

TIVO INC  
Form 10-Q  
September 10, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended July 31, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-27141

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**TIVO INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of

incorporation or organization)

2160 Gold Street, P.O. Box 2160, Alviso, CA 95002

77-0463167  
(I.R.S. Employer

Identification No.)

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(Address of principal executive offices including zip code)

(408) 519-9100

(Registrant's telephone number, including area code)

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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 such filing requirements for the past 90 days. YES  NO .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO .

The number of shares outstanding of the registrant's common stock, \$0.001 par value, was 98,150,066 as of August 31, 2007.

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Except as the context otherwise requires, the terms "TiVo," "Registrant," "Company," "we," "us," or "our" as used herein are references to TiVo Inc. and its consolidated subsidiaries.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended, and section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to, among other things:

our future investments in subscription acquisition activities, including rebate offers to consumers, offers of bundled hardware and service subscriptions, advertising expenditures, hardware subsidies, and other marketing activities and their impact on our total acquisition costs;

our future earnings including expected future service and technology revenues and future TiVo-Owned and DIRECTV average revenue per subscription;

expectations of the growth in the future DVR market generally, and the high definition market specifically;

our financial results, and expectations for profitability in the future;

possible future increases in our general and administrative expenses, including expenditures related to lawsuits involving us;

possible future increases in our operating expenses, including increases in customer support and retention expenditures;

future subscription growth or attrition of both TiVo-Owned and third party service provider subscriptions (such as Comcast, Cox, DIRECTV, Cablevision Mexico, and Seven);

expectation of future technology and service revenues from third parties, such as Comcast, Cox, and Seven and future deployment of the TiVo service by them;

our estimates of the useful life of TiVo-enabled DVRs in connection with the recognition of revenue received from product lifetime subscriptions;

consumer rebate redemption rates and expenses associated with sales incentive programs;

expectations regarding the seasonality of our business and subscription additions to the TiVo service;

our intentions to continue to grow the number of TiVo-Owned subscriptions through our relationships with major retailers;

our estimates and expectations related to inventory and inventory-related write-downs;

our expectations related to future increases in advertising and audience research measurement revenues;

our expectations related to changes in the cost of our hardware revenues and the reasons for changes in the volume of DVRs sold to retailers;

the amount of expected non-cash stock-based compensation expense in our quarter ending October 31, 2007 and our expectation of no non-cash stock based compensation expenses in future quarters related to our Transition and Consulting Agreement with Michael Ramsay;

our ability to fund operations, capital expenditures, and working capital needs during the next year;

our ability to raise additional capital through the financial markets in the future;

our services and operations internationally;

our ability to perform or comply with laws, regulations, and requirements different than those in the United States; and

our ability to oversee our outsourcing of manufacturing processes and engineering work, and management of our inventory.

Forward-looking statements generally can be identified by the use of forward-looking terminology such as believe, expect, may, will, intend, estimate, continue, ongoing, predict, potential, and anticipate or similar expressions or the negative of those terms or expressions. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from those expressed or implied by such forward-looking statements. Such factors include, among others, the information contained under the caption Part II, Item 1A. Risk Factors in this quarterly report and contained under the caption Part I, Item 1A Risk Factors in our most recent annual report on Form 10-K. The reader is cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this quarterly report and we undertake no obligation to publicly update or revise any forward-looking statements in this quarterly report.

The reader is strongly urged to read the information set forth under the caption Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Part II, Item 1A, Risk Factors for a more detailed description of these significant risks and uncertainties.

**Table of Contents****PART I. FINANCIAL INFORMATION.****ITEM 1. FINANCIAL STATEMENTS.****TIVO INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share amounts)****(unaudited)**

	July 31, 2007	January 31, 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 51,929	\$ 89,079
Short-term investments	45,700	39,686
Accounts receivable, net of allowance for doubtful accounts of \$907 and \$271	13,502	20,641
Inventories	22,727	29,980
Prepaid expenses and other, current	3,630	3,071
Total current assets	137,488	182,457
<b>LONG-TERM ASSETS</b>		
Property and equipment, net	11,961	11,706
Purchased technology, capitalized software, and intangible assets, net	15,145	16,769
Prepaid expenses and other, long-term	2,020	1,018
Total long-term assets	29,126	29,493
Total assets	\$ 166,614	\$ 211,950
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 19,471	\$ 37,127
Accrued liabilities	28,531	36,542
Deferred revenue, current	60,313	64,872
Total current liabilities	108,315	138,541
<b>LONG-TERM LIABILITIES</b>		
Deferred revenue, long-term	43,797	54,851
Deferred rent and other	1,434	1,562
Total long-term liabilities	45,231	56,413
Total liabilities	153,546	194,954
<b>COMMITMENTS AND CONTINGENCIES (see Note 6)</b>		
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, par value \$0.001:		
Authorized shares are 10,000,000;		
Issued and outstanding shares none		

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Common stock, par value \$0.001:		
Authorized shares are 150,000,000;		
Issued shares are 98,150,323 and 97,311,986, respectively and outstanding shares are 98,024,631 and 97,231,483, respectively		
	98	97
Additional paid-in capital	772,505	759,314
Accumulated deficit	(758,700)	(741,845)
Less: Treasury stock, at cost 125,692 and 80,503 shares, respectively	(835)	(570)
 Total stockholders' equity	 13,068	 16,996
 Total liabilities and stockholders' equity	 \$ 166,614	 \$ 211,950

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****TIVO INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share and share amounts)****(unaudited)**

	<b>Three Months Ended July 31,</b>		<b>Six Months Ended July 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues</b>				
Service revenues	\$ 53,376	\$ 49,430	\$ 107,531	\$ 96,381
Technology revenues	3,084	3,382	7,016	11,465
Hardware revenues	6,199	6,503	8,492	8,222
<b>Net revenues</b>	<b>62,659</b>	<b>59,315</b>	<b>123,039</b>	<b>116,068</b>
<b>Cost of revenues</b>				
Cost of service revenues (1)	10,064	9,628	20,219	20,063
Cost of technology revenues (1)	3,696	3,001	7,203	10,367
Cost of hardware revenues	28,271	21,607	38,919	36,753
<b>Total cost of revenues</b>	<b>42,031</b>	<b>34,236</b>	<b>66,341</b>	<b>67,183</b>
<b>Gross margin</b>	<b>20,628</b>	<b>25,079</b>	<b>56,698</b>	<b>48,885</b>
<b>Operating expenses</b>				
Research and development (1)	15,070	12,891	29,315	25,752
Sales and marketing (1)	5,381	5,439	10,684	10,286
Sales and marketing, subscription acquisition costs	9,015	3,053	14,805	5,836
General and administrative (1)	10,392	11,091	21,614	26,150
<b>Total operating expenses</b>	<b>39,858</b>	<b>32,474</b>	<b>76,418</b>	<b>68,024</b>
<b>Loss from operations</b>	<b>(19,230)</b>	<b>(7,395)</b>	<b>(19,720)</b>	<b>(19,139)</b>
Interest income	1,331	988	2,747	2,050
Interest expense and other	209	(29)	126	(32)
<b>Loss before income taxes</b>	<b>(17,690)</b>	<b>(6,436)</b>	<b>(16,847)</b>	<b>(17,121)</b>
Provision for income taxes		(12)	(8)	(31)
<b>Net loss</b>	<b>\$ (17,690)</b>	<b>\$ (6,448)</b>	<b>\$ (16,855)</b>	<b>\$ (17,152)</b>
<b>Net loss per common share basic and diluted</b>	<b>\$ (0.18)</b>	<b>\$ (0.07)</b>	<b>\$ (0.17)</b>	<b>\$ (0.20)</b>
<b>Weighted average common shares used to calculate basic and diluted net loss per share</b>	<b>97,084,184</b>	<b>85,978,022</b>	<b>96,956,656</b>	<b>85,555,826</b>

(1) Includes stock-based compensation expense as follows:

Cost of service revenues	\$ 178	\$ 130	\$ 335	\$ 224
Cost of technology revenues	504	243	967	446
Research and development	1,967	1,451	3,595	2,569
Sales and marketing	332	450	808	790



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General and administrative	2,261	1,289	4,177	2,621
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The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****TIVO INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

	<b>Six Months Ended July 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (16,855)	\$ (17,152)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment and intangibles	5,206	3,598
Stock-based compensation expense	9,882	6,650
Inventory write-down	7,486	
Loss on inventory barter transaction	989	
Changes in assets and liabilities:		
Accounts receivable, net	7,139	1,823
Inventories	(3,007)	(7,518)
Prepaid expenses and other	224	5,165
Accounts payable	(17,218)	878
Accrued liabilities	(8,011)	(14,121)
Deferred revenue	(15,613)	(12,646)
Deferred rent and other long-term liabilities	(128)	527
Net cash used in operating activities	\$ (29,906)	\$ (32,796)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of short-term investments	(15,014)	(35)
Sales of short-term investments	9,000	4,350
Acquisition of property and equipment	(3,900)	(3,462)
Acquisition of capitalized software and intangibles	(375)	(375)
Net cash provided by (used in) investing activities	\$ (10,289)	\$ 478
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock related to exercise of common stock options	1,484	6,248
Proceeds from issuance of common stock related to employee stock purchase plan	1,826	1,290
Treasury Stock repurchase of stock for tax withholding	(265)	
Net cash provided by financing activities	\$ 3,045	\$ 7,538
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (37,150)</b>	<b>\$ (24,780)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Balance at beginning of period	89,079	85,298
Balance at end of period	\$ 51,929	\$ 60,518

The accompanying notes are an integral part of these condensed consolidated financial statements.



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**TIVO INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. NATURE OF OPERATIONS**

TiVo Inc. (together with its subsidiaries the Company or TiVo ) was incorporated in August 1997 as a Delaware corporation and is located in Alviso, California. TiVo is a provider of technology and services for digital video recorders (DVRs). The subscription-based TiVo® service (the TiVo service ) improves home entertainment by providing consumers with an easy way to record, watch, and control television. TiVo also provides a unique advertising platform and audience research measurement services. The Company conducts its operations through one reportable segment.

The Company continues to be subject to a number of risks, including delays in product and service developments; competitive service offerings; lack of market acceptance; uncertainty of future profitability; the dependence on third parties for manufacturing, marketing, and sales support; the intellectual property claims against the Company; and dependence on its relationships with third parties such as Comcast and Cox for subscription growth. The Company anticipates that its business will continue to be seasonal and expects to generate a significant portion of its new subscriptions for this fiscal year ending January 31, 2008 during and immediately after the holiday shopping season.

**Unaudited Interim Condensed Consolidated Financial Statements**

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited interim condensed consolidated financial statements do not contain all of the information and footnotes required by generally accepted accounting principles for complete audited annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company's financial position as of July 31, 2007 and January 31, 2007 and the results of operations for the three- and six-month periods ended July 31, 2007 and 2006 and condensed consolidated statements of cash flows for the six-month periods ended July 31, 2007 and 2006. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, including the notes thereto, included in the Company's annual report on Form 10-K for the fiscal year ended January 31, 2007. Operating results for the three- and six-month periods ended July 31, 2007 are not necessarily indicative of results that may be expected for this fiscal year ending January 31, 2008.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

In prior years, the Company presented rebates, revenue share, and other payments to channel as a separate line item in its Statement of Operations. Commencing in the first quarter of fiscal 2008 the Company now includes this line item primarily in related net revenues and to a lesser extent within sales and marketing, subscription acquisition costs. All prior year's amounts have been reclassified to conform to the current year presentation.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and judgments affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an on-going basis, the Company evaluates its estimates, including those related to customer programs and incentives, product returns, inventories and related reserves, warranty obligations, contingencies, stock compensation and litigation. The Company bases estimates on historical experience and on other assumptions that its management believes are reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities when those values are not readily apparent from other sources. Actual results could differ from these estimates.

**Revenue Recognition and Deferred Revenue**

The Company generates service revenues from fees for providing the TiVo service to consumers and through the sale of advertising and audience research measurement services. The Company also generates technology revenues from licensing technology and by providing engineering professional services. In addition, the Company generates hardware revenues from the sale of hardware products that enable the TiVo service.

**Service Revenues.** Included in service revenues are revenues from recurring and prepaid subscription plans to the TiVo service and fees received from the sale of advertising and audience research measurement services. Monthly and

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prepaid fixed-length subscription revenues are recognized over the period the service is provided. Subscription revenues from product lifetime subscriptions are recognized ratably over a four-year period, which is the Company's estimate of the useful life of a TiVo-enabled DVR. End users have the right to cancel their subscription within 30 days of the activation for a full refund. TiVo establishes allowances for expected subscription cancellations. Also included in service revenues are fees received from third parties, such as DIRECTV, for provision of the TiVo service that are recognized as earned.

**Technology Revenues.** The Company recognizes technology revenues under technology license and engineering services agreements in accordance with the SOP 97-2, Software Revenue Recognition, as amended. For each agreement or arrangement, the Company determines whether evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is probable. Revenue recognition is deferred until such time when all of the criteria are met. Elements included in the Company's arrangements may include technology licenses and associated maintenance and support, engineering services and other services. Under SOP 97-2, vendor specific objective evidence (VSOE) of fair value is required for all undelivered elements in order to recognize revenue related to the delivered element. The timing of revenue recognition related to these transactions will depend, in part, on whether the Company can establish VSOE for undelivered elements and on how these transactions are structured. As such, revenue recognition may not correspond to the timing of related cash flows or the Company's work effort. The Company has established VSOE of fair value for engineering services based on hourly rates charged for engineering services sold on a standalone basis and assesses VSOE of fair value for maintenance and support on a contract by contract basis based on stated contractual renewal rates. In accordance with EITF 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendors Products), certain payments to hardware manufacturers such as revenue share are shown as a reduction of technology revenues if the Company has generated technology revenues from these manufacturers. TiVo's policy is to reduce revenue when these payments are incurred and fixed or determinable.

In arrangements which include engineering services that are essential to the functionality of the licensed technology or involve significant customization or modification of the software, the Company recognizes revenue using the percentage-of-completion method, as described in SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts, if the Company believes it is able to make reasonably dependable estimates of the extent of progress toward completion. The Company measures progress toward completion using an input method based on the ratio of costs incurred, principally labor, to date to total estimated costs of the project. These estimates are assessed continually during the term of the contract, and revisions are reflected when the changed conditions become known. In some cases, the Company accepted engineering services contracts that were expected to be losses at the time of acceptance in order to gain experience in developing new technology that could be used in future products and services. Provisions for losses on contracts are recorded when estimates indicate that a loss will be incurred on a contract. In some cases, it may not be possible to separate the various elements within the arrangement due to a lack of VSOE for undelivered elements in the contract. In these situations, provided that the Company is reasonably assured that no loss will be incurred under the arrangement, the Company recognizes revenues and costs based on a zero profit model, which results in the recognition of equal amounts of revenues and costs, until the engineering professional services are complete. Thereafter, any remaining revenue is recognized over the period of the maintenance and support or other services that are provided.

**Hardware Revenues.** For product sales to distributors, revenues are recognized upon product shipment to the distributors or receipt of the products by the distributor, depending on the shipping terms, provided that all fees are fixed or determinable, evidence of an arrangement exists and collectibility is reasonably assured. End users have the right to return their product within 30 days of the purchase. TiVo establishes allowances for expected product returns in accordance with SFAS No. 48, Revenue Recognition When Right of Return Exists. These allowances are recorded as a direct reduction of revenues and accounts receivable.

In accordance with EITF 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendors Products), certain payments to retailers and distributors such as market development funds and revenue share are shown as a reduction of hardware revenues rather than as a sales and marketing expense. TiVo's policy is to reduce revenue when these payments are incurred and fixed or determinable. The Company also records rebates offered to consumers as a reduction of hardware revenue. The Company adjusts its rebate liability periodically for changes in redemption rates, changes in duration and amounts of rebate programs and channel inventory quantities subject to such changes.

**Bundled Sales Programs.** Prior to March 15, 2006, the Company sold DVRs directly to end-users at no cost or at a substantial discount when bundled with a gift subscription contract under certain marketing or promotion programs. These were considered multiple element arrangements, which met the requirements for separation under Emerging Issues Task Force (EITF) 00-21, Revenue Arrangements with Multiple Deliverables. The prepaid fee was allocated to the hardware and service based on their relative fair values and recognized in accordance with the respective accounting policies stated above.

Beginning on March 15, 2006, the Company began selling the DVR and service directly to end-users through bundled sales programs through the TiVo website. Under these bundled programs, the customer receives a DVR and commits to a minimum subscription period of one to three years and has the option to either pay a monthly fee over the subscription term



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(monthly program) or to prepay the subscription fee in advance (prepaid program). After the initial committed subscription term, the customers have various pricing options at which they can renew the subscription. During the quarter ended April 30, 2006, these bundled sale programs did not meet the requirements for separation under EITF 00-21 because the Company did not have fair value for the undelivered subscription element. As a result, for both the monthly and prepaid programs, revenue was recognized ratably over the subscription period and was classified as Service Revenue in the accompanying consolidated statements of operations. However, as of the quarter ended July 31, 2006, the bundled sales programs had met the requirements for separation under EITF 00-21 since TiVo had sufficient data to support fair value for the subscription element in the arrangement. As a result, for these programs or for monthly packages with a hardware upgrade fee, revenue is now allocated between hardware revenue for the DVR and service revenue for the subscription using the residual value method, with the DVR revenue recognized upon delivery and the subscription revenue being initially deferred and recognized over the term of the service commitment.

**Allowance for doubtful accounts**

TiVo maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables. The Company reviews its receivables by aging category to identify customers with significant known disputes or collection issues. For accounts not specifically identified, the Company provides reserves based on the age of the receivable. In determining the reserve, the Company makes judgments about the credit-worthiness of significant customers based on ongoing credit evaluations. TiVo also considers its historical level of credit losses and current economic trends that might impact the level of future credit losses. Changes in the allowance for doubtful accounts were not material in the six months ended July 31, 2006.

	Beginning Balance	Charged to Operating Expenses	Deductions/Additions(*)	Ending Balance
Allowance for doubtful accounts:				
April 30, 2007	\$ 271	\$ 419	\$	\$ 690
July 31, 2007	\$ 690	\$ 210	\$ 7	\$ 907

(\*) Deductions/additions related to the allowance for doubtful accounts represent amounts written off against the allowance, less recoveries.

**Inventories and Inventory Valuation**

Inventories consist primarily of finished DVR units and are stated at the lower of cost or market on an aggregate basis, with cost determined using the first-in, first-out method. The Company performs a detailed assessment of excess and obsolete inventory and purchase commitments at each balance sheet date, which includes a review of, among other factors, demand requirements and market conditions. Based on this analysis, the Company records adjustments, when appropriate, to reflect inventory at lower of cost or market and to write-down products and materials which are not forecasted to be used in future production. Due to slower than expected sales of standard definition DVRs and the resulting changes in our sales forecast, in the quarter ended July 31, 2007 the Company impaired \$7.5 million in raw materials and finished goods inventory and reserved an additional \$3.7 million for excess non-cancelable purchase commitments. Should actual market conditions differ from the Company's estimates, the Company's future results of operations could be materially affected.

**Business Concentrations and Credit Risk**

Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash, cash equivalents, short-term investments, and trade receivables. The Company currently invests the majority of its cash in money market funds and maintains them with several financial institutions with high credit ratings. The Company also invests in US treasury bonds and auction rate securities. As part of its cash management process, the Company performs periodic evaluations of the relative credit ratings of these financial institutions. The Company has not experienced any credit losses on its cash, cash equivalents, or short-term investments.

The majority of the Company's customers are concentrated in the United States. DIRECTV represented approximately 9% and 12%, of net revenues and 28% and 26%, of net accounts receivable for the quarters ended July 31, 2007 and 2006, respectively. The Company sells its TiVo-enabled DVRs to retailers under customary credit terms and generally requires no collateral. One retailer accounted for 17% and 18%, of the net accounts receivable for the quarters ended July 31, 2007 and 2006, respectively. The Company is dependent on sole suppliers for several key components, assemblies, and services. The Company has an agreement with Tribune Media Services, the sole supplier of the Company's programming guide data for the TiVo service, which runs through 2012, with the option to extend to 2016. The Company does not have a long-term written supply agreement with Broadcom, the sole supplier of the MPEG2 encoder and decoder semiconductor devices in certain of the Company's DVR models. In instances where a supply agreement does not exist and suppliers fail to perform their obligations, the Company may be unable to find alternative suppliers or deliver its products and services to its customers on time, if at all.



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The TiVo service is enabled through the use of a DVR manufactured for TiVo by a third-party contract manufacturer and from time-to-time a limited number of other third parties. The Company also relies on third parties to whom it outsources supply-chain activities related to inventory warehousing, order fulfillment, distribution, and other direct sales logistics. The

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Company cannot be sure that these parties will perform their obligations as expected or that any revenue, cost savings, or other benefits will be derived from the efforts of these parties. If any of these parties breaches or terminates their agreement with TiVo or otherwise fails to perform their obligations in a timely manner, the Company may be delayed or prevented from commercializing its products and services.

### **Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109. The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company's adoption of FIN 48 on February 1, 2007 has not had a significant impact on the Company's financial position and results of operations.

In September 2006, the FASB issued EITF No. 06-1, *Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider*. The EITF concluded that if consideration given by a service provider to a third-party manufacturer or a reseller that is not the service provider's customer can be linked contractually to the benefit received by the service provider's customer, a service provider should account for the consideration in accordance with EITF No. 01-9,

*Accounting for Consideration Given by a Vendor to a Customer*. EITF No. 06-1 is effective for annual reporting periods beginning after June 15, 2007. The Company is currently evaluating the effects that EITF No. 06-1 will have on its consolidated results of operations and financial position.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* (EITF 07-3). EITF 07-3 requires non-refundable advance payments for goods and services to be used in future research and development activities to be recorded as an asset and expensing the payments when the research and development activities are performed. EITF 07-3 applies prospectively for new contractual arrangements entered into in fiscal years beginning after December 15, 2007. The adoption of EITF 07-3 is not expected to have a significant impact on TiVo's consolidated financial statements or financial position.

### **3. INDEMNIFICATION ARRANGEMENTS AND GUARANTEES**

#### *Product Warranties*

The Company's standard warranty period to consumers for TiVo-enabled DVRs is 90 days from the date of consumer purchase ( Limited Warranty ). Within the limited warranty period, consumers are offered a no-charge exchange for TiVo-enabled DVRs returned due to product defect. Thereafter, consumers may exchange a TiVo-enabled DVR with a product defect for a charge. At July 31, 2007 and 2006, the accrued warranty reserve was \$485,000 and \$243,000, respectively. The Company's accrued warranty reserve is included in accrued liabilities in the accompanying consolidated balance sheets.

#### *Indemnification Arrangements*

The Company undertakes indemnification obligations in its ordinary course of business. For instance, the Company has undertaken to indemnify its underwriters and certain investors in connection with the issuance and sale of its securities. The Company has also undertaken to indemnify certain customers and business partners for, among other things, the licensing of its products, the sale of its DVRs, and the provision of engineering and consulting services. Pursuant to these agreements, the Company may indemnify the other party for certain losses suffered or incurred by the indemnified party in connection with various types of claims, which may include, without limitation, intellectual property infringement, advertising and consumer disclosure laws, certain tax liabilities, negligence and intentional acts in the performance of services and violations of laws, including certain violations of securities laws with respect to underwriters and investors. The term of these indemnification obligations is generally perpetual. The Company's obligation to provide indemnification would arise in the event that a third party filed a claim against one of the parties that was covered by the Company's indemnification obligation. As an example, if a third party sued a customer for

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intellectual property infringement and the Company agreed to indemnify that customer against such claims, its obligation would be triggered. In some cases, the Company's indemnification obligations are only triggered if the indemnified party complies with certain requirements such as providing the Company timely notice of the claim of infringement and granting the Company control of any settlement or defense. Additionally, in some cases, the Company's indemnification obligations may be mitigated; for example, by providing the indemnified party with a substitute, non-infringing technology, product or service.

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The Company is unable to estimate with any reasonable accuracy the liability that may be incurred pursuant to its indemnification obligations. A few of the variables affecting any such assessment include but are not limited to: the nature of the claim asserted; the relative merits of the claim; the financial ability of the party suing the indemnified party to engage in protracted litigation; the number of parties seeking indemnification; the nature and amount of damages claimed by the party suing the indemnified party; and the willingness of such party to engage in settlement negotiations. During the period of calendar year 2002 through 2006, the Company incurred legal fees in the amount of \$6.1 million in connection with the indemnification and defense of a claim against one of its manufacturers. In the quarter ended April 30, 2007 we incurred \$1.5 million in general and administrative expense in connection with one of our customer's settlement of a legal dispute. However, each indemnification obligation is unique and the expenses described above do not necessarily provide a reasonable measure of liability that may be expected to be incurred pursuant to the Company's indemnification obligations. Due to the nature of the Company's potential indemnity liability, its indemnification obligations could range from immaterial to having a material adverse impact on its financial position and its ability to continue operation in the ordinary course of business.

Under certain circumstances, the Company may have recourse through its insurance policies that would enable it to recover from its insurance company some or all amounts paid pursuant to its indemnification obligations. The Company does not have any assets held either as collateral or by third parties that, upon the occurrence of an event requiring it to indemnify a customer, the Company could obtain and liquidate to recover all or a portion of the amounts paid pursuant to its indemnification obligations.

#### **4. BARTER TRANSACTION**

During the second quarter of fiscal 2008, the Company entered into a barter transaction, exchanging TiVo Series2 standard definition DVR inventory with a net book value of \$2,774,000 for barter credits that are redeemable for a percentage of future purchases of advertising media and other services from certain vendors. The barter credits were valued at the fair value of the inventory exchanged, which was determined to be \$1,785,000. The resultant pre-tax loss on this exchange of \$989,000 was included in the gross margin in the Company's condensed consolidated statement of operations for the three and six months ended July 31, 2007.

The credits expected to be utilized in the next twelve months in the amount of \$600,000 are included in prepaid expenses and other current assets and the remaining \$1,185,000 is included in other assets in the Company's condensed consolidated balance sheet at July 31, 2007. The Company evaluates the recoverability of the credits on a quarterly basis and expects to utilize all credits recorded prior to their expiration in July 2010.

#### **5. NET INCOME (LOSS) PER COMMON SHARE**

Basic and diluted net loss per common share is calculated in accordance with SFAS No 128, Earnings Per Share.

The weighted average number of shares outstanding used in the computation of basic and diluted net loss per share does not include the effect of the following potentially outstanding common stock. The effects of these potentially outstanding shares were not included in the calculation of diluted net loss per share because the effect would have been antidilutive:

	As of July 31,	
	2007	2006
Unvested restricted stock outstanding	431,832	467,412
Options to purchase common stock	23,199,595	18,467,055
Potential shares to be issued from ESPP	57,564	328,118
Warrants to purchase common stock		3,515,524
<b>Total</b>	<b>23,688,991</b>	<b>22,778,109</b>

#### **6. COMMITMENT AND CONTINGENCIES**

##### **Legal Matters**

**Intellectual Property Litigation.** On January 5, 2004, TiVo filed a complaint against EchoStar Communications Corporation in the U.S. District Court for the Eastern District of Texas alleging willful and deliberate infringement of U.S. Patent No. 6,233,389, entitled "Multimedia Time Warping System." On January 15, 2004, the Company amended its complaint to add EchoStar DBS Corporation, EchoStar Technologies

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Corporation, and Echosphere Limited Liability Corporation as additional defendants. The Company alleges that it is the owner of this patent, and further alleges that the defendants have willfully and deliberately infringed this patent by making, selling, offering to sell and/or selling digital video recording devices, digital video recording device software, and/or personal television services in the United States. On April 13, 2006, the jury rendered a verdict in favor of the Company in the amount of approximately \$74.0 million dollars. The jury ruled that the Company's patent is valid and that all nine of the asserted claims in the Company's patent are infringed by each of the accused EchoStar

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products. The jury also ruled that the defendants willfully infringed the patent. On May 16, 2006, the United States Patent and Trademark Office ( USPTO ) issued its first Office Action in response to a request by the defendants for reexamination of the 389 patent. The USPTO reexamined all 61 claims set forth in the 389 patent, confirming the validity of the majority of the claims, including two of the claims that the defendants have been found to have willfully infringed, and rejecting some of the claims. TiVo intends to vigorously defend the validity of the rejected claims. On August 17, 2006, the district court denied the defendants remaining defenses, and granted TiVo s motion for permanent injunction to prevent EchoStar Communications Corporation from making, using, offering for sale or selling in the United States the following EchoStar DVRs: DP-501, DP-508, DP-510, DP-721, DP-921, DP-522, DP-625, DP-942, and all EchoStar Communications Corporation DVRs that are not more than colorably different from any of these products. The district court also ordered EchoStar Communications Corporation to pay TiVo approximately \$74.0 million in damages as awarded by the jury, prejudgment interest at the prime rate through October 31, 2006 of approximately \$5.6 million, and supplemental damages for infringement through October 31, 2006 in the amount of approximately \$10.3 million. The district court denied TiVo s request for enhanced damages and attorney s fees and costs. The district court denied EchoStar s request to stay the injunction pending appeal. On October 3, 2006, the United States Court of Appeals for Federal Circuit stayed the district court s injunction pending appeal. On November 27, 2006, the district court denied all of EchoStar s post-judgment motions. On January 23, 2007, the district court awarded the Company prejudgment interest and supplemental damages from August 1, 2006 through September 8, 2006 in the amounts of approximately \$790,000 and \$3.5 million, respectively. On April 17, 2007, EchoStar filed its opening brief with the Federal Circuit Court of Appeals. TiVo filed its responsive brief on May 30, 2007. Oral argument in the appeal is scheduled for October 4, 2007. The Company is incurring material expenses in this litigation. The Company has not recorded any gain from this patent victory as it is still on appeal.

On April 29, 2005, EchoStar Technologies Corporation filed a complaint against TiVo and Humax USA, Inc. in the U.S. District Court for the Eastern District of Texas alleging infringement of U.S. Patent Nos. 5,774,186 ( Interruption Tolerant Video Program Viewing ), 6,529,685 B2 ( Multimedia Direct Access Storage Device and Formatting Method ), 6,208,804 B1 ( Multimedia Direct Access Storage Device and Formatting Method ) and 6,173,112 B1 ( Method and System for Recording In-Progress Broadcast Programs ). The complaint alleges that EchoStar Technologies Corporation is the owner by assignment of the patents allegedly infringed. The complaint further alleges that the TiVo and Humax have infringed, contributorily infringed and/or actively induced infringement of the patents by making, using, selling or importing digital video recording devices, digital video recording device software and/or personal television services in the United States that allegedly infringe the patents, and that such infringement is willful and ongoing. Under the terms of the Company s agreement with Humax governing the distribution of certain DVRs that enable the TiVo service, the Company is required to indemnify Humax against any claims, damages, liabilities, costs, and expenses relating to claims that the Company s technology infringes upon intellectual property rights owned by third parties. On May 10, 2005, Humax formally notified TiVo of the claims against it in this lawsuit as required by Humax s agreement with TiVo. On July 1, 2005, the defendants filed their answer and counterclaims. On May 10, 2006, the district court dismissed with prejudice, EchoStar s claim of infringement against TiVo and Humax relating to patent 112 ( Method and System for Recording In-Progress Broadcast Programs ) and claims 21-30 and 32 relating to patent 186 ( Interruption Tolerant Video Program Viewing ). A claim construction hearing was held on May 11, 2006. On July 14, 2006, the magistrate judge for the U.S. District Court for the Eastern District of Texas, issued a stay of the case pending the USPTO completion of proceedings with respect to TiVo s request for reexamination of the 186, 685, and 804 patents. The Company intends to defend itself vigorously; however, the Company is incurring material expenses in connection with this lawsuit and in the event there is an adverse outcome, the Company s business could be harmed. No loss is considered probable or estimable at this time.

On January 3, 2007, Lycos, Inc. filed a complaint against the Company, Netflix, Inc., and Blockbuster, Inc. in the U.S. District Court for the Eastern District of Virginia alleging infringement, inducement of others to infringe, and contributory infringement of U.S. Patent No. 5,867,799 ( Information System and Method for Filtering a Massive Flow of Information Entities to Meet User Information Classification Needs ) and 5,983,214 ( System and Method Employing Individual User Content-Based Data and User Collaboration Feedback Data to Evaluate the Content of an Information Entity in a Large Information Communication Network. ) On or about April 30, 2007, Lycos served the Company with the complaint. The complaint alleges that Lycos, Inc. is the owner of these patents and has the right to sue and recover for infringement thereof. The complaint further alleges that the Company has infringed this patent by making, using, selling, offering to sell and importing digital video recorder products that incorporate information filtering technology. The complaint further alleges that defendants continue to willfully infringe such patents. On August 8, 2007, the court granted a motion by TiVo, Netflix, and Blockbuster to transfer venue to the United States District Court for the District of Massachusetts. The Company intends to defend itself vigorously in this matter. The Company may incur expenses in connection with this litigation that may become material in the future, and in the event there is an adverse outcome, Company s business could be harmed. No loss is considered probable or estimable at this time.

**Securities Litigation.** On June 12, 2001, a securities class action lawsuit in which the Company and certain of its officers and directors are named as defendants was filed in the United States District Court for the Southern District of New York. This action, which is captioned *Werberger v. TiVo et al.*, also names several of the underwriters involved in the Company s initial public offering as defendants. This class action was brought on behalf of a purported class of purchasers of the Company s common stock from October 31, 1999, the time of its initial public offering, through December 6, 2000. The central allegation in this action is that the underwriters in the initial public offering solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased TiVo common stock in the initial public offering and the after-market. The complaint also alleges that the TiVo defendants violated the federal



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securities laws by failing to disclose in the initial public offering prospectus that the underwriters had engaged in these alleged arrangements. More than 150 issuers have been named in similar lawsuits. In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers (including the TiVo defendants) was filed by the entire group of issuer defendants in these similar actions. On October 8, 2002, TiVo's officers were dismissed as defendants in the lawsuit. On February 19, 2003, the court in this action issued its decision on defendants' omnibus motion to dismiss. This decision dismissed the Section 10(b) claim as to TiVo but denied the motion to dismiss the Section 11 claim as to TiVo and virtually all of the other issuer-defendants.

On June 26, 2003, the plaintiffs announced a proposed settlement with the Company and the other issuer defendants. The proposed settlement provides that the plaintiffs will be guaranteed \$1.0 billion dollars in recoveries by the insurers of the Company and other issuer defendants. Accordingly, any direct financial impact of the proposed settlement is expected to be borne by the Company's insurers in accordance with the proposed settlement. In addition, the Company and the other settling issuer defendants will assign to the plaintiffs certain claims that they may have against the underwriters. If recoveries in excess of \$1.0 billion dollars are obtained by the plaintiffs from the underwriters, the Company's and the other issuer defendants' monetary obligations to the class plaintiffs will be satisfied. Furthermore, the settlement is subject to a hearing on fairness and approval by the Federal District Court overseeing the litigations. On February 15, 2005, the Court issued an order preliminarily approving the terms of the proposed settlement. The Court also certified the settlement classes and class representatives for purposes of the proposed settlement only. On April 24, 2006, the Court held a fairness hearing to determine whether the proposed settlement should be approved. On December 5, 2006, the United States Court of Appeals for the 2nd Circuit issued a decision in reversing the Federal district court's finding that six focus cases involved in this litigation could be certified as class actions. Plaintiffs had filed a petition for rehearing and/or for en banc review of the Second Circuit's decision; however, on April 6, 2007, the Second Circuit denied plaintiffs' petition. This denial does not foreclose the plaintiffs from seeking certification of a more limited class from the District Court. On June 25, 2007, the parties submitted a stipulation to terminate the settlement, which was granted by Court Order. On June 26, 2007, plaintiffs served a document request on all issuer defendants but subsequently agreed to limit discovery to the six focus cases. On June 27, 2007, the Court held a conference in with counsel for all three groups in the case. The parties agreed that the plaintiffs had until July 31, 2007, to file any Amended Complaints. Subsequently, the Court granted plaintiffs' request to extend the deadline for filing an Amended Complaint to August 14, 2007. On August 14, 2007, the plaintiffs filed Amended Master Allegations. The Court set the following briefing schedule for class certification: opening briefs due by September 27, 2007, responses due by December 21, 2007, and reply briefs due by February 15, 2008. Due to the inherent uncertainties of litigation and the ultimate outcome of the matter cannot be predicted.

The Company is involved in numerous lawsuits and receives numerous threats of litigation in the ordinary course of its business. The Company assesses potential liabilities in connection with these lawsuits and threatened lawsuits under SFAS No. 5. The Company accrues an estimated loss for these loss contingencies if both of the following conditions are met: information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. As of July 31, 2007, the Company has not accrued a liability for any lawsuits filed against the Company as the conditions for accrual have not been met. The Company expenses legal costs as they are incurred.

## **7. COMCAST AGREEMENT**

On March 15, 2005, the Company entered into a non-exclusive licensing and marketing agreement with Comcast STB Software DVR, LLC, a wholly-owned subsidiary of Comcast Corporation, and Comcast Corporation, as guarantor of Comcast STB's obligations under the agreement. The Company agreed to develop a TiVo service software solution for deployment on Comcast's DVR platforms. In addition, the Company agreed to develop a TiVo Interactive Advertising Management System for deployment on Comcast platforms to enable the provision of local and national advertising to Comcast subscribers. The initial term of this agreement is until June 30, 2014. The agreement, as amended, provides for eight additional one-year renewal terms beyond the initial term expiring June 30, 2014, which are exercisable at Comcast's option, with the requisite deployment thresholds moved from June 30, 2014 to the renewal term beginning after June 30, 2019. During the term of the agreement, TiVo will provide Comcast with certain customer and maintenance support and will provide certain additional ongoing development work. TiVo will have the continuing right to sell certain types of advertising in connection with the TiVo service offered through Comcast. TiVo will also have a limited right to sell certain types of advertising on other Comcast DVR set-top boxes enabled with the TiVo Interactive Advertising Management System, subject to Comcast's option to terminate such right in exchange for certain advertising-related payments.

Under the licensing and marketing agreement, Comcast will pay a recurring monthly fee per Comcast subscriber who receives the TiVo service through Comcast. Comcast will also pay the Company fees for engineering services for the development and integration of the TiVo service software solution (subject to adjustment under certain circumstances) and the TiVo Interactive Advertising Management System. During the six months ended July 31, 2007 and 2006, the Company recognized \$5.1 million and \$10.2 million in technology revenues and costs, respectively. Of the \$10.2 million recognized in the fiscal quarter ended July 31, 2006, \$4.6 million was related to work performed during fiscal year ended January 31, 2006, but revenue and costs were deferred until the first quarter of fiscal year 2007, when TiVo and Comcast agreed upon the engineering services to be delivered. Currently, it is not possible to separate the various elements within the arrangement due to a lack of fair value for certain undelivered elements in the agreement. Consequently, the Company recognizes revenues and costs for the TiVo service



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software and TiVo Interactive Advertising Management System based on a zero profit model, which results in the recognition of equal amounts of revenues and costs. Revenues from the ongoing development work are recognized on a percentage of completion basis with the amount of the revenue recognized limited to the amount due from Comcast.

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Acceptance of the delivery of the TiVo service software solution to Comcast occurred on June 27, 2007. The acceptance deadline for the TiVo Interactive Advertising Management System is February 15, 2008, unless a later date is agreed upon by the parties. In the event development of the TiVo Interactive Advertising Management System has not been accepted by Comcast by the relevant deadline, the Company could be subject to certain consequences, including, but not limited to, termination of the agreement. As part of the agreement, Comcast is receiving a non-exclusive, non-transferable license to specific TiVo intellectual property to deploy the TiVo service software solution and advertising management system, including certain trademark branding rights. In addition, Comcast is entitled to certain most favored customer terms with respect to future agreements that the Company may enter into with multi-channel video distributors. Comcast has the right to terminate the agreement in the event the Company is the subject of certain change of control transactions involving any of certain specified companies. See Footnote 9. Subsequent Events for information on the Amendment to this agreement.

### **8. DEVELOPMENT AGREEMENT AND SERVICES AGREEMENT WITH DIRECTV**

On April 7, 2006, the Company entered into the Seventh Amendment of the Development Agreement, dated as of February 15, 2002, with DIRECTV, Inc. Under this amendment, which amends the expiration date of the Development Agreement from February 15, 2007, to February 15, 2010, TiVo will continue to provide support for DIRECTV receivers with TiVo service through the extended expiration date of the Development Agreement, and will provide mutually agreed upon development services for no additional fee up to a defined maximum from February 2007 to February 2010. As of February 16, 2007, DIRECTV no longer has the right to distribute DIRECTV receivers with TiVo service. Further, TiVo and DIRECTV agreed that neither party would assert its patents against the other party with respect to each company's products and services deployed prior to the expiration of the agreement, subject to limited exceptions. DIRECTV will continue to pay a monthly fee for each household using DIRECTV receivers with TiVo service similar to the amount paid by DIRECTV for households with DIRECTV receivers with TiVo service deployed since February 15, 2002, subject to a monthly minimum payment by DIRECTV. The Company defers a portion of these fees equal to the fair value of the undelivered development services. Utilization of these services by DIRECTV is subject to certain time limits. If unused, the Company will recognize these deferred fees as revenues upon their forfeiture by DIRECTV. These deferred fees are classified on the Company's consolidated balance sheets under deferred revenue, current.

On April 7, 2006, the Company also entered into the First Amendment of the Amended and Restated Services Agreement, dated as of March 31, 2005, with DIRECTV. This amendment extends the terms of the current advertising arrangement between TiVo and DIRECTV until February 15, 2010, and additionally provides DIRECTV with the ability to obtain additional technical support and training for its use of advertising-related software tools with DIRECTV receivers with TiVo service. Effective July 25, 2007, we entered into the Eighth Amendment of the Development Agreement and the Second Amendment of the Amended and Restated Services Agreement with DIRECTV. Pursuant to these amendments, we have agreed to develop a software upgrade to provide additional service features and advertising capabilities to DIRECTV DVRs with TiVo service built on the Series2 platform.

### **9. SUBSEQUENT EVENTS**

On August 27, 2007, we entered into a Statement of Work with Comcast for additional engineering work for the development of additional releases of the TiVo-branded, TiVo-service enabling software for Comcast DVR platforms and to enable such software on other Comcast DVR platforms, including Scientific Atlanta DVRs.

We also concurrently entered into the Fourth Amendment to the Licensing and Marketing Agreement with Comcast STB Software DVR, LLC and Comcast Corporation. The amendment provides for a modification to the amount and timing of fees for the initial development and certain future development of, and maintenance and support related to, the TiVo-branded, TiVo service-enabling software solution for Comcast's DVR platforms. We also modified our agreement with respect to the eight additional one-year renewal terms beyond the initial term expiring June 30, 2014, which are exercisable at Comcast's option, moving the requisite deployment thresholds from June 30, 2014 to the renewal term beginning after June 30, 2019.

On August 30, 2007, we accepted the resignation of Michael Ramsay as a member of our Board of Directors. Mr. Ramsay has been named to the post of Venture Partner at New Enterprises Associates, a leading Silicon Valley venture capital firm, which already has representation on the Company's Board. Pursuant to our Transition and Consulting Agreement with Mr. Ramsay, effective August 30, 2007, he will continue to provide services to the Company as a consultant focused on technology and other issues. We expect to incur approximately \$3 million in non-cash stock-based compensation expense during our quarter ending October 31, 2007 in connection with certain modifications to the terms of his stock-based awards. We do not expect to incur additional non-cash stock-based compensation expenses related to this agreement beyond that quarter.

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

*You should read the following discussion and analysis in conjunction with the consolidated financial statements and the accompanying notes included in this report and our most recent annual report on Form 10-K filed on April 16, 2007, the sections entitled "Risk Factors" in Item 1A of our most recent annual report on Form 10-K and Part II, Item 1A of this report, as well as other cautionary statements and risks described elsewhere in this Report and our most recent annual report on Form 10-K filed on April 16, 2007, before deciding to purchase, sell or hold our common stock.*

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### **Company Overview**

We are a leading provider of technology and services for digital video recorders. The subscription-based TiVo service redefines home entertainment by providing consumers with an easy way to record, watch, and control television and receive videos, pictures, and movies from cable, broadcast, and broadband sources. We offer features such as Season Pass recordings, WishList searches, TiVoToGo transfers, broadband video content delivered via the TiVoCast feature (including premium content delivered from Amazon Unbox), TiVo KidZone, TiVo Online Scheduling, and TiVo Product Watch. As of July 31, 2007, there were approximately 4.2 million subscriptions to the TiVo service. We distribute the TiVo service through consumer electronics retailers and through our on-line store at TiVo.com. Additionally, we provide the TiVo service through agreements with leading television service providers such as satellite television providers, including currently DIRECTV and in the future cable television operators, such as Comcast and Cox. We also provide innovative marketing solutions for the television industry, including a unique platform for advertisers and audience research measurement.

### **Executive Overview and Outlook of Financial Results**

During the three and six months ended July 31, 2007, we experienced an increase in our TiVo-Owned subscription base and subscription revenues, as compared to the same prior-year period. However, TiVo-Owned subscription gross additions for the quarter ended July 31, 2007 were 41,000, down 45% from 74,000 in the same prior-year period. The churn in TiVo-Owned subscriptions was 60,000 subscriptions, leading to a net loss of 19,000 TiVo-Owned subscriptions during the quarter ended July 31, 2007. The decrease in TiVo-Owned subscription gross additions was due to slower than expected sales of the Series2 standard definition DVRs. In response to the retail movement to high definition products, we launched our new TiVo HD product in July 2007. Additionally, we continue to see a decline in our DIRECTV installed subscription base.

For this fiscal year ending January 31, 2008, we plan to lower the amount of our consumer hardware rebates, and to redirect a portion of those funds towards advertising expenditures to promote the TiVo brand and service, which will increase our sales and marketing, subscription acquisition costs line in our Statement of Operations. We expect for the fiscal year 2008 that the effects of the increased advertising expenditures on our total acquisition costs will be offset by a larger expected decrease in our hardware rebates. In prior years, we presented rebates, revenue share, and other payments to channel as a separate line item in our Statement of Operations. Commencing in the first quarter of fiscal 2008, we now include this line item primarily in related net revenues and to a lesser extent within sales and marketing, subscription acquisition costs and reclassified prior year amounts to conform to the current year presentation.

In this fiscal year ending January 31, 2008, we expect to continue to grow our TiVo-Owned subscription base; however, we expect this growth to continue to be offset by losses in our installed base of DIRECTV with TiVo subscriptions as DIRECTV no longer markets the TiVo service to its customers. We anticipate this fiscal year ending January 31, 2008 will have continued service revenue growth as our TiVo-Owned subscription base increases and our advertising sales business grows. This service revenue growth will be somewhat offset by the continued decline of product lifetime subscription related revenues as such revenues become fully recognized coupled with a decline in DIRECTV-related service revenues due to further losses in our DIRECTV subscription installed base.

The TiVo service on Comcast is expected to launch shortly in its initial market, Comcast's New England Division, which includes metro Boston, Southeast Massachusetts, and New Hampshire, with the rollout process expected to continue throughout the fall. Activities, including trials, related to the TiVo service on Cox are expected to commence during our fiscal year ending January 31, 2008. We anticipate receiving cash payments for providing the TiVo service as a result of these deployments and expected subscription adoptions but do not expect to recognize a significant portion of these cash payments as service revenues during this fiscal year. Under the accounting guidance for multiple element arrangements, since the contracts contain undelivered elements such as future software development for which we do not have fair value, significant portions of these cash payments must be deferred and recognized ratably over the term of the agreement.

### **Key Business Metrics**

Management periodically reviews certain key business metrics in order to evaluate our operations, allocate resources, and drive financial performance in our business. Management monitors these metrics together and not individually as it does not make business decisions based upon any single metric.

**Subscriptions.** Management reviews this metric, and believes it may be useful to investors, in order to evaluate our relative position in the marketplace and to forecast future potential service revenues. Below is a table that details the growth in our subscription base during the past eight quarters. The TiVo-Owned lines refer to subscriptions sold directly by TiVo to consumers who have TiVo-enabled DVRs. The DIRECTV lines refer to subscriptions sold by DIRECTV to consumers who have integrated DIRECTV satellite receivers with TiVo service. Additionally, we provide a breakdown of the percent of TiVo-Owned subscriptions for which consumers pay recurring fees, including on a monthly and a

prepaid one, two, or three year basis, as opposed to a one-time prepaid product lifetime fee.

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	July 31,	April 30,	Jan 31,	Three Months Ended			Jan 31,	Oct 31,
(Subscriptions in thousands)	2007	2007	2007	Oct 31,	July 31,	April 30,	2006	2005
<b>TiVo-Owned Subscription Gross Additions:</b>	41	57	163	101	74	91	221	92
<b>Subscription Net Additions/(Losses):</b>								
TiVo-Owned	(19)	1	101	53	30	51	183	55
DIRECTV	(126)	(103)	(91)	(37)	(29)	2	173	379
<b>Total Subscription Net Additions/(Losses)</b>	<b>(145)</b>	<b>(102)</b>	<b>10</b>	<b>16</b>	<b>1</b>	<b>53</b>	<b>356</b>	<b>434</b>
<b>Cumulative Subscriptions:</b>								
TiVo-Owned	1,708	1,727	1,726	1,625	1,572	1,542	1,491	1,308
DIRECTV	2,489	2,615	2,718	2,809	2,846	2,875	2,873	2,700
<b>Total Cumulative Subscriptions</b>	<b>4,197</b>	<b>4,342</b>	<b>4,444</b>	<b>4,434</b>	<b>4,418</b>	<b>4,417</b>	<b>4,364</b>	<b>4,008</b>
<b>Fully Amortized Active Lifetime Subscriptions</b>	<b>180</b>	<b>179</b>	<b>165</b>	<b>138</b>	<b>129</b>	<b>122</b>	<b>100</b>	<b>89</b>
<b>% of TiVo-Owned Cumulative Subscriptions paying recurring fees</b>	<b>59%</b>	<b>59%</b>	<b>58%</b>	<b>55%</b>	<b>53%</b>	<b>52%</b>	<b>51%</b>	<b>51%</b>

We define a subscription as a contract referencing a TiVo-enabled DVR for which (i) a consumer has paid for the TiVo service and (ii) service is not canceled. We previously offered a product lifetime subscription for general sale, under which consumers could purchase a subscription that is valid for the lifetime of a particular DVR. We count these as subscriptions until both of the following conditions are met: (i) the four-year period we use to recognize lifetime subscription revenues ends; and (ii) the related DVR has not made contact to the TiVo service within the prior six-month period. Lifetime subscriptions past the four-year mark which have not called into the TiVo service for six months are not counted in this total. During the first quarter ended April 30, 2006 of the fiscal year ended January 31, 2007, we discontinued general sale of the product lifetime service option. We are not aware of any uniform standards for defining subscriptions and caution that our presentation may not be consistent with that of other companies.

TiVo-Owned subscription net losses were 19,000 subscriptions in the quarter ended July 31, 2007, slightly decreasing the TiVo-Owned installed subscription base to 1.7 million subscriptions. TiVo-Owned subscription net additions/(losses) for the quarter ended July 31, 2007 declined by 49,000 subscriptions compared to the same prior year period largely due to a decrease of 33,000 subscription gross additions, as compared to the same prior year period. Additionally, we believe we experienced an increase in churn as a result of our larger TiVo-Owned subscription base, the increasing importance of high definition television, and because of increased competition from DVRs distributed by cable and satellite providers, including DIRECTV's and Comcast's non-TiVo products. The percent of cumulative TiVo-Owned subscriptions on a monthly or prepay plan increased, by 6% to 59% for the quarter ended July 31, 2007, as compared to the same prior-year period, primarily due to the discontinuation of general sale of product lifetime subscriptions. DIRECTV installed subscription base decreased by 126,000 subscriptions from the prior quarter to 2.5 million subscriptions as of July 31, 2007 and was 2.8 million subscriptions as of July 31, 2006. This decrease is due to DIRECTV's promotion of a competing DVR service from NDS.

As of July 31, 2007, approximately 180,000 product lifetime subscriptions had exceeded the four-year period we use to recognize product lifetime subscription revenues, but had made contact to the TiVo service within the prior six months. Such TiVo product lifetime subscriptions that have exceeded the revenue recognition period represent approximately 26% of our cumulative lifetime subscriptions as compared to 17% for the quarter ended July 31, 2006. We continue to incur costs of services for these subscriptions without recognizing corresponding subscription revenues. Please see our Critical Accounting Estimates for more information on how we recognized subscription revenues from product lifetime subscriptions.

***TiVo-Owned Churn Rate per Month.*** Management reviews this metric, and believes it may be useful to investors, in order to evaluate our ability to retain existing TiVo-Owned subscriptions (including both monthly and product lifetime subscriptions) by providing services that are competitive in the market. Management believes factors such as service enhancements, service commitments, higher customer satisfaction, and improved customer support may improve this metric. Conversely, management believes factors such as increased competition, lack of competitive service features such as high definition television recording capabilities for our low cost product offerings, and increased price sensitivity may cause our TiVo-Owned Churn Rate per month to increase.

We define the TiVo-Owned Churn Rate per month as the total TiVo-Owned subscription cancellations in the period divided by the Average TiVo-Owned subscriptions for the period (including both monthly and product lifetime subscriptions), which then is divided by the number of

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months in the period. We calculate Average TiVo-Owned subscriptions for the period by adding the average TiVo-Owned subscriptions for each month and dividing by the number of months in the period. We calculate the average TiVo-Owned subscriptions for each month by adding the beginning and ending subscriptions for the month and dividing by two. We are not aware of any uniform standards for calculating churn and caution that our presentation may not be consistent with that of other companies.

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