TIVO INC
Form 10-Q
June 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended April 30, 2006

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

TIVO INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0463167**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

(Address of principal executive offices including zip code)

(408) 519-9100

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES x 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 x 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 x .

The number of shares outstanding of the registrant s common stock, $0.001 par value, was 86,253,682 as of May 26, 2006.

Except as the context otherwise requires, the terms TiVo, Registrant, company, we, us, or our as used herein are references to TiVo Inc. a consolidated subsidiaries.

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, and other marketing activities;
- our future earnings including expected future service, technology, and hardware revenues;
- possible future impact of our change in accounting policy regarding our bundled sales program;
- 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 such as the EchoStar patent infringement cases;
- possible future increases in our operating expenses, including increases in customer support and retention expenditures;
- future subscription growth of both TiVo-Owned and third party service provider subscriptions (such as DIRECTV and Comcast);
- 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 sales incentive programs;
- our intentions to continue to grow the number of TiVo-Owned subscriptions through our relationships with major retailers;
- our expectations related to future increases in advertising and audience measurement research 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;
- our ability to fund operations, capital expenditures, and working capital needs during the next year; and
- our ability to raise additional capital through the financial markets in the future.

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 Operation and Risk Factors in this quarterly and our most recent annual report for a more detailed description of these significant risks and uncertainties.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

TIVO INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(unaudited)

	April 30, 2006	January 31, 2006 (As Adjusted -Note 2)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 73,408	$ 85,298
Short-term investments	18,943	18,915
Accounts receivable, net of allowance for doubtful accounts of $82 and $56	19,072	20,111
Finished goods inventories	13,176	10,939
Prepaid expenses and other, current	3,823	8,744
Total current assets	128,422	144,007
LONG-TERM ASSETS		
Property and equipment, net	9,412	9,448
Capitalized software and intangible assets, net	4,948	5,206
Prepaid expenses and other, long-term	316	347
Total long-term assets	14,676	15,001
Total assets	$ 143,098	$ 159,008
LIABILITIES AND STOCKHOLDERS DEFICIT		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 28,098	$ 24,050
Accrued liabilities	23,289	37,449
Deferred revenue, current	58,315	57,902
Total current liabilities	109,702	119,401
LONG-TERM LIABILITIES		
Deferred revenue, long-term	64,646	67,575
Deferred rent and other	1,756	1,404
Total long-term liabilities	66,402	68,979
Total liabilities	176,104	188,380
COMMITMENTS AND CONTINGENCIES (see Note 9)		
STOCKHOLDERS DEFICIT		
Preferred stock, par value $0.001:		
Authorized shares are 10,000,000 Issued and outstanding shares - none		
Common stock, par value $0.001:		
Authorized shares are 150,000,000 Issued and outstanding shares are 86,182,453 and 85,376,191, respectively	86	85
Additional paid-in capital	671,703	667,055

Deferred compensation		(2,421)
Accumulated deficit	(704,795)	(694,091)
Total stockholders deficit	(33,006)	(29,372)
Total liabilities and stockholders deficit	$ 143,098	$ 159,008

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

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TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share and share amounts)

(unaudited)

	Three Months Ended April 30, 2006	2005
Revenues		
Service and technology revenues	$ 55,109	$ 40,020
Hardware revenues	9,453	10,526
Rebates, revenue share, and other payments to channel	(8,050)	(3,638)
Net revenues	56,512	46,908
Cost of revenues		
Cost of service and technology revenues (1)	17,801	8,866
Cost of hardware revenues	15,146	15,642
Total cost of revenues	32,947	24,508
Gross margin	23,565	22,400
Research and development (1)	12,861	10,904
Sales and marketing (1)	7,389	6,830
General and administrative (1)	15,059	6,138
Total operating expenses	35,309	23,872
Loss from operations	(11,744)	(1,472)
Interest income	1,062	624
Interest expense and other	(3)	(1)
Loss before income taxes	(10,685)	(849)
Provision for income taxes	(19)	(8)
Net loss attributable to common stockholders	$ (10,704)	$ (857)
Net loss per common share - basic and diluted	$ (0.13)	$ (0.01)
Weighted average common shares used to calculate basic and diluted net loss per share	85,133,631	82,380,871

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

	2006	2005
Cost of service and technology revenues	$ 297	$
Research and development	1,118	(164)
Sales and marketing	340	106
General and administrative	1,332	

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

TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT

(In thousands, except share amounts)

(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit As Adjusted - Note 2	Total As Adjusted - Note 2
BALANCE JANUARY 31, 2006	85,376,191	$ 85	$ 667,055	$ (2,421)	$ (694,091)	$ (29,372)
Issuance of common stock upon exercise of common stock options	737,222	1	3,723			3,724
Issuance of restricted shares of common stock	69,040		259			259
Deferred compensation - reversal due to FAS 123R			(2,421)	2,421		
Recognition of stock based compensation expense, net			3,087			3,087
Net loss					(10,704)	(10,704)
BALANCE APRIL 30, 2006	86,182,453	$ 86	$ 671,703	$	$ (704,795)	$ (33,006)

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

TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended April 30, 2006	Three Months Ended April 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (10,704)	$ (857)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment and intangibles	1,730	1,424
Loss on disposal of fixed assets		3
Recognition of stock-based compensation expense (benefit)	3,087	(58)
Changes in assets and liabilities:		
Accounts receivable, net	1,039	17,751
Finished goods inventories	(2,237)	(6,880)
Prepaid expenses and other	4,952	1,064
Accounts payable	4,048	(6,490)
Accrued liabilities	(13,901)	(10,558)
Deferred revenue	(2,516)	4,788
Deferred rent and other long-term liabilities	352	(357)
Net cash used in operating activities	$ (14,150)	$ (170)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of short-term investments	(28)	(1,025)
Sales of short-term investments		5,425
Acquisition of property and equipment	(1,436)	(763)
Acquisition of capitalized software and intangibles		(3,915)
Net cash used in investing activities	$ (1,464)	$ (278)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing under bank line of credit		6,000
Payments to bank line of credit		(4,500)
Proceeds from issuance of common stock related to exercise of common stock options	3,724	1,319
Proceeds from issuance of common stock related to employee stock purchase plan		1,175
Net cash provided by financing activities	$ 3,724	$ 3,994
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (11,890)	$ 3,546

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

TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

(unaudited)

	Three Months Ended April 30, 2006	Three Months Ended April 30, 2005
CASH AND CASH EQUIVALENTS:		
Balance at beginning of period	85,298	87,245
Balance at end of period	$ 73,408	$ 90,791
SUPPLEMENTAL DISCLOSURE OF CASH AND NON-CASH FLOW INFORMATION		
Cash paid for interest	$ 3	$ 1
Cash paid for income taxes	19	8
SUPPLEMENTAL DISCLOSURE OF OTHER NON-CASH INVESTING AND FINANCING INFORMATION		
Adjustment to deferred compensation as a result of retirement due to forfeiture of unvested restricted common stock issuance of restricted common stock		260
Issuance of restricted common stock	259	

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

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. NATURE OF OPERATIONS

TiVo Inc. (the Company or TiVo) was incorporated in August 1997 as a Delaware corporation and is located in Alviso, California. On August 21, 2000, TiVo (UK) Limited, a wholly owned subsidiary of TiVo Inc., was incorporated in the United Kingdom. On October 9, 2001, the Company formed a subsidiary, TiVo International, Inc., also a Delaware corporation. On July 16, 2004, TiVo Intl. II, Inc., a wholly owned subsidiary of TiVo Inc., was incorporated in the Cayman Islands. On March 22, 2005, TiVo Brands LLC, a wholly owned subsidiary of TiVo Inc., was incorporated in the State of Delaware as a holding entity for all of the Company s trademarks. The Company conducts its operations through one reportable segment. TiVo is a provider of technology and services for digital video recorders. 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 platform for the television industry, including for advertisers and audience research.

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 and 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 relationship with DIRECTV for subscription growth. The Company anticipates that its business will continue to be seasonal and expects to generate a significant number of its annual new subscriptions 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 April 30, 2006 and January 31, 2006 and the results of operations for the three-month period ended April 30, 2006 and 2005 and condensed consolidated statements of cash flows for the three-month periods ended April 30, 2006 and 2005. Additionally, included is the unaudited statement of stockholders deficit for the three month period ended April 30, 2006. These condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements as of January 31, 2006 and 2005, including the notes thereto, included in the Company s 2006 Annual Report on Form 10-K. Operating results for the three-month period ended April 30, 2006 are not necessarily indicative of results that may be expected for the year ending January 31, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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 measurement research services. The Company also generates technology revenues from providing licensing and engineering 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 measurement research services. Monthly and prepaid fixed-length subscription revenues are recognized over the period benefited. 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. Also included in service revenues are fees received from third parties, such as DIRECTV, which 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. These agreements contain multiple-elements in which vendor specific objective evidence (VSOE) of fair value is required for all undelivered elements in order to recognize revenue related to the delivered element. Elements included in the Company s arrangements may include technology licenses and associated maintenance and support, engineering services and other services. 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.

In arrangements which include engineering services that are essential to the functionality of the software 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 based on the ratio of costs incurred, principally labor, to date to total estimated costs of the project, an input method. 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 all 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 fair value for undelivered elements in the contract. In these situations, 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 services are complete.

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 probable. 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. For direct product sales to end-users prior to March 15, 2006, hardware revenues were recognized upon shipment by TiVo to the end-users provided all appropriate revenue recognition criteria were met. After March 15, 2006, the Company stopped selling DVRs directly to end-users on a standalone basis see Bundled Sales Programs.

Bundled Sales Programs. Prior to March 15, 2006, the Company sold DVRs for no cost or at a substantial discount when bundled with a prepaid 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 solely as a bundled sales program through the TiVo website and no longer intends to sell DVR s on a standalone basis. Under these bundled programs, the customer receives a DVR and commits to a minimum subscription of one to three years. Unlike the bundled sales programs offered prior to March 15, 2006, the customer receives the DVR with no upfront payment and has the option to either pay a monthly fee over the subscription term (monthly program) or to prepay the subscription fee in advance (prepaid program). After the initial committed subscription term, the customer has various pricing options at which they can renew the subscription. These bundled sale programs do not meet the requirements for separation under EITF 00-21. For both the monthly and prepaid programs, the entire arrangement fee is recognized ratably over the subscription period and is classified as Service Revenue in the condensed consolidated statements of operations.

For the monthly programs introduced on March 15, 2006, the Company concluded it was appropriate to charge the related hardware costs to cost of hardware revenues upon shipment of the DVR. Effective February 1, 2006, the Company changed its accounting policy for the recognition of DVR costs for prepaid bundled sales arrangements to charge the entire cost of the hardware to cost of revenues upon shipment. Previously, the Company deferred the portion of the hardware costs exceeding the recognized revenue allocated to the hardware element and amortized such costs over the period of the subscription. See Change in Accounting Policy section below. If the direct costs associated with the total arrangement (including the cost of the DVR and incremental service cost) exceed the prepaid fee, the loss is expensed at the time of the shipment of the DVR.

Rebates, Revenue Share, and Other Payments to Channel. 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 to revenue rather than as a sales and marketing expense. TiVo s policy is to expense these payments when they are incurred and fixed or determinable. The Company also records rebates offered to consumers as a reduction to revenue. The Company records a liability for estimated future rebate redemption at the later of the delivery of the hardware or announcement of the rebate program.

Deferred Revenues. Deferred revenues consists of unrecognized service and technology fees that have been collected, but the related service has not yet been provided or VSOE of fair value does not exist for the undelivered elements of an arrangement.

Change in Accounting Policy

Recognition of Hardware Costs and Bundled Sales Programs

Effective February 1, 2006, the Company changed its method of accounting for the recognition of hardware costs in bundled sales programs where the customer prepays the arrangement fee. Previously, to the extent that the cost of the DVR exceeded the revenue allocated to the DVR, the excess costs were deferred and amortized over the period of the subscription. In this prepayment plan, the Company received the cash upfront from consumers, which allowed the Company to elect deferral of hardware costs over the service period. The Company now expenses all hardware costs upon shipment of the DVR (direct expense method).

The Company determined that the direct expense method was preferable to the prior accounting method because the Company believes: it is consistent with the accounting practices of competitors and companies within similar industries; it adds to the clarity and ease of understanding of the Company s reported results to investors; and it is consistent with the recognition of hardware costs for bundled monthly sales programs. The Company recorded the change in method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections. SFAS 154 requires that all elective accounting changes be made on a retrospective basis. As such, the accompanying condensed consolidated balance sheet as of January 31, 2006 has been adjusted to apply the direct expense method retrospectively to all prior periods. The net unamortized balance of previously deferred costs of $2.6 million at January 31, 2006 is now reflected in the accompanying unaudited adjusted condensed consolidated balance sheet as an increase in accumulated deficit and a reduction in prepaid expenses and other, current and prepaid expenses and other, long-term. This change in accounting method has no impact on the condensed consolidated statements of operations for the three months ended April 30, 2005 as the Company did not offer bundled revenue transactions until the three months ended July 31, 2005. The impact of adopting the direct expense method resulted in a $407,000 increase to net loss for the three months ended April 30, 2006. The following table details the impact of this accounting policy change on the Company s fiscal year ended January 31, 2006 unaudited condensed consolidated financial statement by effected line items.

Condensed Consolidated Balance Sheets (unaudited)

	July 31, 2005			October 31, 2005			January 31, 2006		
	As previously reported	Adjustment	Adjusted	As previously reported	Adjustment	Adjusted	As previously reported	Adjustment	Adjusted
Prepaid expenses and other, current	$ 4,860	$ (810)	$ 4,050	$ 8,019	$ (761)	$ 7,258	$ 11,069	$ (2,325)	$ 8,744
Total current assets	137,843	(810)	137,033	149,249	(761)	148,488	146,332	(2,325)	144,007
Prepaid expenses and other, long-term	$ 1,009	$ (322)	$ 687	$ 752	$ (296)	$ 456	$ 623	$ (276)	$ 347
Total long-term assets	14,521	$ (322)	14,199	13,984	$ (296)	13,688	15,277	$ (276)	15,001
Total assets	152,364	$ (1,132)	151,232	163,233	$ (1,057)	162,176	161,609	$ (2,601)	159,008

Condensed Consolidated Statements of Operations (unaudited)

	Three Months Ended July 31, 2005			Three Months Ended October 31, 2005			Three Months Ended January 31, 2006			Fiscal Year Ended January 31, 2006		
	As previously reported	Adjustment	Adjusted	As previously reported	Adjustment	Adjusted	As previously reported	Adjustment	Adjusted	As previously reported	Adjustment	Adjusted
Cost of revenues												
Cost of hardware revenues	$ 6,565	$ 1,132	$ 7,697	$ 24,742	$ (75)	$ 24,667	$ 37,267	$ 1,544	$ 38,811	$ 84,216	$ 2,601	$ 86,817
Total cost of revenues	14,023	1,132	15,155	33,250	(75)	33,175	47,396	1,544	48,940	119,177	2,601	121,778
Gross margin	25,312	(1,132)	24,180	16,365	75	16,440	12,671	(1,544)	11,127	76,748	(2,601)	74,147
Loss from operations	(449)	(1,132)	(1,581)	(15,055)	75	(14,980)	(20,428)	(1,544)	(21,972)	(37,404)	(2,601)	(40,005)
Income (loss) before income taxes	283	(1,132)	(849)	(14,239)	75	(14,164)	(19,529)	(1,544)	(21,073)	(34,334)	(2,601)	(36,935)
Net income (loss)	$ 240	$ (1,132)	$ (892)	$ (14,239)	$ 75	$ (14,164)	$ (19,542)	$ (1,544)	$ (21,086)	$ (34,398)	$ (2,601)	$ (36,999)
Net Income (loss) per common share basic and diluted	$ 0.00	$ 0.01	$ (0.01)	$ (0.17)	$ 0.00	$ (0.17)	$ (0.23)	$ (0.02)	$ (0.25)	$ (0.41)	$ (0.03)	$ (0.44)

Condensed Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended July 31, 2005			Nine Months Ended October 31, 2005			Fiscal Year Ended January 31, 2006		
	As previously reported	Adjustment	Adjusted	As previously reported	Adjustment	Adjusted	As previously reported	Adjustment	Adjusted
CASH FLOWS FROM OPERATING ACTIVITIES									
Net loss	$ (617)	$ (1,132)	$ (1,749)	$ (14,856)	$ (1,057)	$ (15,913)	$ (34,398)	$ (2,601)	$ (36,999)
Adjustments to reconcile net loss to net cash used in operating activities:									
Prepaid expenses and other, current	(384)	810	426	(3,543)	761	(2,782)	(6,593)	2,325	(4,268)
Prepaid expenses and other, long-term	229	322	551	486	296	782	615	276	891
Net cash used in operating activities	(6,577)		(6,577)	(12,262)		(12,262)	3,425		3,425

Stock-Based Compensation.

The Company has stock option plans and an Employee Stock Purchase Plan (ESPP), under which officers, employees, consultants, and non-employee directors may be granted options to purchase shares of the Company s authorized but unissued or reacquired common stock, and may also be granted restricted stock and other stock awards. Currently, the Company grants options from the 1) 1999 Equity Incentive Plan, under which options could be granted to all employees, including executive officers and 2) the 1999 Non-Employee Directors Stock Option Plan, under which options are granted automatically to non-employee directors. In addition, TiVo s stock option program includes the 1997 Equity Incentive Plan, from which the Company currently does not grant options, but may do so. Upon the exercise of options, the Company issues new common stock from its authorized shares.

On February 1, 2006, the Company adopted the provisions of SFAS 123R, *Shared-Based Payment*, requiring TiVo to recognize expense related to the fair value of the Company s stock-based compensation awards. SFAS No. 123R eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under Accounting Principle Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and instead requires that such transactions be accounted for using a fair-value based method. The fair value of TiVo s restricted stock awards was calculated based on the fair market value of the Company s stock at the grant date. The fair value of TiVo s stock options and ESPP awards was estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions and elections in adopting and implementing SFAS No. 123R, including expected stock price volatility and the estimated life of each award.

TiVo has elected to use the modified prospective transition method as permitted by SFAS 123R and therefore have not restated the Company s financial results for prior periods. Under this transition method, stock-based compensation expense for the three months ended April 30, 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of February 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Stock-based compensation expense for all stock-based compensation awards granted subsequent to February 1, 2006 was based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. TiVo recognizes compensation expense for stock option awards on a straight-line basis over the requisite service period of the award.

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are stated at cost. Maintenance and repair expenditures are expensed as incurred.

Depreciation is computed using the straight-line method over estimated useful lives as follows:

Furniture and fixture	3-5 years
Computer and office equipment	3-5 years
Lab equipment	3 years
Leasehold improvements	The shorter of 4 years or the life of the lease
Capitalized software for internal use	1-5 years

Advertising Costs

The Company expenses advertising costs as the services are provided. Advertising expenses were $2.0 million and $994,000 for the three months ended April 30, 2006 and 2005, respectively.

Comprehensive Loss

The Company has no material components of other comprehensive income or loss and, accordingly, the comprehensive loss is the same as the net loss for all periods presented.

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 debt instruments of the U.S. government and its agencies and corporate issuers with high credit ratings. 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 for service revenues are concentrated in the United States. The Company is subject to a minimal amount of credit risk related to these customers as service revenue is primarily obtained through credit card sales. DIRECTV represented approximately 12% and 14% of net revenues and 26% and 23% of net accounts receivable for the three months ended April 30, 2006 and 2005, respectively. The Company sells its TiVo-enabled DVR to retailers under customary credit terms. One retailer generated 4% and 8% of net revenues and 25%, and 8% of the net accounts receivable for the three months ended April 30, 2006 and 2005, respectively. Comcast represented approximately 13% of net revenues for the three months ended April 30, 2006.