

TIVO INC
Form 10-K
March 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K

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

For the fiscal year ended January 31, 2014

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 (IRS Employer
incorporation or organization) Identification No.)

2160 Gold Street, San Jose, CA 95002
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, \$.001 PAR VALUE PER SHARE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

The aggregate market value of the registrant's common stock, \$0.001 par value per share, held by non-affiliates of the registrant on July 31, 2013, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1.3 billion (based on the closing sales price of the registrant's common stock on that date as reported in the Nasdaq Global Market). Shares of the registrant's common stock held by each officer and director and each person that controls, is controlled by or is under common control of the registrant have been excluded in that such persons may be deemed to be affiliates. This calculation does not exclude shares held by such organizations whose ownership exceeds 5% of the registrant's outstanding common stock that the registrant believes are registered investment advisers or investment companies registered under section 8 of the Investment Company Act of 1940. This determination of affiliate status is not a determination for other purposes.

On February 28, 2014, the Registrant had 120,691,616 outstanding shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant's definitive proxy statement (the "Proxy Statement") for the 2014 Annual Meeting of Shareholders to be filed on or before May 31, 2014.

TIVO INC.
 FORM 10-K
 For the Fiscal Year Ended January 31, 2014

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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.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K 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 financial results, our expectations of future revenues and profitability;
- our intention and ability to protect our intellectual property in the future and the strength and future value of our intellectual property;
- our expectations regarding future capital allocation activities including share buy-backs, mergers and acquisitions, and other alternative capital distribution activities;
 - with respect to our TiVo-Owned retail subscriptions, our future investments in subscription acquisition activities, future advertising expenditures, hardware costs and associated hardware subsidies, and other sales and marketing activities, including our sales and marketing, subscription acquisition cost (SAC), and average revenue per subscription (ARPU);
- with respect to our TiVo-Owned retail subscriptions, our estimates of the useful life of TiVo-enabled digital video recorders (DVRs) in connection with the recognition of revenue received from product lifetime subscriptions and the expected future increase in the number of fully-amortized TiVo-Owned product lifetime subscriptions, and our estimates of the effects of product lifetime subscriptions on churn;
- our expectations regarding the seasonality of our business and subscription additions to the TiVo service;
- our expectations regarding future growth in subscriptions to the TiVo service and TiVo-Owned and television service operators (MSO) ARPUs, including future increases in the MSO subscription base through international expansion and the possibility of future decreases in the TiVo-Owned subscription base;
- our expectations regarding future advertising and audience research and measurement revenues;
- our future service and hardware revenues from TiVo-Owned subscriptions and future service, technology and hardware revenues from MSOs;
- our expectations regarding growth in the future advanced television services market for our services, software, and technology for both our hardware and in-home and outside-of-the-home cloud-based solutions, which will be impacted by alternatives to and competitors with our products, such as broadband content delivered by MSOs to their customers' computers and mobile devices (TV Everywhere), video delivered on demand to a MSO customers' set-top box (VOD), and network DVRs;
- our expectations regarding continued regulatory required access to and installation and operational issues surrounding cable-operator provided CableCARDS™ and switched digital devices essential for TiVo consumer devices in cable homes;
- our expectations that in the future we may also offer services for additional non-DVR products beyond TiVo Preview and Mini, for example, that may or may not incorporate the TiVo user interface;

- our expectations of the future decrease in hardware revenues and hardware margin as our U.S. MSO customers transition their hardware purchases to third party hardware manufacturers such as Pace and our belief that this will enable us to gain additional MSO subscriptions;
- our expectations of the growth of the TiVo service and technology outside the United States;
- our expectations regarding a future decrease in the amount of our research and development spending and our associated ability to remain a competitive technology innovator and invest significant resources in advanced television solutions beyond the DVR;
- our expectations regarding future increases in the amount of deferred expenses in costs of technology revenues related to development work for our television distribution partners and our ability to receive revenues equal to or greater than such deferred expenses from such television distribution partners;
- our expectations regarding future changes in our operating expenses, including changes in general and administrative expenses, litigation expenses, sales and marketing and subscription acquisition costs;
- our expectations regarding our ability to oversee outsourcing of our manufacturing processes and engineering work and our ability to support the hardware, inventory, and hardware customization needs of our MSO customers;
- our expectations regarding the usability of our finished goods inventory of DVRs and non-DVR products and the risks that hardware forecasts of our MSO customers may be reduced or delayed after we have committed manufacturing resources due to long lead times, which may require us to record additional write-downs if such inventory exceeds forecasted demand;
- our expectations that in the future we may offer streaming content to Android devices;
- our expectations regarding our ability to perform or comply with laws, regulations, and requirements different than those in the United States; and
- our expectations and estimates related to long-term investments and their associated carrying value.

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 I, Item 1A. “Risk Factors” in this 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 annual report, and we undertake no obligation to publicly update or revise any forward-looking statements in this annual report. The reader is strongly urged to read the information set forth under the caption Part I, Item 1, “Business” and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Part I, Item 1A, “Risk Factors” for a more detailed description of these significant risks and uncertainties.

PART I.

ITEM 1.

BUSINESS

The Company

The TiVo service redefines home entertainment by providing consumers with an easy intuitive experience for accessing video content delivered from multiple sources and for consuming that content on a variety of devices both in and out of home. We are a leading provider of software, services and technology that enable the distribution and management of video content through set-top boxes (STBs) and an increasing variety of consumer electronic applications and devices, such as smartphones and tablets. We offer a full whole-home solution that includes 4-Tuner and 6-Tuner digital video recorders (DVRs)/gateways, IP STBs, and streaming to mobile and tablet iOS devices (with Android devices coming soon) with features such as What to Watch Now, Season Pass® recordings, integrated search (including content from both traditional linear television, cable VOD, and leading broadband sources such as Netflix, Hulu Plus, and Amazon Instant Video in one user interface), access to broadband video content, TiVo Online/Mobile Scheduling and applications on third-party devices such as tablet computers and smartphones.

We distribute TiVo devices through consumer electronics retailers and through our on-line store at TiVo.com.

Additionally, in our MSO or Pay TV business, we generate service and hardware revenues by providing the TiVo service through agreements with leading satellite and cable television service providers and broadcasters on Pay TV provisioned STBs (both through TiVo supplied and third-party supplied STBs) and other devices. We recently acquired Digitalsmiths, one of the U.S. Pay TV industry's most broadly adopted cloud based search and recommendation services.

We generate revenues primarily from four sources:

- Consumer Service. One of our largest sources of revenues is from consumers in our direct to consumer business, who subscribe to the TiVo service directly with us and typically pay us monthly fees, or in some cases pay for TiVo service for the life of their product upfront, which we report as our TiVo-Owned service subscriptions. We sell our DVRs and other products to consumers through distribution relationships with major retailers and directly to consumers through TiVo.com.
- Television Service Providers or MSOs or Pay TV. We work with television service providers, which we also refer to as MSOs, who typically pay us recurring monthly fees in order to provide the TiVo service to their subscribers either as their primary user interface or in some cases as an optional premium service. We may also receive revenues for licensing and professional services and hardware sales from these customers. This revenue source has continued to grow and we expect it to be a larger percentage of our total revenue in the future. Additionally, we recently acquired Digitalsmiths, which receives revenues from Pay TV providers, consumer electronic manufacturers and content providers.
- Advertising and Research Services. We work directly with television advertisers, agencies, and networks to offer a variety of solutions for television advertising and audience measurement. These include short- and long-form interactive video advertising, lead generation, and commerce as well as unique second-by-second audience research measurement that combines television viewing data and in some instances Internet viewing data with purchase activity or demographic attributes.
- Licensing. We derive revenues from our licensing agreements associated with our litigation settlements. In connection with settlements of litigation, TiVo has entered into agreements with DISH Network Corporation (DISH), AT&T Inc. (AT&T), Verizon Communications, Inc.(Verizon), ARRIS Group, Inc. (Arris) (owner of General Instrument Corporation, formerly a subsidiary of Motorola Mobility, Inc.), Cisco Systems, Inc. (Cisco), and Google Inc. (Google) (owner of Motorola Mobility, LLC formerly Motorola Mobility, Inc.) (with the settlements with Arris, Google, and Cisco referred to as the Motorola/Cisco settlement) in which we provide rights to use certain TiVo patents.

We continue to be subject to a number of risks, including intellectual property claims by and against us and the related costs of such intellectual property litigation; continued need for significant research and development and the related costs of such research and development activities; delays in product and service developments; competitive service offerings; lack of market acceptance; dependence on third-parties for manufacturing, marketing, and sales support, as well as third-party rollout schedules and software development issues related to third-party products which contain our technology; access to television programming including digital cable signals in connection with CableCARD™ and switched digital technologies; dependence on our relationships with third-party service providers for our MSO

subscription growth; and our ability to maintain our TiVo-Owned subscription base and consumer service business.

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We conduct our operations through one reportable segment. See Part II, Item 6, Selected Financial Data for our historical financial results. In our fiscal year ended January 31, 2014, we had net income of \$271.8 million and cash provided by operating activities was \$495.0 million, which was primarily driven by the Motorola/Cisco litigation settlement and licensing agreement. As of January 31, 2014, we had an accumulated deficit of \$(410.5) million. We anticipate that our TiVo-Owned business will continue to be seasonal and expect to generate a significant number of our new TiVo-Owned subscriptions during and immediately after the holiday shopping season. We remain cautious about our ability to maintain our current number of TiVo-Owned subscriptions in our fiscal year ending January 31, 2015, despite improving trends in TiVo-Owned subscription gross additions driven by the launch of TiVo Roamio. While we anticipate growth in our MSO subscription base from our deployments with television service providers, we may not immediately achieve a corresponding increase in service revenues and margin expansion from the fees these subscriptions generate because these fees will be first classified as technology revenues until we recoup our initial development expenditures under our current zero margin arrangements, including with Com Hem AB (Com Hem), and Cableuropa S.A.U. (ONO). See the discussion in Part I, Item 1A. Risk Factors, relating to risks related to our business, including risks specific to our deployments with our television service provider customers.

Our Industry

Evolution of Advanced Television Services. TiVo revolutionized television viewing when it introduced the DVR, allowing consumers to enjoy an on-demand experience. Since then, DVR adoption has grown rapidly and consumers have come to expect a great deal of flexibility and convenience in their consumption of entertainment. Our DVR products proved that the television entertainment experience could be significantly improved by removing the limitations of linear, appointment based viewing.

The emergence of VOD and content options delivered through cable and broadband connections (or so called over-the-top content (OTT)) is once again revolutionizing the way people consume video entertainment. The rapid growth of broadband video means a virtually infinite world of content choices now exists along with much greater convenience in how and when that content is viewed. The rapid proliferation of content requires a solution to effectively suggest, search, navigate, and access the growing volume of broadcast, cable, and VOD from the Internet and cable providers including television shows, movies, user generated videos, music, and other personal content including photos and home videos. In addition, proliferation of new consumption devices like tablets and entertainment-oriented smartphones creates additional demand for solutions that enable viewing when and where convenient for the user across multiple screens.

Advanced Television Technology as a Competitive Asset. Virtually all of the major television service providers in the United States are offering DVR technology to their customers. In addition, some are developing strategies to address (albeit in very diverse ways) the proliferation of broadband video and alternate devices such as tablet devices and TV Everywhere. Some of these companies have indicated they consider such services a competitive tool to help differentiate their pay television services by offering their customers more programming features. We believe that the combination of our award winning, easy-to-use interface and famous brand, hosted services, and customized advanced television solutions can make the advantages of this advanced TV technology available to the large number of operators who cannot afford to develop these technologies in house.

The Changing Television Advertising & Audience Measurement Industry. The decline of live linear television viewing, which is now only approximately 40% of viewing on the TiVo platform, along with the proliferation of additional content choices is requiring television advertisers to evaluate new and different ways to reach consumers and measure their interactions with content and advertising. The DVR and other new consumer electronic devices which access broadband video have given viewers the freedom to view content when they want; and this time shifting has made it more difficult for advertisers to be assured that their commercials will be viewed by audiences at the regularly scheduled time the program is aired by network or local television stations. DVRs, in particular, allow viewers the freedom to fast-forward through all or a portion of commercial advertising incorporated into television and other programs, which means that advertisers are not assured that their commercials will be viewed at all. TiVo offers other programming options, such as video delivered by broadband to the television, which may result in further audience fragmentation.

In addition, subject to its privacy policy and applicable laws, TiVo collects data from its own and third-party set-top boxes that allows it to measure the viewing of television programs and commercials in a manner that we believe is

significantly more accurate and insightful than the traditional approach to television measurement practiced by companies like Nielsen Media. This traditional approach is gradually being supplemented by additional alternate forms of measurement which we are uniquely positioned to provide. TiVo uses second-by-second viewing data from a large national sample of our set-top boxes to create highly detailed statistics which are not subject to the limitations of Nielsen's minute by minute approach and program-based ratings.

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Our Strategy

We believe we have created a unique set of technologies, products, and services that meet the needs of consumers, television service providers, and the advertising community. Our goal is to change the way consumers access and watch linear television, on-demand television, and broadband video by offering a best in class user experience and search and discovery services to generate revenue through the licensing of both our TiVo branded services and technology and non-branded services and technology delivered by Digitalsmiths to television viewing households worldwide.

Provide Compelling, Easy-to-Use Consumer Offering. Our advanced television solutions have an easy, intuitive user interface and many features that we believe dramatically improve a consumer's television viewing experience. Our advanced television solutions can support linear television delivered through analog cable, digital cable, satellite, from the cloud, or over-the-air, television service provider VOD, and broadband video. Our technology enables consumers to find and watch their favorite content, whether it is on TV, VOD, or broadband, and helps them discover new programming through features that search and browse for content by subject, title, genre, actor, director, or channel, enjoy access to extra content via broadband and comprehensive episode guides, as well as suggesting programs that consumers may like through a variety of TiVo recommendation features.

Offer Increasingly Differentiated Features and Services. Our goal is to lead the market with innovations that expand the value and potential of our advanced television services. We plan to continue to invest significant resources in innovation to improve consumer choice, convenience, and control over their home entertainment and to make our services more compelling for both current and potential customers. For example, we have launched TiVo products and applications for Android-enabled smart phones and tablets and iOS-enabled smartphones and tablets that allow viewers to control their set-top boxes as well as, currently with respect to iOS-enabled devices and in the future with respect to Android-enabled devices, to consume video both inside and outside the home. We continue to update the TiVo service with new audio and video applications such as Spotify and Hulu. These applications give consumers a much richer and more powerful way to explore all of the content available to them and expand the population of devices upon which we can deploy our services. We expect that a significant portion of our future product development efforts will be focused on broadband functionality, enabling the TiVo experience on additional consumer device and screens, cloud-based services, personalization, and integration of new discovery paradigms like social network recommendations.

Develop Solutions for Television Service Providers. Part of our strategy focuses on developing versions of the TiVo service that can be deployed by third-parties (typically television service providers) in conjunction with TiVo and third-party designed set-top boxes and other consumer electronic devices such as tablets in order to promote the mass deployment of devices utilizing our technology. For example, we are able to deliver a set-top box product to our television service provider customers that combines within one integrated user interface: on-demand viewing of linear broadcast television delivered by the television service provider through a built in DVR; access to on-demand viewing of a television service provider's own VOD service; and access to broadband delivered content (or so called over-the-top content). Additionally, we believe our retail business uniquely positions us versus other vendors to license our technology to television service providers as we understand consumer behavior first-hand and are able to innovate at a faster pace. It allows us to leverage our research and development across our direct to consumer products as well as our products and services provided to television service providers.

Extend TiVo Products Beyond the U.S. Market. We also believe there is a large opportunity to deploy the TiVo service and technology outside the United States. For example, in the United Kingdom, Virgin Media (Virgin), the United Kingdom's largest cable operator, recently connected its two millionth TiVo customer. To date, we have MSO subscriptions to the TiVo service in the geographies of Australia, Mexico, New Zealand, Spain, Sweden, and Taiwan as well. Our solutions have the ability to integrate broadband offerings for cable, satellite, and over-the-air television service providers and our strategy is to sign additional international partnerships and distribution agreements in the future. Typically, the parties distributing the TiVo service under these agreements are subject to significant deployment and marketing commitments.

Extend the TiVo Service to the Cloud. TiVo has been transitioning its service to the cloud over the past several years, and allowing TiVo to offer its products on a multitude of devices beyond the set-top box. Further, TiVo is in the process of developing a network DVR service, which will allow Pay TV to offer storage in the cloud reducing their

expenditures on hardware, allowing recorded shows to be delivered to more devices, and enabling features and controls for both consumers and operators that weren't possible with a set-top box based DVR. Additionally, the recent acquisition of Digitalsmiths enables TiVo to offer elements of its service through non-TiVo branded user experiences.

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Extend and Protect Our Intellectual Property. The convenience, control, and ease of use of the TiVo service is derived largely from the technology we have developed.

We have adopted a proactive patent and trademark strategy designed to protect and extend our technology and intellectual property. We have filed patent applications relating to numerous inventions resulting from TiVo research and development, including many critical aspects of the design, functionality, and operation of TiVo products and services as well as technology that we may incorporate in future products and services.

We have engaged in significant intellectual property litigation with certain television service and technology providers in the United States to protect our technology from infringement. To date, we have received cash and future technology revenue payment commitments totaling over \$1.6 billion from intellectual property litigation.

Generate Revenue from Advertising and Audience Research Capabilities. We offer interactive advertising capabilities to advertisers, advertising agencies, and broadcast networks. Our advertising products include detailed anonymous aggregated reporting on actual viewing and screen-by-screen interaction by consumers. We offer our advertisers compelling interactive products such as branded long-form videos (Showcases) that can include requests for information and customizable applications. We also offer the ability to enhance existing television commercials with interactive tags, enabling consumers to pause television and explore additional advertising content. We plan to continue to develop and enhance our interactive advertising capabilities in the future to generate additional revenues as well as provide us with additional information to help us improve and enhance the TiVo service for our customers. We also offer audience research and measurement products through our subsidiary, TiVo Research and Analytics, Inc. (TRA), whose customers include advertisers, agencies, and broadcast and cable networks. These customers use TRA's software and advanced data analytics which match TV tuning and purchase data in order to optimize advertising to the right audience. We believe this creates ad placement efficiency, drives more product sales for brands, and a higher return on media investment for advertisers while increasing advertising revenues for networks. We plan to continue to develop and enhance our measurement capabilities to generate additional revenues and provide additional innovative solutions, such as crossmedia measurement products.

Our Technology

We have developed a technology portfolio that makes the TiVo service available on a standalone retail DVR product line that is capable of receiving over-the-air digital signals, analog cable, digital cable through the use of CableCARDS™, and from broadband video sources. The TiVo service is also deployed directly by U.S. satellite and cable operators such as DIRECTV, Grande, RCN, Suddenlink, GCI, Mediacom, Midcontinent Communications (Midco), CableONE, Atlantic Broadband (ABB) and others and internationally, such as with Virgin , ONO, and Com Hem. Our strategy is to sign additional distribution agreements to make the TiVo service available on additional set-top boxes and other devices such as tablets or computers and in the future connected televisions and game consoles. We believe that our commitment to research and development will allow us to continue to innovate new products for our customers, even while we continue to focus on managing and reducing our overall research and development expenses from fiscal year 2014. TiVo's technology for enabling the TiVo service includes: the TiVo service client software platform, the TiVo service infrastructure, and TiVo-enabled hardware designs.

TiVo Service Client Software. The TiVo service client software functions on set-top boxes, tablets, and mobile devices which run the TiVo software. We have enhanced the client software to support multiple services and applications, such as receipt of broadband video content, digital music, and photos. The TiVo client software manages interaction with the TiVo service infrastructure in the cloud. After the initial set-up of the TiVo service, the TiVo-enabled set-top box will automatically connect to the TiVo service infrastructure over broadband connection to download the program guide data, client software upgrades, advertising content, and other broadband content. We have also enabled the TiVo service client software to operate on certain commonly used integrated third-party set-top boxes, such as on a Cisco, Samsung, and Pace manufactured set-top boxes.

TiVo Service Infrastructure. The TiVo service infrastructure operates the TiVo service, managing the distribution of proprietary services, and specialized content such as program guide data, interactive advertising, and TiVo client software upgrades. It interfaces with our billing and customer support systems for service authorization and bug tracking, among other activities. In addition, the TiVo service infrastructure collects anonymous viewing information uploaded from TiVo-enabled set-top boxes for use in recommendations and personalization, and our audience research measurement efforts. The infrastructure has also been designed to work with the networks of service provider

customers.

TiVo-Enabled Hardware Design. The TiVo-enabled hardware designs, including our latest TiVo Roamio line up of DVRs and TiVo Mini non-DVR set-top-boxes, are specifications developed by TiVo for set-top boxes and other

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devices. We provide this design to our contract manufacturer that produces TiVo-branded hardware. The TiVo-enabled hardware design includes a modular front-end that allows the basic platform to be used for digital and analog broadcast, digital and analog cable, broadband and in some cases VOD. In addition, the TiVo-enabled hardware design allows for connection to broadband networks and external devices to enable existing and future services. We believe that the TiVo-enabled hardware design and our lack of dependence on third-party hardware design, which can delay time to market, allows us to innovate our client software at a faster pace.

Significant Relationships

DIRECTV. DIRECTV is the largest provider of satellite television in the U.S. We have had a longstanding relationship with DIRECTV from 1999 to the present to provide the TiVo service to DIRECTV's customer base. As of January 31, 2014, DIRECTV was our largest MSO customer by revenue, but no longer represents a meaningful portion of our 3.2 million MSO subscription base. Historically, DIRECTV has paid us a recurring monthly per-household fee for access to the technology needed to provide its customers the TiVo service subject to an aggregate minimum monthly amount. However, due to the decline in the number of DIRECTV MSO subscriptions in recent years, in fiscal year 2014, we recognized the monthly minimum amount each month during the entire year. We incur limited recurring expenses related to the DIRECTV relationship.

On September 3, 2008, we extended our agreement with DIRECTV. The fees paid by DIRECTV are subject to monthly minimum payments that escalate during the term of the agreement (which expires on February 15, 2015, unless extended until February 15, 2018 by DIRECTV) and the revenues from DIRECTV are material to TiVo's net income.

Customer Service and Support

For our TiVo-Owned service, we provide customer support through outsourced service providers as well as our internal customer service personnel. In most cases, when our product is distributed through a television service provider (such as DIRECTV, Grande, ONO, RCN, Suddenlink, GCI, and Virgin) the service provider is primarily responsible for customer support. We may provide training and other assistance to these service providers. Individual customers have access to an Internet-based repository for technical information and troubleshooting techniques. They also can obtain support through other means such as the TiVo website, web forums, email, and telephone support.

We offer a manufacturer's warranty of 90 days for labor and one year for parts on the DVRs TiVo manufacturers which enable our TiVo-Owned subscriptions. We contract with third-parties to handle warranty repair. Warranties provided to service providers who distribute TiVo hardware vary in length depending on the pricing paid by the buyer.

Research and Product Development

Our research and development efforts are focused on designing and developing the elements necessary to enable the TiVo service. These activities include hardware and software development.

| | Fiscal Year Ended January 31, | | |
|-----------------------------------|-------------------------------|---------|---------|
| | 2014 | 2013 | 2012 |
| | (in millions) | | |
| Research and Development Expenses | \$106.9 | \$115.1 | \$110.4 |

We decreased the number of our regular, temporary, and part-time employees engaged in research and development between January 31, 2013 and January 31, 2014 as we were able to release a number of products last fiscal year and continued to focus on efficiency in our research and development expenditures. In the fiscal year ending January 31, 2015, we currently expect our research and development expense to decrease from fiscal year 2014 levels as we benefit from a full year of efficiencies gained in the fiscal year ended January 31, 2014 and continue to focus on incremental research and development spend efficiencies.