

TIVO INC
Form 8-K
November 29, 2006

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) November 29, 2006

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.)

Edgar Filing: TIVO INC - Form 8-K

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))
-

ITEM 8.01 OTHER EVENTS.

On November 29, 2006 we announced financial results for our third quarter ended October 31, 2006. Service and technology revenues for the quarter, which included recognition of Comcast development revenue of \$2.9 million, increased 22% to \$52.6 million, compared with \$43.2 million for the same prior year period. Net loss for the quarter was (\$11.1) million or (\$0.12) per share, compared to a net loss of (\$14.2) million, or (\$0.17) per share, for the three months ended October 31, 2005, this decrease in net loss was due to improved service revenues gross margin coupled with a decrease in legal costs, which were offset by the expensing of stock options.

As of October 31, 2006 our total subscriptions were 4.4 million. TiVo-Owned subscription gross additions were 101,000 for the quarter, compared to 92,000 in the third quarter of last year. Our churn rate has remained flat year-over-year at 1% for the quarters ended October 31, 2006 and 2005. TiVo-Owned subscription net additions were slightly lower at 53,000 compared to 55,000 in the third quarter of last year. The installed base of DIRECTV TiVo subscriptions has declined to approximately 2.8 million.

TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2006	2005	2006	2005
		Adjusted		Adjusted
Service revenues	\$ 49,000	\$ 42,296	\$ 145,381	\$ 120,889
Technology revenues	3,616	901	15,224	3,002
Service and Technology revenues	52,616	43,197	160,605	123,891
Hardware revenues	27,978	24,652	53,666	39,827
Rebates, revenue share, and other payments to channel	(14,934)	(18,234)	(32,932)	(27,860)
Net revenues	65,660	49,615	181,339	135,858
Cost of service revenues ⁽¹⁾	10,820	8,431	30,883	23,929
Cost of technology revenues ⁽¹⁾	3,006	77	13,373	903
Cost of hardware revenues	31,925	24,667	68,678	48,006
Gross margin	19,909	16,440	68,405	63,020
Research and development ⁽¹⁾	12,221	9,712	37,973	30,394
Sales and marketing ⁽¹⁾	10,123	10,006	25,856	24,410
General and administrative ⁽¹⁾	9,811	11,702	35,961	26,249
Loss from operations	(12,246)	(14,980)	(31,385)	(18,033)
Interest and other income (expense), net	1,158	816	3,176	2,171
Provision for taxes	(4)		(35)	(51)
Net loss attributable to common stockholders	\$ (11,092)	\$ (14,164)	\$ (28,244)	\$ (15,913)
Net loss per common share - basic and diluted	\$ (0.12)	\$ (0.17)	\$ (0.32)	\$ (0.19)
	91,930	84,201	87,681	83,362

Edgar Filing: TIVO INC - Form 8-K

Weighted average common shares used to calculate basic and diluted net loss per share

(1) Includes stock-based compensation expense (benefit) as follows (FY 2007 increases are due primarily to the adoption of FAS 123(R))

Cost of service revenues	\$	129	\$		\$	353	\$	
Cost of technology revenues		236				682		
Research and development		1,608		(6)		4,177		(131)
Sales and marketing		474		20		1,264		(20)
General and administrative		1,636		151		4,257		199

TIVO INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(unaudited)

	October 31, 2006	January 31, 2006 Adjusted
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, and short-term investments	\$ 106,965	\$ 104,213
Accounts receivable	27,300	20,111
Finished goods inventories	34,107	10,939
Prepaid expenses and other, current	4,327	8,744
Total current assets	172,699	144,007
LONG-TERM ASSETS		
Property and equipment, net	10,874	9,448
Purchased technology, capitalized software, and intangible assets, net	17,580	5,206
Prepaid expenses and other, long-term	597	347
Total long-term assets	29,051	15,001
Total assets	\$ 201,750	\$ 159,008
LIABILITIES AND STOCKHOLDERS DEFICIT		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 28,278	\$ 24,050
Accrued liabilities	32,553	37,449
Deferred revenue, current	56,596	57,902
Total current liabilities	117,427	119,401
LONG-TERM LIABILITIES		
Deferred revenue, long-term	51,550	67,575
Deferred rent and other	2,208	1,404
Total long-term liabilities	53,758	68,979
Total liabilities	171,185	188,380
COMMITMENTS AND CONTINGENCIES		
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 96,761,289 and 85,376,191, respectively	97	85
Additional paid-in capital	752,803	667,055
Deferred compensation		(2,421)
Accumulated deficit	(722,335)	(694,091)
Total stockholders deficit	30,565	(29,372)

Edgar Filing: TIVO INC - Form 8-K

Total liabilities and stockholders' deficit	\$	201,750	\$	159,008
---	----	---------	----	---------

TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended October 31, 2006	2005 Adjusted
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (28,244)	\$ (15,913)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment and intangibles	5,815	4,591
Recognition of stock-based compensation expense (benefit)	10,733	48
Changes in assets and liabilities:		
Accounts receivable, net	(7,189)	(3,713)
Finished goods inventories	(23,168)	(9,079)
Prepaid expenses and other	4,167	(2,000)
Accounts payable	3,853	16,111
Accrued liabilities	(4,652)	(2,627)
Deferred revenue	(17,331)	613
Deferred rent and other long-term liabilities	804	(293)
Net cash used in operating activities	\$ (55,212)	\$ (12,262)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of short-term investments	(13,502)	(5,375)
Sales of short-term investments	4,350	10,625
Acquisition of property and equipment	(6,115)	(3,897)
Acquisition of capitalized software and intangibles	(13,125)	(3,915)
Net cash used in investing activities	\$ (28,392)	\$ (2,562)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing under bank line of credit		3,500
Payments to bank line of credit		(8,000)
Proceeds from issuance of common stock	65,000	
Payment of issuance costs for common stock	(1,054)	
Proceeds from issuance of common stock related to exercise of warrants	3,329	
Proceeds from issuance of common stock related to employee stock purchase plan	8,639	6,443
Proceeds from issuance of common stock related to exercise of common stock options	1,290	2,242
Net cash provided by financing activities	\$ 77,204	\$ 4,185
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (6,400)	\$ (10,639)

TIVO INC.

OTHER DATA

Subscriptions

(Subscriptions in thousands)	Three Months Ended October 31,	
	2006	2005
TiVo-Owned Subscription Gross Additions	101	92
Subscription Net Additions:		
TiVo-Owned	53	55
DIRECTV	(37)	379
Total Subscription Net Additions	16	434
Cumulative Subscriptions:		
TiVo-Owned	1,625	1,308
DIRECTV	2,809	2,700
Total Cumulative Subscriptions	4,434	4,008

% of TiVo-Owned Cumulative Subscriptions paying recurring fees 55% 51%

Included in the 4,434,000 subscriptions are approximately 138,000 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 October 31,	
	2006	2005
	(In thousands)	
Average TiVo-Owned subscriptions (for the quarter)	1,596	1,275
TiVo-Owned subscription cancellations (for the quarter)	(48)	(37)
TiVo-Owned Churn Rate per month	-1.0%	-1.0%

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.

<u>Subscription Acquisition Costs</u>	Three Months Ended October 31,		Twelve Months Ended October 31,	
	2006	2005	2006	2005
	(In thousands, except SAC)		(In thousands, except SAC)	
	Adjusted		Adjusted	
Sales and marketing expenses	\$ 10,123	\$ 10,006	\$ 36,493	\$ 35,939
Rebates, revenue share, and other payments to channel	14,934	18,234	52,099	53,048
Hardware revenues	(27,978)	(24,652)	(85,932)	(90,279)
Cost of hardware revenues	31,925	24,667	107,489	100,273
Total Acquisition Costs	29,004	28,255	110,149	98,981
TiVo-Owned Subscription Gross Additions	101	92	487	549
Subscription Acquisition Costs (SAC)	\$ 287	\$ 307	\$ 226	\$ 180

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. We define 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). We do not include DIRECTV subscription gross additions in our calculation of SAC because we incur limited or no acquisition costs for new DIRECTV 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 October 31,	
	2006	2005
	(In thousands, except ARPU)	
Service and Technology revenues	\$ 52,616	\$ 43,197
Less: Technology revenues	(3,616)	(901)
Total Service revenues	49,000	42,296
Less: DIRECTV-related service revenues	(7,573)	(8,637)
TiVo-Owned-related service revenues	41,427	33,659
Average TiVo-Owned revenues per month	13,809	11,220
Average TiVo-Owned per month subscriptions	1,596	1,275
TiVo-Owned ARPU per month	\$ 8.65	\$ 8.80
	Three Months Ended October 31,	
	2006	2005
	(In thousands, except ARPU)	
Service and Technology revenues	\$ 52,616	\$ 43,197
Less: Technology revenues	(3,616)	(901)
Total Service revenues	49,000	42,296
Less: TiVo-Owned-related service revenues	(41,427)	(33,659)
DIRECTV-related service revenues	7,573	8,637
Average DIRECTV revenues per month	2,524	2,879
Average DIRECTV per month subscriptions	2,837	2,505
DIRECTV ARPU per month	\$ 0.89	\$ 1.15

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 measurement research. ARPU does not include rebates, revenue share and other payments to channel that reduce our GAAP revenues. Additionally, under the accounting policy for our bundled sales program, revenues associated with these bundled sales transactions, which were previously recognized as hardware revenues, are now being recognized in service revenues, which we believe will over time increase our ARPU as currently presented. 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 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 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 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 service and technology revenues.

For fiscal 2007, pursuant to the most recent amendment of our agreement with DIRECTV, TiVo now defers a portion of the DIRECTV subscription fees equal to the fair value of the undelivered development services. Otherwise, the recurring subscriptions fees in this agreement are similar to the fees for the DIRECTV receivers with TiVo service activated since 2002.

Forward-Looking Statements

This release 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, the expected future deployment and availability of the TiVo service, future TiVo service features and advertising technologies, and 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, 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, 2006 and the Quarterly Report on Form 10-Q for the quarter ended April 30, 2006 and July 31, 2006 and Current Reports on Form 8-K. 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: November 29, 2006

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