

TIVO INC
Form 8-K
March 08, 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) March 8, 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.)

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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 March 8, 2006 we announced financial results for our fourth quarter ended January 31, 2006. Service and technology revenues for the quarter increased 37% to \$47.0 million, compared with \$34.2 million for the same prior year period. Net loss for the quarter was (\$19.5) million or (\$0.23) per share, compared to a net loss of (\$33.7) million, or (\$0.42) per share, for the three months ended January 31, 2005.

Our total subscriptions reached almost 4.4 million, with the addition of 356,000 total new subscriptions in the quarter. TiVo-Owned subscription gross additions were 221,000 for the quarter, compared to 276,000 in the fourth quarter of last year. TiVo-Owned subscription net additions were 183,000 compared to 251,000 in the fourth quarter of last year. The installed base of DIRECTV subscriptions is now approximately 2.9 million with the addition of 173,000 new DIRECTV subscriptions in the quarter. We also announced, effective next week, the elimination of the product lifetime service option for new subscribers.

TIVO INC.**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS****(In thousands, except per share data)****(unaudited)**

| | Three Months Ended January 31, | | Twelve Months Ended January 31, | |
|---|---------------------------------------|--------------------|--|--------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Service revenues | \$ 46,305 | \$ 32,996 | \$ 167,194 | \$ 107,166 |
| Technology revenues | 663 | 1,169 | 3,665 | 8,310 |
| Service and Technology revenues | 46,968 | 34,165 | 170,859 | 115,476 |
| Hardware revenues | 32,266 | 50,452 | 72,093 | 111,275 |
| Rebates, revenue share, and other payments to channel | (19,167) | (25,188) | (47,027) | (54,696) |
| Net revenues | 60,067 | 59,429 | 195,925 | 172,055 |
| Cost of service revenues | 10,250 | 10,426 | 34,179 | 29,360 |
| Cost of technology revenues | (121) | 440 | 782 | 6,575 |
| Cost of hardware revenues | 37,267 | 52,267 | 84,216 | 120,323 |
| Gross margin | 12,671 | (3,704) | 76,748 | 15,797 |
| Research and development | 10,693 | 11,206 | 41,087 | 37,634 |
| Sales and marketing | 10,637 | 11,529 | 35,047 | 37,367 |
| General and administrative | 11,769 | 4,194 | 38,018 | 16,593 |
| Loss from operations | (20,428) | (30,633) | (37,404) | (75,797) |
| Interest and other income (expense), net | 899 | (3,006) | 3,070 | (3,911) |
| Provision for taxes | (13) | (26) | (64) | (134) |
| Net loss attributable to common stockholders | \$ (19,542) | \$ (33,665) | \$ (34,398) | \$ (79,842) |
| Net loss per common share - basic and diluted | \$ (0.23) | \$ (0.42) | \$ (0.41) | \$ (0.99) |
| Weighted average common shares used to calculate basic and diluted net loss per share | 84,643,094 | 80,792,542 | 83,682,575 | 80,263,980 |

TIVO INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(unaudited)

| | January 31, 2006 | January 31, 2005 |
|---|------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents, and short-term investments | \$ 104,213 | \$ 106,345 |
| Accounts receivable | 20,111 | 25,879 |
| Finished goods inventories | 10,939 | 12,103 |
| Prepaid expenses and other, current | 11,069 | 4,476 |
| Total current assets | 146,332 | 148,803 |
| LONG-TERM ASSETS | | |
| Property and equipment, net | \$ 9,448 | \$ 7,780 |
| Capitalized software and intangible assets, net | 5,206 | 2,231 |
| Prepaid expenses and other, long-term | 623 | 1,238 |
| Total long-term assets | 15,277 | 11,249 |
| Total assets | \$ 161,609 | \$ 160,052 |
| LIABILITIES AND STOCKHOLDERS DEFICIT | | |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Bank line of credit | \$ | \$ 4,500 |
| Accounts payable | 24,050 | 18,736 |
| Accrued liabilities | 37,449 | 33,173 |
| Deferred revenue, current | 57,902 | 42,017 |
| Total current liabilities | 119,401 | 98,426 |
| LONG-TERM LIABILITIES | | |
| Deferred revenue, long-term | 67,575 | 63,131 |
| Deferred rent and other | 1,404 | 1,187 |
| Total long-term liabilities | 68,979 | 64,318 |
| Total liabilities | 188,380 | 162,744 |
| 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: | 85 | 82 |
| Authorized shares are 150,000,000 | | |
| Issued and outstanding shares are 85,376,191 and 82,280,876, respectively | | |
| Additional paid-in capital | 667,055 | 654,746 |
| Deferred compensation | (2,421) | (428) |
| Accumulated deficit | (691,490) | (657,092) |
| Total stockholders deficit | (26,771) | (2,692) |

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| | | | | |
|---|----|---------|----|---------|
| Total liabilities and stockholders' deficit | \$ | 161,609 | \$ | 160,052 |
|---|----|---------|----|---------|

TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

| | Three Months Ended January 31, 2006 | | Twelve Months Ended January 31, 2005 | |
|--|-------------------------------------|-------------|--------------------------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net loss | \$ (19,542) | \$ (33,665) | \$ (34,398) | \$ (79,842) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | | |
| Depreciation and amortization of property and equipment and intangibles | 1,756 | 1,242 | 6,345 | 4,896 |
| Loss on disposal of fixed assets | | 3 | 2 | 13 |
| Non-cash interest expense | | 3,438 | | 4,854 |
| Recognition of stock-based compensation expense | 338 | 253 | 386 | 1,056 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable, net (change includes \$1,500 from related parties for the year ended January 31, 2005) | 9,481 | (721) | 5,768 | (13,748) |
| Finished goods inventories | 10,243 | 24,331 | 1,164 | (3,537) |
| Prepaid expenses and other, current (change includes \$2,832 to related parties for the year ended January 31, 2005) | (3,050) | 267 | (6,593) | 157 |
| Prepaid expenses and other, long-term (change includes \$3,268 to related parties for the year ended January 31, 2005) | 129 | 476 | 615 | 2,641 |
| Accounts payable | (10,797) | (6,407) | 5,314 | 3,708 |
| Accrued liabilities (change includes \$(880) to related parties for the year ended January 31, 2005) | 6,903 | 8,419 | 4,276 | 17,354 |
| Deferred revenue, current (change includes \$(1,814) from related parties for the year ended January 31, 2005) | 10,536 | 6,732 | 15,885 | 7,765 |
| Deferred revenue, long-term | 9,180 | 12,958 | 4,444 | 17,096 |
| Deferred rent and other long-term liabilities | 510 | 461 | 217 | 373 |
| Net cash used in operating activities | \$ 15,687 | \$ 17,787 | \$ 3,425 | \$ (37,214) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchases of short-term investments | (10,127) | (3,400) | (15,502) | (23,150) |
| Sales of short-term investments | 5,062 | 2,025 | 15,687 | 9,075 |
| Acquisition of property and equipment | (3,178) | (423) | (7,075) | (3,924) |
| Acquisition of capitalized software and intangibles | | (100) | (3,915) | (100) |
| Net cash used in investing activities | \$ (8,243) | \$ (1,898) | \$ (10,805) | \$ (18,099) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Borrowing under bank line of credit | | 4,500 | 3,500 | 4,500 |
| Payments to bank line of credit | | | (8,000) | |
| Payment of redemption of convertible notes payable | | (4,250) | | (4,250) |
| Proceeds from issuance of common stock related to employee stock purchase plan | 680 | | 2,922 | 2,409 |
| Proceeds from issuance of common stock related to exercise of common stock options | 568 | 299 | 7,011 | 1,689 |
| Net cash provided by financing activities | \$ 1,248 | \$ 549 | \$ 5,433 | \$ 4,348 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | \$ 8,692 | \$ 16,438 | \$ (1,947) | \$ (50,965) |

TIVO INC.

OTHER DATA

Subscriptions

| (Subscriptions in thousands) | Three Months Ended January 31, | | Twelve Months Ended January 31, | |
|---|--------------------------------|--------------|---------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| TiVo-Owned Subscription Gross Additions | 221 | 276 | 494 | 555 |
| Subscription Net Additions: | | | | |
| TiVo-Owned | 183 | 251 | 350 | 485 |
| DIRECTV | 173 | 447 | 1,013 | 1,184 |
| Total Subscription Net Additions | 356 | 698 | 1,363 | 1,669 |
| Cumulative Subscriptions: | | | | |
| TiVo-Owned | 1,491 | 1,141 | 1,491 | 1,141 |
| DIRECTV | 2,873 | 1,860 | 2,873 | 1,860 |
| Total Cumulative Subscriptions | 4,364 | 3,001 | 4,364 | 3,001 |
| % of TiVo-Owned Cumulative Subscriptions paying recurring fees | 51% | 50% | 51% | 50% |

Included in the 4,364,000 subscriptions are approximately 100,000 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 January 31, | | Twelve Months Ended January 31, | |
|--|--------------------------------|--------------|---------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| | (In thousands) | | | |
| Average TiVo-Owned subscriptions | 1,388 | 995 | 1,269 | 819 |
| TiVo-Owned subscription cancellations | (38) | (25) | (144) | (69) |
| Number of Months | 3 | 3 | 12 | 12 |
| TiVo-Owned Churn Rate per month | -0.9% | -0.8% | -0.9% | -0.7% |

TiVo-Owned Churn Rate. Management reviews this metric, and believes it may be useful to investors, in order to evaluate our ability to retain existing subscribers by providing compelling services that are competitive in the market. We define the TiVo-Owned Churn Rate as the TiVo-Owned subscription (including both monthly and product lifetime subscriptions) cancellations per month in the period divided by the average TiVo-Owned subscriptions for the period. We calculate average subscriptions by adding the average subscriptions for each month and dividing by the number of months in the period. We calculate average 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 January 31, | | Twelve Months Ended January 31, | |
|---|--------------------------------|---------------|---------------------------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| | (In thousands, except SAC) | | | |
| Sales and marketing expenses | \$ 10,637 | \$ 11,529 | \$ 35,047 | \$ 37,367 |
| Rebates, revenue share, and other payments to channel | 19,167 | 25,188 | 47,027 | 54,696 |
| Hardware revenues | (32,266) | (50,452) | (72,093) | (111,275) |
| Cost of hardware revenues | 37,267 | 52,267 | 84,216 | 120,323 |
| Total Acquisition Costs | 34,805 | 38,532 | 94,197 | 101,111 |
| TiVo-Owned Subscription Gross Additions | 221 | 276 | 494 | 555 |
| Subscription Acquisition Costs (SAC) | \$ 157 | \$ 140 | \$ 191 | \$ 182 |

Subscription Acquisition Cost (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 divided by TiVo-Owned subscription gross additions. 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). As a result of the seasonal nature of our subscription growth, our SAC varies significantly during the year. Management primarily reviews this metric on an annual basis due to the timing difference between our recognition of promotional program expense and the subsequent addition of the related subscription acquisition. Accordingly, we are presenting SAC on a trailing twelve months basis as well in order to show SAC over the longer-term. 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 January 31, 2006 | | Twelve Months Ended January 31, 2005 | |
|---|-------------------------------------|---------------|--------------------------------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| | (In thousands, except ARPU) | | | |
| Service and Technology revenues | \$ 46,968 | \$ 34,165 | \$ 170,859 | \$ 115,476 |
| Less: Technology revenues | (663) | (1,169) | (3,665) | (8,310) |
| Total Service revenues | 46,305 | 32,996 | 167,194 | 107,166 |
| Less: DIRECTV-related service revenues | (9,602) | (6,762) | (32,788) | (21,071) |
| TiVo-Owned-related service revenues | 36,703 | 26,234 | 134,406 | 86,095 |
| Average TiVo-Owned revenues per month | 12,234 | 8,745 | 11,201 | 7,175 |
| Average TiVo-Owned per month subscriptions | 1,388 | 995 | 1,269 | 819 |
| TiVo-Owned ARPU per month | \$ 8.82 | \$ 8.79 | \$ 8.83 | \$ 8.76 |

| DIRECTV Average Revenue per Subscription | Three Months Ended January 31, 2006 | | Twelve Months Ended January 31, 2005 | |
|---|-------------------------------------|---------------|--------------------------------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| | (In thousands, except ARPU) | | | |
| Service and Technology revenues | \$ 46,968 | \$ 34,165 | \$ 170,859 | \$ 115,476 |
| Less: Technology revenues | (663) | (1,169) | (3,665) | (8,310) |
| Total Service revenues | 46,305 | 32,996 | 167,194 | 107,166 |
| Less: TiVo-Owned-related service revenues | (36,703) | (26,234) | (134,406) | (86,095) |
| DIRECTV-related service revenues | 9,602 | 6,762 | 32,788 | 21,071 |
| Average DIRECTV revenues per month | 3,201 | 2,254 | 2,732 | 1,756 |
| Average DIRECTV per month subscriptions | 2,818 | 1,622 | 2,376 | 1,154 |
| DIRECTV ARPU per month | \$ 1.14 | \$ 1.39 | \$ 1.15 | \$ 1.52 |

Average Revenue Per Subscription (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, and, 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 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 decrease in ARPU per month for DIRECTV is the result of the large addition of new DIRECTV subscriptions. While these more recent DIRECTV subscription additions offer lower recurring revenues than subscriptions added during earlier phases of our DIRECTV relationship, they result in more attractive percent margins in our financial results because they generally involve limited or no acquisition costs and lower recurring expenses.

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.

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 Factors That May Affect Future Operating Results 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, 2005 and Quarterly Report on Form 10-Q for the three months ended April 30, 2005, July 31, 2005, and October 31, 2005. 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: March 8, 2006

By: /s/ David H. Courtney
David H. Courtney
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)