

TIVO INC
Form 8-K
May 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of

The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) May 30, 2007

TIVO INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

000-27141
(Commission File Number)

77-0463167
(IRS Employer

Identification No.)

2160 Gold Street,
Alviso, California
(Address of principal executive offices)

95002
(Zip Code)

Registrant's telephone number, including area code (408)519-9100

(Former name or former address, if changed since last report.)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 8.01 OTHER EVENTS.

On May 30, 2007, we announced financial results for our first quarter ended April 30, 2007. Net service and technology revenues for the quarter, which included recognition of Comcast development revenue of \$3.3 million, increased 6% to \$58.1 million, compared with \$55.0 million in the first quarter of fiscal year 2007. In the quarter ended April 30, 2006, we recognized Comcast development revenue of \$7.2 million of which \$4.6 million was related to work performed in fiscal year 2006. Net income for the quarter was \$835,000 or \$0.01 per basic and diluted share compared to a net loss of (\$10.7) million or (\$0.13) per share, for the three months ended April 30, 2006.

As of April 30, 2007 our total subscriptions were 4.3 million. TiVo-Owned subscription gross additions were 57,000 for the quarter, compared to 91,000 in the first quarter of last fiscal year. Our monthly churn rate increased to 1.1% for the quarter ended April 30, 2007 as compared to 0.9% in the year ago period. TiVo-Owned subscription net additions were 1,000 compared to 51,000 in the first quarter of last fiscal year. The installed base of DIRECTV TiVo subscriptions has declined to approximately 2.6 million.

TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

| | Three Months Ended April 30, | |
|--|------------------------------|--------------------|
| | 2007 | 2006 |
| Service revenues | \$ 54,155 | \$ 46,951 |
| Technology revenues | 3,932 | 8,083 |
| Hardware revenues | 2,293 | 1,719 |
| Net revenues | 60,380 | 56,753 |
| Cost of service revenues ⁽¹⁾ | 10,155 | 10,435 |
| Cost of technology revenues ⁽¹⁾ | 3,507 | 7,366 |
| Cost of hardware revenues | 10,648 | 15,146 |
| Gross margin | 36,070 | 23,806 |
| Research and development ⁽¹⁾ | 14,245 | 12,861 |
| Sales and marketing ⁽¹⁾ | 5,303 | 4,847 |
| Sales and marketing, subscription acquisition costs | 5,790 | 2,783 |
| General and administrative ⁽¹⁾ | 11,222 | 15,059 |
| Loss from operations | (490) | (11,744) |
| Interest and other income (expense), net | 1,333 | 1,059 |
| Provision for taxes | (8) | (19) |
| Net income (loss) | \$ 835 | \$ (10,704) |
| Net income (loss) per common share basic and diluted | \$ 0.01 | \$ (0.13) |
| Weighted average common shares used to calculate basic net income (loss) per share | 96,829 | 85,134 |
| Weighted average common shares used to calculate diluted net income (loss) per share | 98,047 | 85,134 |

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

| | | |
|-----------------------------|--------|-------|
| Cost of service revenues | \$ 157 | \$ 94 |
| Cost of technology revenues | 463 | 203 |
| Research and development | 1,628 | 1,118 |
| Sales and marketing | 476 | 340 |
| General and administrative | 1,916 | 1,332 |

TIVO INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(unaudited)

| | April 30, 2007 | January 31, 2007 |
|---|----------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents, and short-term investments | \$ 101,784 | \$ 128,765 |
| Accounts receivable | 18,158 | 20,641 |
| Inventories | 29,961 | 29,980 |
| Prepaid expenses and other, current | 2,500 | 3,071 |
| Total current assets | 152,403 | 182,457 |
| LONG-TERM ASSETS | | |
| Property and equipment, net | 11,453 | 11,706 |
| Purchased technology, capitalized software, and intangible assets, net | 15,957 | 16,769 |
| Prepaid expenses and other, long-term | 968 | 1,018 |
| Total long-term assets | 28,378 | 29,493 |
| Total assets | \$ 180,781 | \$ 211,950 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 15,138 | \$ 37,127 |
| Accrued liabilities | 29,797 | 36,542 |
| Deferred revenue, current | 62,393 | 64,872 |
| Total current liabilities | 107,328 | 138,541 |
| LONG-TERM LIABILITIES | | |
| Deferred revenue, long-term | 48,800 | 54,851 |
| Deferred rent and other | 1,415 | 1,562 |
| Total long-term liabilities | 50,215 | 56,413 |
| Total liabilities | 157,543 | 194,954 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS EQUITY | | |
| 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 shares are 97,562,699 and 97,311,986, respectively and | | |
| outstanding shares are 97,468,288 and 97,231,483, respectively | | |
| | 98 | 97 |
| Additional paid-in capital | 764,805 | 759,314 |
| Accumulated deficit | (741,010) | (741,845) |
| Less: Treasury stock, at cost 94,411 and 80,503 shares, respectively | (655) | (570) |
| Total stockholders equity | 23,238 | 16,996 |
| Total liabilities and stockholders equity | \$ 180,781 | \$ 211,950 |

TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

| | Three Months Ended April 30, | |
|--|------------------------------|--------------------|
| | 2007 | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 835 | \$ (10,704) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization of property and equipment and intangibles | 2,620 | 1,730 |
| Stock-based compensation expense | 4,640 | 3,087 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 2,483 | 1,039 |
| Inventories | 19 | (2,237) |
| Prepaid expenses and other | 621 | 4,952 |
| Accounts payable | (22,009) | 4,048 |
| Accrued liabilities | (6,745) | (13,901) |
| Deferred revenue | (8,530) | (2,516) |
| Deferred rent and other long-term liabilities | (147) | 352 |
| Net cash used in operating activities | \$ (26,213) | \$ (14,150) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of short-term investments | (3,037) | (28) |
| Acquisition of capitalized software and intangibles | (375) | |
| Acquisition of property and equipment | (1,160) | (1,436) |
| Net cash used in investing activities | \$ (4,572) | \$ (1,464) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of common stock related to exercise of common stock options | 852 | 3,724 |
| Treasury Stock repurchase of stock for tax withholding | (85) | |
| Net cash provided by financing activities | \$ 767 | \$ 3,724 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | \$ (30,018) | \$ (11,890) |

TIVO INC.

OTHER DATA

Subscriptions

| (Subscriptions in thousands) | Three Months Ended April 30, | |
|---|------------------------------|--------------|
| | 2007 | 2006 |
| TiVo-Owned Subscription Gross Additions | 57 | 91 |
| Subscription Net Additions: | | |
| TiVo-Owned | 1 | 51 |
| DIRECTV | (103) | 2 |
| Total Subscription Net Additions | (102) | 53 |
| Cumulative Subscriptions: | | |
| TiVo-Owned | 1,727 | 1,542 |
| DIRECTV | 2,615 | 2,875 |
| Total Cumulative Subscriptions | 4,342 | 4,417 |
| % of TiVo-Owned Cumulative Subscriptions paying recurring fees | 59% | 52% |

Included in the 4,342,000 subscriptions are approximately 179,000 lifetime subscriptions that have reached the end of the 48-month period TiVo uses to recognize lifetime subscription revenue. These lifetime subscriptions no longer generate subscription revenue.

TIVO INC.

OTHER DATA KEY BUSINESS METRICS

| TiVo-Owned Churn Rate | Three Months Ended April 30, | |
|--|------------------------------|--------------|
| | 2007 | 2006 |
| | (In thousands) | |
| Average TiVo-Owned subscriptions | 1,729 | 1,520 |
| TiVo-Owned subscription cancellations | (56) | (40) |
| Quarterly Churn Rate | -3.2% | -2.6% |
| Number of Months | 3 | 3 |
| TiVo-Owned Churn Rate per month | -1.1% | -0.9% |

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, 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 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.

| Subscription Acquisition Costs | Three Months Ended April 30, | | Twelve Months Ended April 30, | |
|---|------------------------------|---------------|-------------------------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| | (In thousands, except SAC) | | (In thousands, except SAC) | |
| Sales and marketing, subscription acquisition costs | \$ 5,790 | \$ 2,783 | \$ 23,774 | \$ 18,081 |
| Hardware revenues | \$ (2,293) | \$ (1,719) | \$ (42,162) | \$ (21,951) |
| Cost of hardware revenues | \$ 10,648 | \$ 15,146 | \$ 107,714 | \$ 86,321 |
| Total Acquisition Costs | 14,145 | 16,210 | 89,326 | 82,451 |
| TiVo-Owned Subscription Gross Additions | 57 | 91 | 395 | 481 |
| Subscription Acquisition Costs (SAC) | \$ 248 | \$ 178 | \$ 226 | \$ 171 |

Subscription Acquisition Cost or SAC. Management reviews this metric, and believes it may be useful to investors, in order to evaluate trends in the efficiency of our marketing programs and subscription acquisition strategies. We define SAC as our total acquisition costs for a given period divided by TiVo-Owned subscription gross additions for the same period. In the first fiscal quarter of 2008, we revised our definition of total acquisition costs. Previously, we defined total acquisition costs as the sum of sales and marketing expenses, rebates, revenue share, and other payments to channel, minus hardware gross margin (defined as hardware revenues less cost of hardware revenues). This previous measure included fixed costs not directly associated with subscription acquisitions such as headcount related expense, like stock based compensation; certain marketing expenses that are not directly associated with subscription acquisitions; certain operating expenses more directly related to our advertising sales business; and

overhead allocations. We now define total acquisition costs as sales and marketing, subscription acquisition costs less net hardware revenues (defined as gross hardware revenues less rebates, revenue share and market development funds paid to retailers) plus cost of hardware revenues. The new sales and marketing, subscription acquisition costs line item includes advertising expenses and promotion related expenses directly related to subscription acquisition activities. All prior period SAC calculations have been revised to conform to the current period calculation. We do not include third parties subscription gross additions, such as DIRECTV gross additions with TiVo subscriptions, in our calculation of SAC because we incur limited or no acquisition costs for these new subscriptions. We are not aware of any uniform standards for calculating total acquisition costs or SAC and caution that our presentation may not be consistent with that of other companies.

| TiVo-Owned Average Revenue per Subscription | Three Months Ended April 30, | |
|---|------------------------------|---------------|
| | 2007 | 2006 |
| | (In thousands, except ARPU) | |
| Service and Technology revenues | \$ 58,087 | \$ 55,034 |
| Less: Technology revenues | (3,932) | (8,083) |
| Total Service revenues | 54,155 | 46,951 |
| Less: DIRECTV-related service revenues | (7,160) | (8,009) |
| TiVo-Owned-related service revenues | 46,995 | 38,942 |
| Average TiVo-Owned revenues per month | 15,665 | 12,981 |
| Average TiVo-Owned per month subscriptions | 1,729 | 1,520 |
| TiVo-Owned ARPU per month | \$ 9.06 | \$ 8.54 |

| DIRECTV Average Revenue per Subscription | Three Months Ended April 30, | |
|---|------------------------------|---------------|
| | 2007 | 2006 |
| | (In thousands, except ARPU) | |
| Service and Technology revenues | \$ 58,087 | \$ 55,034 |
| Less: Technology revenues | (3,932) | (8,083) |
| Total Service revenues | 54,155 | 46,951 |
| Less: TiVo-Owned-related service revenues | (46,995) | (38,942) |
| DIRECTV-related service revenues | 7,160 | 8,009 |
| Average DIRECTV revenues per month | 2,387 | 2,670 |
| Average DIRECTV per month subscriptions | 2,668 | 2,881 |
| DIRECTV ARPU per month | \$ 0.89 | \$ 0.93 |

Average Revenue Per Subscription or ARPU. Management reviews this metric, and believes it may be useful to investors, in order to evaluate the potential of our subscription base to generate revenues from a variety of sources, including subscription fees, advertising, and audience research measurement. ARPU does not include rebates, revenue share and other payments to channel that reduce our GAAP revenues. As a result, you should not use ARPU as a substitute for measures of financial performance calculated in accordance with GAAP. Management believes it is useful to consider this metric excluding the costs associated with rebates, revenue share and other payments to channel because of the discretionary nature of these expenses and because management believes these expenses are more appropriately monitored as part of SAC. We are not aware of any uniform standards for calculating ARPU and caution that our presentation may not be consistent with that of other companies.

We calculate ARPU per month for TiVo-Owned subscriptions by subtracting DIRECTV-related service revenues (which includes DIRECTV subscription service revenues and DIRECTV-related advertising revenues) from our total reported net service revenues and dividing the result by the number of months in the period. We then divide by Average TiVo-Owned subscriptions for the period, calculated as described above for churn rate. The above table shows this calculation and reconciles ARPU for TiVo-Owned subscriptions to our reported net service and technology revenues.

We calculate ARPU per month for DIRECTV subscriptions by first subtracting TiVo-Owned-related service revenues (which includes TiVo-Owned subscription service revenues and TiVo-Owned related advertising revenues) from our total reported net service revenues. Then we divide average revenues per month for DIRECTV-related service revenues by average subscriptions for the period. The above table shows this calculation and reconciles ARPU for DIRECTV subscriptions to net service and technology revenues.

Beginning in February 2006, pursuant to the most recent amendment of our agreement with DIRECTV, TiVo defers a portion of the DIRECTV subscription fees equal to the fair value of the undelivered development services. Additionally, beginning in February 2007, DIRECTV began paying us a monthly fee for all DIRECTV households with DIRECTV receivers with TiVo service similar to the lower amount paid by DIRECTV for households with DIRECTV receivers with TiVo service deployed since March 15, 2002, subject to a monthly minimum payment by DIRECTV. As a result, our DIRECTV ARPU decreased relative to the same period last year.

Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, TiVo's business development strategies, current and future partnerships, future churn, subscription acquisition costs, subscription growth, DIRECTV ARPU and TiVo-Owned ARPU as well as other factors that may affect future earnings or financial results. Forward-looking statements generally can be identified by the use of forward-looking terminology such as, believe, expect, may, will, intend, estimate, continue, or similar expressions or the negative of those terms or expressions. Such statements involve risks and uncertainties, which could cause actual results to vary materially from those expressed in or indicated by the forward-looking statements. Factors that may cause actual results to differ materially include delays in development, competitive service offerings and lack of market acceptance, the outcome of legal proceedings and claims, as well as the other potential factors described under Risk Factors in the Company's public reports filed with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2007 and all subsequent filings. We caution you not to place undue reliance on forward-looking statements, which reflect an analysis only and speak only as of the date hereof. TiVo disclaims any obligation to update these forward-looking statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TIVO INC.

Date: May 30, 2007

By: /s/ Steven Sordello
Steven Sordello
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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