>	<i>16,095</i>	<i>16,058</i>	<i>13,182</i>
Broadcast Equipment and Fixed Assets, Net	5,123	5919	8,085
Software Development Costs, Net	810	806	706
Deferred Costs	894	963	1,256
Goodwill	974	974	3,658
Intangible Assets, Net	1,441	1561	2,946
Other Assets	200	244	185
<i>Total Assets</i>	<i>25,537</i>	<i>26,525</i>	<i>30,018</i>
<i>Liabilities and Stockholders' Equity</i>			
Accounts Payable	1,039	1139	725
Accrued Expenses	1,096	1282	1,959
Sales Tax Payable	950	763	714
Accrued Salaries	189	475	483
Accrued Vacation	430	401	619
Income Taxes Payable	38	53	147
Current Portion of Capital Leases	251	349	436
Revolving Line of Credit	0	0	700
Deferred Revenue	1,204	1486	2,024
Deferred Revenue-Buzztime	298	340	632
Liabilities of Discontinued Operations	1,937	1441	
<i>Total Current Liabilities</i>	<i>7,432</i>	<i>7,729</i>	<i>8,439</i>
Capital Lease Obligations	11	20	366
Deferred Revenue	179	246	321
<i>Stockholders' Equity:</i>			
Series A 10% Cumulative Convertible Preferred Stock	1	1	1
Common Stock	273	272	268
Additional Paid-In Capital	111,815	111617	109,860
Accumulated Deficit	(94,328)	(93,561)	(88,788)
Accumulated Other Comprehensive Loss	154	201	(449)
<i>Total Stockholders' Equity</i>	<i>17,915</i>	<i>18,530</i>	<i>20,892</i>
<i>Total Liabilities and Stockholders' Equity</i>	<i>25,537</i>	<i>26,525</i>	<i>30,018</i>

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