TIVO INC
Form 10-Q
December 11, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to__________

Commission file number 000-27141

TIVO INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices including zip code)

(408) 519-9100

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x.

The number of shares outstanding of the registrant s common stock, $0.001 par value, was 96,776,496 as of November 29, 2006.

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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. a
consolidated subsidiaries.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended, and section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to, among other things:

- our future investments in subscription acquisition activities, including rebate offers to consumers, offers of bundled hardware and service subscriptions, advertising expenditures, and other marketing activities;
- our future earnings including expected future service, technology, and hardware revenues;
- possible future impact of our change in accounting policy regarding our bundled sales program;
- our financial results, and expectations for profitability in the future;
- possible future increases in our general and administrative expenses, including expenditures related to lawsuits involving us such as the EchoStar patent infringement cases;
- possible future increases in our operating expenses, including increases in customer support and retention expenditures;
- future subscription growth of both TiVo-Owned and third party service provider subscriptions (such as DIRECTV, Comcast, and Cox);
- our estimates of the useful life of TiVo-enabled DVRs in connection with the recognition of revenue received from product lifetime subscriptions;
- consumer rebate redemption rates and sales incentive programs;
- our intentions to continue to grow the number of TiVo-Owned subscriptions through our relationships with major retailers;
- our expectations related to future increases in advertising and audience measurement research revenues;
- our expectations related to changes in the cost of our hardware revenues and the reasons for changes in the volume of DVRs sold to retailers;
- our ability to fund operations, capital expenditures, and working capital needs during the next year; and
- our ability to raise additional capital through the financial markets in the future.

Forward-looking statements generally can be identified by the use of forward-looking terminology such as believe, expect, may, will, intend, estimate, continue, ongoing, predict, potential, and anticipate or similar expressions or the negative of those terms or expressions. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from those expressed or implied by such forward-looking statements. Such factors include, among others, the information contained under the caption Part II, Item 1A, Risk Factors in this and our preceding quarterly reports and contained under the caption Part I, Item 1A Risk Factors in our most recent annual report on Form 10-K. The reader is cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as of the date of this quarterly report and we undertake no obligation to publicly update or revise any forward-looking statements in this quarterly report. The reader is strongly urged to read the information set forth under the caption Part I, Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operation and Part II, Item 1A Risk Factors in this quarterly report and our quarterly reports for the quarters ended April 30, 2006 and July 31, 2006, and in Part I, Item 1A Risk Factors in our most recent annual report for a more detailed description of these significant risks and uncertainties.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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	$ 78,898	$ 85,298
Short-term investments	28,067	18,915
Accounts receivable, net of allowance for doubtful accounts of $121 and $56	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 EQUITY/(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 (see Note 10)		
STOCKHOLDERS EQUITY/(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 shares are 96,922,295 and 85,376,191, respectively and outstanding shares are 96,841,792 and 85,376,191, respectively		97		85
Additional paid-in capital		753,373		667,055
Deferred compensation				(2,421)
Accumulated deficit		(722,335)		(694,091)
Less: Treasury stock, at cost - 80,503 shares		(570)		
Total stockholders equity (deficit)		30,565		(29,372)
Total liabilities and stockholders equity (deficit)	$	201,750	$	159,008

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

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TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share and share amounts)

(unaudited)

	Three Months Ended October 31, 2006	Three Months Ended October 31, 2005 Adjusted	Nine Months Ended October 31, 2006	Nine Months Ended October 31, 2005 Adjusted
Revenues				
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 revenues				
Cost of service and technology revenues (1)	13,826	8,508	44,256	24,832
Cost of hardware revenues	31,925	24,667	68,678	48,006
Total cost of revenues	45,751	33,175	112,934	72,838
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
Total operating expenses	32,155	31,420	99,790	81,053
Loss from operations	(12,246)	(14,980)	(31,385)	(18,033)
Interest income	1,291	826	3,341	2,184
Interest expense and other	(133)	(10)	(165)	(13)
Loss before income taxes	(11,088)	(14,164)	(28,209)	(15,862)
Provision for income taxes	(4)		(35)	(51)
Net loss	$ (11,092)	$ (14,164)	$ (28,244)	$ (15,913)
Net loss per common share - basic and diluted	$ (0.12)	$ (0.17)	$ (0.32)	$ (0.19)
Weighted average common shares used to calculate basic and diluted net loss per share	91,930,061	84,200,655	87,680,571	83,362,402
(1) Includes stock-based compensation expense (benefit) as follows :				
Cost of service and technology revenues	$ 365	$	$ 1,035	$
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

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

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TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY/(DEFICIT)

(In thousands, except share amounts)

(unaudited)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit Adjusted	Total Adjusted
	Shares	Amount	Shares	Amount				
BALANCE JANUARY 31, 2006	85,376,191	$ 85		$	$ 667,055	$ (2,421)	$ (694,091)	$ (29,372)
Issuance of common stock upon exercise of common stock options	737,222	1			3,723			3,724
Issuance of restricted shares of common stock	69,040				259			259
Deferred compensation - reversal due to FAS 123R					(2,421)	2,421		
Recognition of stock based compensation expense, net					3,087			3,087
Net loss							(10,704)	(10,704)
BALANCE APRIL 30, 2006	86,182,453	$ 86			$ 671,703	$	$ (704,795)	$ (33,006)
Issuance of common stock upon exercise of common stock options	562,506	1			2,523			2,524
Issuance of common stock related to Employee Stock Purchase Plan	279,473				1,290			1,290
Issuance of restricted shares of common stock	20,000							
Cancellation of restricted shares of common stock	(4,391)				(27)			(27)
Recognition of stock based compensation expense, net					3,563			3,563
Net loss							(6,448)	(6,448)
BALANCE JULY 31, 2006	87,040,041	$ 87			$ 679,052	$	$ (711,243)	$ (32,104)
Issuance of common stock upon exercise of common stock options	469,507	1			2,401			2,402
Issuance of common stock related to equity offering, net	8,264,463	8			64,508			64,516
Issuance of common stock related to warrant exercise	908,381	1			3,329			3,330
Issuance of restricted shares of common stock	159,400							
Treasury Stock - repurchase of restricted stock for tax withholding			(80,503)	(570)				(570)
Recognition of stock based compensation expense, net					4,083			4,083
Net loss							(11,092)	(11,092)
BALANCE OCTOBER 31, 2006	96,841,792	$ 97	(80,503)	$ (570)	$ 753,373	$	$ (722,335)	$ 30,565

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

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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	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, net	64,516	
Proceeds from issuance of common stock related to exercise of warrants	3,330	
Proceeds from issuance of common stock related to exercise of common stock options	8,638	6,443
Proceeds from issuance of common stock related to employee stock purchase plan	1,290	2,242
Treasury Stock - repurchase of restricted stock for tax withholding	(570)	
Net cash provided by financing activities	$ 77,204	$ 4,185
NET DECREASE IN CASH AND CASH EQUIVALENTS	$ (6,400)	$ (10,639)

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TIVO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

(unaudited)

	Nine Months Ended October 31, 2006	2005 Adjusted
CASH AND CASH EQUIVALENTS:		
Balance at beginning of period	85,298	87,245
Balance at end of period	$ 78,898	$ 76,606
SUPPLEMENTAL DISCLOSURE OF CASH AND NON-CASH FLOW INFORMATION		
Cash paid for interest	$ 48	$ 13
Cash paid for income taxes	34	51
SUPPLEMENTAL DISCLOSURE OF OTHER NON-CASH INVESTING AND FINANCING INFORMATION		
Adjustment to deferred compensation as a result of forfeiture of unvested restricted common stock		625

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

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TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. NATURE OF OPERATIONS

TiVo Inc. (the Company or TiVo) was incorporated in August 1997 as a Delaware corporation and is located in Alviso, California. On August 21, 2000, TiVo (UK) Limited, a wholly owned subsidiary of TiVo Inc., was incorporated in the United Kingdom. On October 9, 2001, the Company formed a subsidiary, TiVo International, Inc., also a Delaware corporation. On July 16, 2004, TiVo Intl. II, Inc., a wholly owned subsidiary of TiVo Inc., was incorporated in the Cayman Islands. On March 22, 2005, TiVo Brands LLC, a wholly owned subsidiary of TiVo Inc., was incorporated in the State of Delaware as a holding entity for all of the Company s trademarks. The Company conducts its operations through one reportable segment. TiVo is a provider of technology and services for digital video recorders (DVRs). The subscription-based TiVo service (the TiVo service) improves home entertainment by providing consumers with an easy way to record, watch, and control television. TiVo also provides a unique platform for the television industry, including for advertisers and audience research.

The Company continues to be subject to a number of risks, including delays in product and service developments; competitive service offerings; lack of market acceptance; uncertainty of future profitability; the dependence on third parties for manufacturing, marketing, and sales support; the intellectual property claims against the Company; and dependence on its relationships with third parties such as DIRECTV, Comcast, and Cox for subscription growth. The Company anticipates that its business will continue to be seasonal and expects to generate a significant number of its annual new subscriptions during and immediately after the holiday shopping season.

Unaudited Interim Condensed Consolidated Financial Statements

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited interim condensed consolidated financial statements do not contain all of the information and footnotes required by generally accepted accounting principles for complete audited annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company s financial position as of October 31, 2006 and January 31, 2006 and the results of operations for the three and nine-month periods ended October 31, 2006 and 2005 and condensed consolidated statements of cash flows for the nine-month periods ended October 31, 2006 and 2005. Additionally, included is the unaudited statement of stockholders equity (deficit) for the three month periods ended April 30, 2006, July 31, 2006, and October 31, 2006. These condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements as of January 31, 2006 and 2005, including the notes thereto, included in the Company s 2006 Annual Report on Form 10-K for the fiscal year ended January 31, 2006 as updated by the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 21, 2006. Operating results for the three and nine-month periods ended October 31, 2006 are not necessarily indicative of results that may be expected for the fiscal year ending January 31, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition and Deferred Revenue

The Company generates service revenues from fees for providing the TiVo service to consumers and through the sale of advertising and audience measurement research services. The Company also generates technology revenues from providing licensing and engineering services. In addition, the Company generates hardware revenues from the sale of hardware products that enable the TiVo service.

Service Revenues. Included in service revenues are revenues from recurring and prepaid subscription plans to the TiVo service and fees received from the sale of advertising and audience measurement research services. Monthly and prepaid fixed-length subscription revenues are recognized over the period benefited. Subscription revenues from product lifetime subscriptions are recognized ratably over a four-year period, which is the Company s estimate of the useful life of a TiVo-enabled DVR. Also included in service revenues are fees received from third parties, such as DIRECTV, which are recognized as earned.

Technology Revenues. The Company recognizes technology revenues under technology license and engineering services agreements in accordance with the SOP 97-2, Software Revenue Recognition, as amended. These agreements contain multiple-elements in which vendor specific objective evidence (VSOE) of fair value is required for all undelivered elements in order to recognize revenue related to the delivered element. Elements included in the Company s arrangements may include technology licenses and associated maintenance and support, engineering services and other services. The timing of revenue recognition related to these transactions will depend, in part, on whether the Company can establish VSOE for undelivered elements and on how these transactions are structured. As such, revenue recognition may not correspond to the timing of related cash flows or the Company s work effort.

In arrangements which include engineering services that are essential to the functionality of the software or involve significant customization or modification of the software, the Company recognizes revenue using the percentage-of-completion method, as described in SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts, if the Company believes it is able to make reasonably dependable estimates of the extent of progress toward completion. The Company measures progress toward completion based on the ratio of costs incurred, principally labor, to date to total estimated costs of the project, an input method. These estimates are assessed continually during the term of the contract, and revisions are reflected when the changed conditions become known. In some cases, the Company accepted engineering services contracts that were expected to be losses at the time of acceptance in order to gain experience in developing new technology that could be used in future products and services. Provisions for all losses on contracts are recorded when estimates indicate that a loss will be incurred on a contract. In some cases, it may not be possible to separate the various elements within the arrangement due to a lack of fair value for undelivered elements in the contract. In these situations, the Company recognizes revenues and costs based on a zero profit model, which results in the recognition of equal amounts of revenues and costs, until the engineering professional services are complete. Thereafter, any remaining revenue is recognized over the period of the maintenance and support or other services that are provided.

Hardware Revenues. For product sales to distributors, revenues are recognized upon product shipment to the distributors or receipt of the products by the distributor, depending on the shipping terms, provided that all fees are fixed or determinable, evidence of an arrangement exists and collectibility is reasonably assured. End users have the right to return their product within 30 days of the purchase. TiVo establishes allowances for expected product returns in accordance with SFAS No. 48, Revenue Recognition When Right of Return Exists . These allowances are recorded as a direct reduction of revenues and accounts receivable. For direct product sales to end-users prior to March 15, 2006, hardware revenues were recognized upon shipment by TiVo to the end-users provided all appropriate revenue recognition criteria were met. After March 15, 2006, the Company began selling DVRs and service directly to end-users through Bundled Sales Programs see Bundled Sales Programs.

Bundled Sales Programs. Prior to March 15, 2006, the Company sold DVRs directly to end-users for no cost or at a substantial discount when bundled with a gift subscription contract under certain marketing or promotion programs. These were considered multiple element arrangements, which met the requirements for separation under Emerging Issues Task Force (EITF) 00-21, Revenue Arrangements with Multiple Deliverables. The prepaid fee was allocated to the hardware and service based on their relative fair values and recognized in accordance with the respective accounting policies stated above.

Beginning on March 15, 2006, the Company began selling the DVR and service directly to end-users through bundled sales programs through the TiVo website. Under these bundled programs, the customer receives a DVR and commits to a minimum subscription of one to three years. Unlike the bundled sales programs offered prior to March 15, 2006, the customer receives a TiVo DVR and has the option to either pay a monthly fee over the subscription term (monthly program) or to prepay the subscription fee in advance (prepaid program). After the initial committed subscription term, the customer has various pricing options at which they can renew the subscription. During the quarter ended April 30, 2006, these bundled sale programs did not meet the requirements for separation under EITF 00-21. As a result, for both the monthly and prepaid programs, the entire arrangement fee was recognized ratably over the subscription period and was classified as Service Revenue in the condensed consolidated statements of operations. However, as of the quarter ended October 31, 2006, the bundled sales programs have met the requirements for separation under EITF 00-21 since TiVo now has sufficient data to support fair value for the subscription element in the arrangement. As a result, for these certain prepaid programs, revenue is now allocated to the DVR and subscription based on the residual value method, with the DVR revenue recognized upon delivery and the subscription revenue being recognized over the term of the service commitment.

For the monthly programs introduced on March 15, 2006, the Company concluded it was appropriate to charge the related hardware costs to cost of hardware revenues upon shipment of the DVR. Effective February 1, 2006, the Company changed its accounting policy for the recognition of DVR costs for prepaid bundled sales arrangements to charge the entire cost of the hardware to cost of revenues upon shipment. Previously, the Company deferred the portion of the hardware costs exceeding the recognized revenue allocated to the hardware element and amortized such costs over the period of the subscription. See Change in Accounting Policy section below.

Rebates, Revenue Share, and Other Payments to Channel. In accordance with EITF 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendors Products) , certain payments to retailers and distributors such as market development funds and revenue share are shown as a reduction to revenue rather than as a sales and marketing expense. TiVo s policy is to reduce revenue when these payments are incurred and fixed or determinable. The Company also records rebates offered to consumers as a reduction to revenue. The Company records a liability for estimated future rebate redemption at the later of the delivery of the hardware or announcement of the rebate program.

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

Change in Accounting Policy

Recognition of Hardware Costs and Bundled Sales Programs

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

The Company determined that the direct expense method was preferable to the prior accounting method because the Company believes: it is consistent with the accounting practices of competitors and companies within similar industries; it adds to the clarity and ease of understanding of the Company s reported results to investors; and it is consistent with the recognition of hardware costs for bundled monthly sales programs. The Company recorded the change in method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections. SFAS 154 requires that all elective accounting changes be made on a retrospective basis. On July 21, 2006, the Company filed a current report on Form 8-K to set forth audited consolidated financial statements for the year ended January 31, 2006, which reflects the Company s change in accounting policy with respect to its recognition of hardware costs in its bundled sales programs as previously disclosed in TiVo s quarterly report on Form 10-Q for the quarter ended April 30, 2006, as filed with the SEC on June 9, 2006.

Stock-Based Compensation

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

On February 1, 2006, the Company adopted the provisions of SFAS 123R, *Shared-Based Payment*, requiring TiVo to recognize expense related to the fair value of the Company s stock-based compensation awards. SFAS No. 123R eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under Accounting Principle Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and instead requires that such transactions be accounted for using a fair-value based method. The

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fair value of TiVo s restricted stock awards was calculated based on the fair market value of the Company s stock at the grant date. The fair value of TiVo s stock options and ESPP awards was estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions and elections in adopting and implementing SFAS No. 123R, including expected stock price volatility and the estimated life of each award.

TiVo has elected to use the modified prospective transition method as permitted by SFAS 123R and therefore has not restated the Company s financial results for prior periods. Under this transition method, stock-based compensation expense for the three and nine months ended October 31, 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of February 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Stock-based compensation expense for all stock-based compensation awards granted subsequent to February 1, 2006 was based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. TiVo recognizes compensation expense for stock option awards on a straight-line basis over the requisite service period of the award.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Property and Equipment

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

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

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

Intangible Assets

Purchased intangible assets include intellectual property such as patent rights carried at cost less accumulated amortization. Useful lives generally range from five years to seven years.

Advertising Costs

The Company expenses advertising costs related its products and service as the advertising services are provided. Advertising expenses were $3.2 million and $6.9 million for the three and nine months ended October 31, 2006, respectively and $3.5 million and $6.3 million for the three and nine months ended October 31, 2005, respectively.

Comprehensive Loss

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

Business Concentrations and Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash, cash equivalents, short-term investments, and trade receivables. The Company currently invests the majority of its cash in money market funds and maintains them with several financial institutions with high credit ratings. The Company also invests in debt instruments of the U.S. government and its agencies and corporate issuers with high credit ratings. As part of its cash management process, the Company performs periodic

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evaluations of the relative credit ratings of these financial institutions. The Company has not experienced any credit losses on its cash, cash equivalents, or short-term investments.

The majority of the Company s customers for service revenues are concentrated in the United States. The Company is subject to a minimal amount of credit risk related to these customers as service revenue is primarily obtained through credit card sales. DIRECTV represented approximately 11% and 15% of net revenues and 8% and 15% of net accounts receivable for the nine months ended October 31, 2006 and 2005, respectively. The Company sells its TiVo-enabled DVR to retailers under customary credit terms. One retailer generated 8% and 14% of the Company s net revenues and 27% and 50% of the net accounts receivable for the nine months ended October 31, 2006 and 2005, respectively. Comcast represented approximately 7% of net revenues for the nine months ended October 31, 2006.

The Company evaluates its outstanding accounts receivable each period for collectibility. This evaluation involves assessing the aging of the amounts due to the Company and reviewing the credit-worthiness of each customer; based on this evaluation, the Company records an allowance for accounts receivable that are estimated to not be collectible.

The Company is dependent on sole suppliers for several key components, assemblies, and services. The Company has an agreement with Tribune Media Services, its sole supplier of programming guide data for the TiVo service. In the instance where a supply agreement does not exist and suppliers fail to perform their obligations, the Company may be unable to find alternative suppliers or deliver its products and services to its customers on time, if at all.

Recent Accounting Pronouncements

In September 2006, the SEC released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides interpretive guidance on the SEC s views regarding the process of quantifying materiality of financial statement misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company is currently evaluating the impact of adopting SAB 108 on its consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006, which will be the Company s fiscal year 2008, and is required to be recognized as a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

In June 2006, the FASB ratified the provisions of Emerging Issues Task Force (EITF) Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). EITF Issue No. 06-3 requires that the presentation of taxes within revenue-producing transactions between a seller and a customer, including but not limited to sales, use, value added, and some excise taxes, should be on either a gross (included in revenue and cost) or a net

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(excluded from revenue) basis. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis. EITF Issue No. 06-3 is effective for fiscal years beginning after December 15, 2006, which will be the Company s fiscal year 2008. EITF 06-3 will not impact the method for recording these sales taxes in the Company s consolidated financial statements as the Company has historically presented sales excluding all taxes and the Company currently has no plan to change its method of revenue reporting.

3. COMMON STOCK AND STOCKHOLDERS EQUITY/(DEFICIT)

On August 23, 2001, five-year warrants were issued to convertible noteholders and bankers to purchase 2,192,404 shares of TiVo s common stock at an exercise price of $7.85. On August 28, 2006, several of these holders exercised their warrants resulting in the issuance of 424,150 shares of TiVo s common stock, pursuant to the terms of the agreement, and net proceeds of approximately $3.3 million. The balance of the warrants that would have resulted in the issuance of 1,768,254 shares of TiVo Inc. common stock expired unexercised.

In September 2006, we had a cashless exercise of 1,323,120 four-year warrants at an exercise price of $5.00 resulting in the issuance of 484,231 shares of our common stock.

On September 11, 2006 the Company issued 8,264,463 shares of its common stock, par value $.001 per share, at $7.865 per share to institutional investors. The issuance of shares was registered pursuant to the Company s $100 million universal shelf registration statement on Form S-3 (File No. 333-113719). The net proceeds from this sale were approximately $64.5 million after deducting the Company s estimated offering expenses of $484,000.

4. EQUITY INCENTIVE PLANS

1997 Equity Incentive Plan

Under the terms of the Company s 1997 Equity Incentive Plan, adopted in 1997 and amended and restated in 1999 (the 1997 Plan), options to purchase shares of the Company s common stock may be granted to employees and other individuals at a price equal to the fair market value of the common stock at the date of grant. The options granted to new hires typically vest 25% after the first year of service, and the remaining 75% vest ratably over the next 36 months. The vesting periods for options granted to continuing employees vary, but typically vest monthly over a 48 month period. Options expire 10 years after the grant date, based on continued service. If the optionee s service terminates, options expire 90 days from the date of termination except under certain circumstances such as death or disability. The terms of the 1997 Plan allowed individuals to exercise options prior to full vesting. In the event that the individual terminates his or her service to the Company before becoming fully vested, the Company has the right to repurchase the unvested shares at the original option price. The number of shares authorized for option grants under the 1997 Plan is 4,000,000. As of October 31, 2006, 475,430 shares of the total authorized remain available for future grants.

1999 Equity Incentive Plan

In April 1999, the Company s stockholders approved the 1999 Equity Incentive Plan (the 1999 Plan). Amendments to the 1999 Plan were adopted in July 1999. The 1999 Plan permits the granting of incentive stock options, non-statutory stock options, non-vested stock awards (also known as restricted stock), stock appreciation rights, performance-based awards, and stock purchase rights. The 1999 Plan allows the grant of options to purchase shares of the Company s common stock to employees and other individuals at a price equal to the fair market value of the common stock at the date of grant. The options granted to new employees typically vest 25% after the first year of service, and the remaining 75% vest monthly over the next 36 months. The vesting period for options granted to continuing employees may vary, but typically vest monthly over a 48 month period. Options expire 10 years after the grant date, based on continued service. If the optionee s service terminates, options expire 90 days from the date of termination except under certain circumstances such as death or disability. The terms of the 1999 Plan allow individuals to early exercise options granted prior to August 8, 2001 from the date of grant, prior to full vesting. For options granted subsequent to August 8, 2001, options are exercisable only as the options vest. In the event that the individual terminates his or her service to the Company before becoming fully vested, the Company has the right to repurchase any exercised, unvested shares at the original option price. As of October 31, 2006, the number of shares authorized for option grants under the 1999 Plan is 38,363,130. The number of shares authorized for option grants is subject

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to an annual increase of the greater of 7% of outstanding shares or 4,000,000 shares, up to a maximum of 40,000,000 shares. As of October 31, 2006, 13,701,991 shares of the total authorized remain available for future stock option grants.

1999 Non-Employee Directors Stock Option Plan

In July 1999, the Company adopted the 1999 Non-Employee Directors Stock Option Plan (the Directors Plan). The Directors Plan provides for the automatic grant of options to purchase shares of the Company s common stock to non-employee directors at a price equal to the fair market value of the stock at the date of the grant. Initial options granted to new directors vest monthly over two years from the date of grant. Annual options granted to existing directors vest upon grant. The option term is ten years after the grant date, based on continued director service. If the director s service terminates, options expire 90 days from the date the director s service terminated. The number of shares authorized for option grants under the Directors Plan is 1,200,000, subject to an annual increase of 100,000 shares. As of October 31, 2006, 543,333 shares of the total authorized remain available for future grants.

1999 Employee Stock Purchase Plan

In July 1999, the Company adopted the 1999 Employee Stock Purchase Plan (the Employee Stock Purchase Plan). The Employee Stock Purchase Plan provides a means for employees to purchase TiVo common stock through payroll deductions of up to 15% of their base compensation. The Company offers the common stock purchase rights to eligible employees, generally all full-time employees who have been employed for at least 10 days. This plan allows for common stock purchase rights to be granted to employees of TiVo at a price equal to the lower of 85% of the fair market value on the first day of the offering or on the common stock purchase date. This plan has also incorporated a one-year look back feature in its provisions except for the offering period from February 1, 2006 through June 30, 2006 which had a look back of five months. Each offering consists of up to two purchase periods. The purchase periods previously began on May 1 and on November 1 of each year, and now begin on January 1 and on July 1 of each year, and are six months in length. Under the Employee Stock Purchase Plan, the board may, in the future, specify offerings up to 27 months. On August 15, 2002, the board amended the 1999 Employee Stock Purchase Plan to change the effective date for automatic annual increases to the reserve of shares issuable under the plan from December 31 to October 31. Effective October 31, 2002, the board approved the maximum annual increase of 500,000 shares to the total number of shares reserved for issuance under the Employee Stock Purchase Plan pursuant to the plan s automatic annual increase provision. As of October 31, 2006, the total number of shares reserved for issuance under this plan is 3,500,000. The number of shares available for stock issuance under this plan is subject to an annual increase on each October 31 through October 31, 2008, equal to the lowest of (i) 5 percent of the outstanding shares of common stock on a diluted basis, (ii) 500,000 shares, or (iii) a smaller number as determined by the board of directors. As of October 31, 2006, of the total 3,500,000 shares reserved for issuance under the Employee Stock Purchase Plan, there were 828,118 shares available for future purchases.

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Stock Award Activity

A summary of the stock options activity and related information for the nine months ended October 31, 2006 is as follows:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 31, 2006	16,791	$ 7.16		
Grants	5,093	6.85		
Exercises	(1,769)	4.88		
Forfeitures or expirations	(1,454)	8.20		
Outstanding at October 31, 2006	18,661	$ 7.21	7.42	$ 11,577
Exercisable at October 31, 2006	9,482	$ 8.16	6.03	$ 6,545

The aggregate intrinsic value in the preceding table is based on options with an exercise price less than the Company s closing stock price of $6.39 as of October 31, 2006, which would have been received by the option holders had those option holders exercised their options as of that date. Total intrinsic value of options exercised was $1.2 million and $4.6 million for the three and nine months ended October 31, 2006, respectively, and $264,000 and $2.9 million for the three and nine months ended October 31, 2005, respectively.

Net cash proceeds from the exercise of stock options were $2.4 million and $8.6 million for the three and nine months ended October 31, 2006, respectively, and $580,000 and $6.4 million for three and nine months ended October 31, 2005, respectively. Options outstanding that have vested and are expected to vest as of October 31, 2006 are as follows:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Vested	9,482	$ 8.16	6.03	$ 6,545
Expected to vest	4,765	$ 6.23	8.73	$ 2,728
Total	**14,247**	**$ 7.24**	**6.93**	**$ 9,273**

Options outstanding that are expected to vest are net of estimated future option forfeitures in accordance with the provisions of SFAS No. 123R, which are estimated when compensation costs are recognized.

Performance-Based Awards

The number of shares authorized and available for awards under the performance-based awards plan as of October 31, 2006 and is 594,000 shares. The number of the shares to be issued, their grant date and exercise price will be determined in the first quarter of fiscal 2008. As of October 31, 2006, total compensation costs recognized related to these performance-based awards was approximately $186,000.

Unvested Stock

The Company had 492,400 restricted stock awards outstanding as of October 31, 2006, which were excluded from the options outstanding balances in the preceding tables. The total aggregate grant date fair value was $3.4 million. Aggregate intrinsic value of restricted stock awards

at October 31, 2006 was $3.2 million based on the Company s closing stock price on October 31, 2006. Approximately 130,000 and 227,000 of the previously granted restricted stock awards vested during the three and nine months ended October 31, 2006, respectively, and none and 9,000 during the three and nine months ended October 31, 2005, respectively. The grant of these restricted stock awards has been deducted from the shares available for grant under the Company s stock option plans. The total fair value of restricted stock awards vested was $652,600 and $1.3

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million for the three and nine months ended October 31, 2006, respectively, and approximately $0 and $92,000 for three and nine months ended October 31, 2005, respectively.

The following table summarizes the Company s unvested stock activity for the nine months ended October 31, 2006:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value
Unvested stock at January 31, 2006	480	$ 6.11
Granted	248	$ 7.38
Vested	(227)	$ 5.69
Forfeited	(9)	$ 6.71
Unvested stock at October 31, 2006	492	$ 6.94

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5. STOCK-BASED COMPENSATION

Total stock-based compensation recognized on the unaudited condensed consolidated statements of operations for the three and nine months ended October 31, 2006 is as follows:

	Three Months Ended October 31, 2006	
	SARs/Option Grants and Stock Purchase Rights (Fair Value Method)	Restricted Stock Purchase (Intrinsic Value Method)
	(In thousands, except per share amount)	
Cost of revenues	$ 365	$
Research and development	1,455	153
Sales and marketing	386	88
General and administrative	1,407	229
Stock-based compensation effect before income taxes	$ 3,613	$ 470
Income tax benefit		
Total stock-based compensation effects in net income	$ 3,613	$ 470
Stock-based compensation effect on basic and diluted earnings per common share	$ 0.04	$ 0.00

	Nine Months Ended October 31, 2006	
	SARs/Option Grants and Stock Purchase Rights (Fair Value Method)	Restricted Stock Purchase (Intrinsic Value Method)
	(In thousands, except per share amount)	
Cost of revenues	$ 1,035	$
Research and development	3,859	318
Sales and marketing	998	266
General and administrative	3,600	657
Stock-based compensation effect before income taxes	$ 9,492	$ 1,241
Income tax benefit		
Total stock-based compensation effects in net income	$ 9,492	$ 1,241
Stock-based compensation effect on basic and diluted earnings per common share	$ 0.11	$ 0.01

As of October 31, 2006, $35.5 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.95 years. As of October 31, 2006, $2.9 million of total unrecognized compensation costs related to unvested restricted stock is expected to be recognized over a weighted-average period of 1.97 years.

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No income tax benefit was realized from stock option exercises during the three and nine months ended October 31, 2006 and October 31, 2005, respectively. In accordance with SFAS 123R, the Company presents excess tax benefits from the exercise of stock options, if any, as financing cash flows rather than operating cash flows.

Proforma information required under SFAS No. 123R for periods prior to fiscal 2007 as if the Company had applied the fair value recognition provisions of SFAS No. 123 to options granted under the Company s equity incentive plans, was as follows:

	Three Months Ended October 31, 2005	Nine Months Ended October 31, 2005
Net loss, as reported	$ (14,164)	$ (15,913)
Add back: stock-based compensation expense recognized, net of related tax effects	165	48
Pro forma effect of stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(2,869)	(7,702)
Net loss, pro forma	$ (16,868)	$ (23,567)
Basic and diluted loss per common share, as reported	$ (0.17)	$ (0.19)
Basic and diluted loss per common share, pro forma	$ (0.20)	$ (0.28)

SFAS No. 123R requires the use of a valuation model to calculate the fair value of stock-based awards. The Company has elected to use the Black-Scholes option-pricing model, which incorporates various assumptions including volatility, expected life, and interest rate. The expected volatility is based on a combination of historical volatility of the Company s common stock and implied volatility in market traded options on the Company s common stock. The expected life of an award is based on the simplified calculation of expected life pursuant to Staff Accounting Bulletin No. 107 Share Based Payments . The interest rate is based on the average of U.S. Treasury yield curve for the expected life of the award.

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The assumptions used for the three and nine months ended October 31, 2006 and October 31, 2005, respectively, and the resulting estimates of weighted-average fair value per share of options and ESPP shares granted during those periods are as follows:

	Stock Options			
	Three Months Ended		Nine Months Ended	
	October 31, 2006	October 31, 2005	October 31, 2006	October 31, 2005
Expected life (in years)	6.25	3.30	6.25	3.90
Interest rate	4.69%	4.21%	4.81%	3.64%
Volatility	69.55%	50.00%	81.53%	60.00%
Dividend yield				
Weighted-average fair value during the period	$ 4.72	$ 1.80	$ 5.02	$ 2.34

	ESPP			
	Three Months Ended		Nine Months Ended	
	October 31, 2006	October 31, 2005	October 31, 2006	October 31, 2005
Expected life (in years)	0.77	0.50	0.56	0.50
Interest rate	4.98%	3.79%	4.97%	3.38%
Volatility	52.04%	50.00%	57.14%	57.00%
Dividend yield				
Weighted-average fair value during the period	$ 1.97	$ 1.90	$ 2.11	$ 2.23

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	October 31, 2006	January 31, 2006
	(In thousands)	
Furniture and fixtures	$ 3,365	$ 3,285
Computer and office equipment	16,562	20,946
Lab equipment	1,885	2,392
Leasehold improvements	7,670	6,319
Capitalized software	10,939	9,926
Total property and equipment	40,421	42,868
Less: accumulated depreciation and amortization	(29,547)	(33,420)
Property and equipment, net	**$ 10,874**	**$ 9,448**

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7. PURCHASED TECHNOLOGY, CAPITALIZED SOFTWARE, AND INTANGIBLE ASSETS, NET

Purchased technology, capitalized software, and intangible assets, net consists of the following:

	October 31, 2006			January 31, 2006		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
			(In thousands)			
Purchased technology	$ 1,500	$ (209)	$ 1,291	$	$	$
Capitalized software	1,951	(706)	1,245	1,951	(404)	1,547
Intellectual property rights	16,265	(1,221)	15,044	4,265	(606)	3,659
Total purchased technology, capitalized software, and intangible assets	$ 19,716	$ (2,136)	$ 17,580	$ 6,216	$ (1,010)	$ 5,206

In September 2006, the Company entered into a cross-licensing agreement with IBM under which each party granted to the other a non-exclusive, worldwide, royalty-free license to such party s patents that are entitled to a priority date on or before September 28, 2006, including all patents and patent applications in existence as of that date with limited exceptions. The license granted by IBM to the Company extends to all products other than general purpose data processing products and data storage devices that are primarily sold separately from other hardware. The license that the Company granted to IBM extends to all products other than digital media recorders and digital media recorder software. No license was granted, directly or by implication, to permit the combination of any product with any other item. This license is being amortized over the period of its estimated benefit period of 7 years.

The total expected future annual amortization expense related to purchased technology, capitalized software, and intangible assets is calculated on a straight-line basis, using the useful lives of the assets, which range from three to five years for purchased technology and capitalized software and five to seven years for intellectual property rights. Amortization expense was $527,000 and $1.1 million for the three and nine months ended October 31, 2006, respectively. Amortization expense was $249,000 and $656,000 for the three and nine months ended October 31, 2005. Estimated annual amortization expense is set forth in the table below:

Fiscal Year Ending	Estimated Annual Amortization Expense (In thousands)
January 31, 2007 (3 months)	$ 812
January 31, 2008	3,247
January 31, 2009	3,214
January 31, 2010	2,810
January 31, 2011	2,273
January 31, 2012	2,274
There after	2,950
Total	$ 17,580

8. INDEMNIFICATION ARRANGEMENTS AND GUARANTEES

Product Warranties

The Company s minimum warranty period to consumers for TiVo-enabled DVRs is 90 days from the date of consumer purchase also known as the Limited Warranty. For products purchased under the Bundled Sales Programs, the Company extends the Limited Warranty for the duration of the customer s commitment. Within the limited warranty period, consumers are offered a no-charge exchange for TiVo-enabled DVRs returned due to product defect, within 90 days from the date of consumer purchase. Thereafter, consumers may exchange a TiVo-enabled DVR with a product defect for a charge. At October 31, 2006 and 2005, the accrued warranty reserve was $400,000 and $830,000, respectively. The

Company s accrued warranty reserve is included in accrued liabilities in the accompanying unaudited condensed consolidated balance sheets.

Indemnification Arrangements

The Company undertakes indemnification obligations in its ordinary course of business in connection with, among other things, the licensing of its products, the provision of consulting services, and the issuance of securities. Pursuant to these agreements, the Company may indemnify the other party for certain losses suffered or incurred by the indemnified party, generally its business partners or customers, underwriters or certain investors, in connection with various types of claims, which may include, without limitation, intellectual property infringement, advertising and consumer disclosure laws, certain tax liabilities, negligence and intentional acts in the performance of services and violations of laws, including certain violations of securities laws. The term of these indemnification obligations is generally perpetual. The Company s obligation to provide indemnification would arise in the event that a third party filed a claim against one of the parties that was covered by the

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Company s indemnification obligation. As an example, if a third party sued a customer for intellectual property infringement and the Company agreed to indemnify that customer against such claims, its obligation would be triggered.

The Company is unable to estimate with any reasonable accuracy the liability that may be incurred pursuant to its indemnification obligations. A few of the variables affecting any such assessment include but are not limited to: the nature of the claim asserted; the relative merits of the claim; the financial ability of the party suing the indemnified party to engage in protracted litigation; the number of parties seeking indemnification; the nature and amount of damages claimed by the party suing the indemnified party; and the willingness of such party to engage in settlement negotiations. During the period of calendar year 2002 through 2005, the Company incurred legal fees in the amount of $5.9 million in connection with the indemnification and defense of a claim against one of its manufacturers. However, that indemnification obligation was not typical of the Company s indemnity liability and does not necessarily provide a reasonable measure of liability that may be expected to be incurred pursuant to its indemnification obligations. Due to the nature of the Company s potential indemnity liability, its indemnification obligations could range from immaterial to having a material adverse impact on its financial position and its ability to continue in the ordinary course of business.

Under certain circumstances, the Company may have recourse through its insurance policies that would enable it to recover from its insurance company some or all amounts paid pursuant to its indemnification obligations. The Company does not have any assets held either as collateral or by third parties that, upon the occurrence of an event requiring it to indemnify a customer, the Company could obtain and liquidate to recover all or a portion of the amounts paid pursuant to its indemnification obligations.

9. NET LOSS PER COMMON SHARE

Basic and diluted net loss per common share is calculated in accordance with SFAS No. 128, Earnings Per Share. Basic net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding, excluding unvested restricted stock.

The weighted average number of shares outstanding used in the computation of basic and diluted net loss per share does not include the effect of the following potentially outstanding common stock. The effects of these potentially outstanding shares were not included in the calculation of diluted net loss per share because the effect would have been antidilutive:

	As of October 31	
	2006	**2005**
Repurchasable common stock		11,937
Unvested restricted stock outstanding	492,400	480,000
Options to purchase common stock	18,661,115	17,617,015
Potential shares to be issued from ESPP	516,919	166,453
Warrants to purchase common stock		3,515,524
Total	19,670,434	21,790,929

10. COMMITMENTS AND CONTINGENCIES

Legal Matters

***Intellectual Property Litigation*.** On January 5, 2004, TiVo filed a complaint against EchoStar Communications Corporation in the U.S. District Court for the Eastern District of Texas alleging willful and deliberate infringement of U.S. Patent No. 6,233,389, entitled Multimedia Time Warping System. On January 15, 2004, the Company amended its complaint to add EchoStar DBS Corporation, EchoStar Technologies Corporation, and Echosphere Limited Liability Corporation as additional defendants. The Company alleges that it is the owner of this patent, and further alleges that the defendants have willfully and deliberately infringed this patent by making, selling, offering to sell and/or selling digital video recording devices, digital video recording device software, and/or personal television services in the United States. On April 13, 2006, the jury rendered a verdict in favor of the Company in the amount of approximately $74.0 million dollars. The jury ruled that the Company s patent is valid and that all nine of the asserted claims in the Company s patent are infringed by each of the accused EchoStar products. The jury also ruled that the defendants willfully infringed the patent. On May 16, 2006, the United States Patent and Trademark Office (USPTO) issued its first Office Action in response to a request by the defendants for reexamination of the 389 patent. The USPTO reexamined all 61 claims set

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forth in the 389 patent, confirming the validity of the majority of the claims, including two of the claims that the defendants have been found to have willfully infringed, and rejecting some of the claims. TiVo intends to vigorously defend the validity of the rejected claims. On June 26-28, 2006, the Court held a bench trial on the defendants remaining defenses, including inequitable conduct, and a hearing on other issues such as the amount of pre-judgment interest, supplemental damages, enhanced damages, attorney s fees and costs, and an injunction. On August 17, 2006, the Court denied the defendants remaining defenses, and granted TiVo s motion for permanent injunction to prevent EchoStar Communications Corporation from making, using, offering for sale or selling in the United States the following EchoStar DVRs: DP-501, DP-508, DP-510, DP-721, DP-921, DP-522, DP-625, DP-942, and all EchoStar Communications Corporation DVRs that are not more than colorably different from any of these products. The Court also ordered ECC to pay TiVo approximately $74.0 million in damages as awarded by the jury, prejudgment interest at the prime rate through October 31, 2006 of approximately $5.6 million, and supplemental damages for infringement through October 31, 2006 in the amount of approximately $10.3 million. The Court denied TiVo s request for enhanced damages and attorney s fees and costs. The Court denied EchoStar s request to stay the injunction pending appeal. On October 3, 2006, the United States Court of Appeals for Federal Circuit stayed the district court s injunction pending appeal. On November 27, 2006, the district court denied all of EchoStar s post-judgment motions. The Company is incurring material expenses in this litigation.

On April 29, 2005, EchoStar Technologies Corporation filed a complaint against TiVo and Humax USA, Inc. in the U.S. District Court for the Eastern District of Texas alleging infringement of U.S. Patent Nos. 5,774,186 (Interruption Tolerant Video Program Viewing), 6,529,685 B2 (Multimedia Direct Access Storage Device and Formatting Method), 6,208,804 B1 (Multimedia Direct Access Storage Device and Formatting Method) and 6,173,112 B1 (Method and System for Recording In-Progress Broadcast Programs). The complaint alleges that EchoStar Technologies Corporation is the owner by assignment of the patents allegedly infringed. The complaint further alleges that the TiVo and Humax have infringed, contributorily infringed and/or actively induced infringement of the patents by making, using, selling or importing digital video recording devices, digital video recording device software and/or personal television services in the United States that allegedly infringe the patents, and that such infringement is willful and ongoing. Under the terms of the Company s agreement with Humax governing the distribution of certain DVRs that enable the TiVo service, the Company is required to indemnify Humax against any claims, damages, liabilities, costs, and expenses relating to claims that the Company s technology infringes upon intellectual property rights owned by third parties. On May 10, 2005, Humax formally notified TiVo of the claims against it in this lawsuit as required by Humax s agreement with TiVo. On July 1, 2005, the defendants filed their answer and counterclaims. On May 10, 2006, the Court dismissed with prejudice, EchoStar s claim of infringement against TiVo and Humax relating to patent 112 (Method and System for Recording In-Progress Broadcast Programs) and claims 21-30 and 32 relating to patent 186 (Interruption Tolerant Video Program Viewing). A claim construction hearing was held on May 11, 2006. On July 14, 2006, United States Magistrate Judge Caroline M. Craven for the United States District Court, Eastern District of Texas, issued a stay of the case pending the USPTO completion of proceedings with respect to TiVo s request for reexamination of the 186, 685, and 804 patents. The Company intends to defend this action vigorously; however, the Company is incurring material expenses in connection with this lawsuit and in the event there is an adverse outcome, the Company s business could be harmed. No loss is considered probable or estimable at this time.

On August 5, 2004, Compression Labs, Inc. filed a complaint against TiVo Inc., Acer America Corporation, AudioVox Corporation, BancTec, Inc., BenQ America Corporation, Color Dreams, Inc. (d/b/a StarDot Technologies), Google Inc., ScanSoft, Inc., Sun Microsystems Inc., Veo Inc., and Yahoo! Inc. in the U.S. District Court for the Eastern District of Texas alleging infringement, inducement of others to infringe, and contributory infringement of U.S. Patent No. 4,698,672, entitled Coding System For Reducing Redundancy. The complaint alleges that Compression Labs, Inc. is the owner of this patent and has the exclusive rights to sue and recover for infringement thereof. The complaint further alleges that the defendants have infringed, induced infringement, and contributorily infringed this patent by selling devices and/or systems in the United States, at least portions of which are designed to be at least partly compliant with the JPEG standard. On February 16, 2005, the Judicial Panel on Multidistrict Litigation consolidated this and seven other related lawsuits and coordinated pretrial proceedings in the United States District Court for the Northern District of California, where pretrial proceedings are currently ongoing. On January 31, 2006, the USPTO granted a request for reexamination of the patent in question. On May 25, 2006, the USPTO issued its first office action confirming a majority of the claims in the 672 patent, while rejecting some claims. On June 28, 2006, the Court issued a claim construction ruling. In November 2006, the Company and the other defendants entered into an immaterial settlement agreement with Compression Labs under which the claims against the Company will be dismissed without prejudice.

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In August and September 2004, Phillip Igbinadolor, on behalf of himself, filed complaints against TiVo, Sony Corporation, Sony Electronics, Inc., Sony Corporation of America, JVC, Clarrion Corporation of America, and Philips Consumer Electronics Company in the U.S. District Court for the Eastern District of New York alleging infringement of U.S. Patent Nos. 395,884 and 6,779,196 and U.S. Trademark No. 2,260,689, each relating to an integrated car dubbing system. The complaints were consolidated into one action captioned *Igbinadolor v. Sony Corporation et al.* On November 10, 2004, the Company filed its answer, affirmative defenses and counterclaims and on January 31, 2005, the Company filed a motion for summary judgment. On July 18, 2005, the Court granted summary judgment in favor of the Company and the other defendants on the ground that, as a matter of law, there is no infringement of either the patents or the trademark. On August 30, 2005, Mr. Igbinadolor filed a notice of appeal with the United States Court of Appeals for the Federal Circuit appealing the July 18, 2005 summary judgment order. The Federal Circuit docketed the appeal on September 2, 2005. On October 31, 2005, counsel for JVC submitted a letter on behalf of JVC, Sony, TiVo and Clarion advising the Federal Circuit that JVC, Sony and TiVo have declaratory judgment counterclaims for invalidity that remain pending before the district court and requesting that the appeal be dismissed as premature because the district court s decision was not a final appealable order. On February 10, 2006, the Federal Circuit issued an order dismissing the entire consolidated appeal as premature. This order was issued as a mandate on March 3, 2006 and jurisdiction was transferred back to the district court. On August 3, 2006, the district court requested that defendants notify the court as to whether they intend to pursue their declaratory judgment counterclaims. On August 23, 2006, counsel for TiVo and Sony requested that the district court dismiss without prejudice their declaratory judgment counterclaims on the belief that the district court s July 18, 2005 summary judgment order in favor of the defendants will be affirmed by the Federal Circuit thereby obviating the need to pursue the counterclaims. No loss is probable or estimable at this time. The Company is incurring expenses in connection with this litigation that may become material in the future, and in the event there is an adverse outcome, TiVo s business could be harmed.

Consumer Litigation. On December 22, 2005, a consumer class action lawsuit against TiVo Inc. was filed in the Superior Court of the State of California, County of San Francisco. This action, which is captioned *Nolz, et al. v. TiVo*, was brought on behalf of a purported class of purchasers of the Company s gift subscriptions which were allegedly sold to consumers in violation of a California law that restricts the sale of gift certificates in California containing an expiration date. In November 2006, the Company entered into a settlement agreement with the plaintiffs which is expected to result in dismissal of the action in the Company s first quarter of fiscal year 2008. The Company has accrued $120,000 in settlement costs, which is located on the balance sheet under accrued liabilities.

Securities Litigation. On June 12, 2001, a securities class action lawsuit in which the Company and certain of its officers and directors are named as defendants was filed in the United States District Court for the Southern District of New York. This action, which is captioned *Wercberger v. TiVo et al.*, also names several of the underwriters involved in the Company s initial public offering as defendants. This class action was brought on behalf of a purported class of purchasers of the Company s common stock from October 31, 1999, the time of its initial public offering, through December 6, 2000. The central allegation in this action is that the underwriters in the initial public offering solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased TiVo common stock in the initial public offering and the after-market. The complaint also alleges that the TiVo defendants violated the federal securities laws by failing to disclose in the initial public offering prospectus that the underwriters had engaged in these alleged arrangements. More than 150 issuers have been named in similar lawsuits. In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers (including the TiVo defendants) was filed by the entire group of issuer defendants in these similar actions. On October 8, 2002, TiVo s officers were dismissed as defendants in the lawsuit. On February 19, 2003, the court in this action issued its decision on defendants omnibus motion to dismiss. This decision dismissed the Section 10(b) claim as to TiVo but denied the motion to dismiss the Section 11 claim as to TiVo and virtually all of the other issuer-defendants.

On June 26, 2003, the plaintiffs announced a proposed settlement with the Company and the other issuer defendants. The proposed settlement provides that the plaintiffs will be guaranteed $1.0 billion dollars in recoveries by the insurers of the Company and other issuer defendants. Accordingly, any direct financial impact of the proposed settlement is expected to be borne by the Company s insurers in accordance with the proposed settlement. In addition, the Company and the other settling issuer defendants will assign to the plaintiffs certain claims that they may have against the underwriters. If recoveries in excess of $1.0 billion dollars are obtained by the plaintiffs from the underwriters, the Company s and the other issuer defendants monetary obligations to the class plaintiffs will be satisfied. Furthermore, the settlement is subject to a hearing on fairness and approval by the Federal District Court overseeing the litigations. On February 15, 2005, the Court issued an order preliminarily approving the terms of the proposed settlement. The Court also certified the settlement classes and class

representatives for purposes of the proposed settlement only. On April 24, 2006, the Court held a fairness hearing to determine whether the proposed settlement should be approved. Due to the inherent uncertainties of litigation and assignment of claims against the underwriters, and because the settlement has not yet been finally approved by the Federal District Court, the ultimate outcome of the matter cannot be predicted. In accordance with SFAS No. 5, Accounting for Contingencies the Company believes any contingent liability related to this claim is not probable or estimable and therefore no amounts have been accrued in regards to this matter as of October 31, 2006.

The Company is involved in numerous lawsuits in the ordinary course of its business. The Company assesses potential liabilities in connection with these lawsuits under SFAS No. 5. The Company accrues an estimated loss for these loss contingencies if both of the following conditions are met: information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. As of October 31, 2006, the Company has only accrued a liability for *Nolz, et al. v. TiVo* as the other lawsuits filed against the Company have not met the conditions for an accrual to be made. The Company expenses legal costs as they are incurred.

Facilities Leases

The Company s corporate headquarters consists of two buildings located in Alviso, California, which are used for administrative, sales and marketing, customer service, and product research and development activities. In October 1999, the Company entered into an office lease with WIX/NSJ Real Estate Limited Partnership for its headquarters. On April 27, 2006, the Company entered into the First Amendment to Lease Agreement, dated as of February 1, 2006, which amends the Lease Agreement, dated as of October 6, 1999. Under the Amendment, the Company extended for an additional three years, from March 9, 2007 to January 31, 2010, the current Lease Agreement. Under the terms of the Amendment, monthly rent is approximately $165,000 with built-in base rent escalations periodically throughout the lease term. The lease is classified as an operating lease. Rent expense is recognized using the straight-line method over the lease term and for the nine months ended October 31, 2006 and 2005 was $1.6 million and $2.2 million, respectively.

Additionally, the Company delivered a letter of credit totaling $477,000, to WIX/NSJ Real Estate Limited Partnership as collateral for performance by the Company of all of its obligations under the lease. The letter of credit is to remain in effect the entire term of the lease, but the amount does decrease over time. The Company also has operating leases for sales and administrative office space in New York.

Operating lease cash payments for the nine months ended October 31, 2006 and 2005 were $1.3 million and $2.6 million, respectively.

Future minimum operating lease payments as of October 31, 2006, were as follows:

Fiscal Year Ending	**Lease Payments (In thousands)**
January 31, 2007 (3 months)	$ 572
January 31, 2008	2,327
January 31, 2009	2,386
January 31, 2010	2,430
Total	$ 7,715

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11. COMCAST AGREEMENT

On March 15, 2005, the Company entered into a non-exclusive licensing and marketing agreement with Comcast STB Software DVR, LLC, a wholly-owned subsidiary of Comcast Corporation, and Comcast Corporation, as guarantor of Comcast STB s obligations under the agreement. Pursuant to this agreement, the Company agreed to develop a TiVo-branded software solution for deployment on Comcast s DVR platforms, which would enable any TiVo-specific DVR and networking features requested by Comcast, such as WishList® searches, Season Pass recordings, home media features, and TiVoToGo transfers. In addition, the Company agreed to develop a TiVo Interactive Advertising Management System for deployment on Comcast platforms to enable the provision of local and national advertising to Comcast subscribers.

Comcast will pay a recurring monthly fee per Comcast subscriber who receives the TiVo service through Comcast. Comcast will also pay the Company fees for engineering services for the development and integration of the TiVo service software solution (subject to adjustment under certain circumstances) and the TiVo Interactive Advertising Management System.

The initial term of this agreement is for seven years from completion of the TiVo service software solution, with Comcast permitted to renew for additional 1-year terms for up to a total of 8 additional years as long as certain deployment thresholds have been achieved. During the term of the agreement, TiVo will provide Comcast with certain customer and maintenance support and will provide certain additional development work. TiVo will have the continuing right to sell certain types of advertising in connection with the TiVo service offered through Comcast. TiVo will also have a limited right to sell certain types of advertising on other Comcast DVR set-top boxes enabled with the TiVo Interactive Advertising Management System, subject to Comcast s option to terminate such right in exchange for certain advertising-related payments.

On March 28, 2006, the Company executed the First Amendment to the Licensing and Marketing Agreement, effective as of March 27, 2006, between TiVo Inc. and Comcast STB Software DVR, LLC and Comcast Corporation. The First Amendment to the Licensing and Marketing Agreement extends the acceptance deadline for the TiVo Interactive Advertising Management System from the second anniversary of the Effective Date of the Agreement to February 15, 2008. Concurrently, the Company also finalized the scope of the engineering services to be delivered with respect to the initial statement of work for the TiVo Interactive Advertising Management System. Effective October 23, 2006, the Company entered into the Second Amendment to the Licensing and Marketing Agreement, between TiVo Inc. and Comcast STB Software DVR, LLC and Comcast Corporation. The Second Amendment to the Licensing and Marketing Agreement extends the acceptance deadline for the TiVo Experience from the second anniversary of the Effective Date of the Agreement to June 30, 2007 or such later date as maybe agreed upon by the parties. The Second Amendment also allows the parties to extend the date for acceptance of the TiVo Interactive Advertising Management System to such later date as maybe agreed upon by the parties.

Under the licensing and marketing agreement, Comcast paid TiVo an upfront fee that the Company recorded as deferred revenue. This upfront fee, subsequent milestone payments, and related costs were initially deferred as the arrangement was not complete. Development costs were $4.6 million, as of January 31, 2006, and were classified on the consolidated balance sheet under prepaid expense and other, current. During the three-months ended April 30, 2006 the companies agreed upon the engineering services to be delivered. As a result, the Company recognized all costs ($4.6 million of these deferred costs and $2.6 million of incremental costs for the quarter ended April 30, 2006) and an equal amount of revenues on its unaudited condensed consolidated financial statements. For the three months ended July 31, 2006 and October 31, 2006, the Company recognized an additional $3.0 million and $2.9 million, respectively, in costs and revenues. Currently, it is not possible to separate the various elements within the arrangement due to a lack of fair value for undelivered elements in the contract. Consequently, the Company recognizes revenues and costs based on a zero profit model, which results in the recognition of equal amounts of revenues and costs.

Development and deployment of the TiVo service software solution is targeted to occur within two years from the date of the licensing and marketing agreement. Development and deployment of the TiVo Interactive Advertising Management System is targeted to begin after the second anniversary of this agreement, but by no later than February 15, 2008, unless a later date is agreed upon by the parties. In the event development of the TiVo service software solution and the TiVo Interactive Advertising Management System have not been completed by the relevant deadlines, the Company could be subject to certain consequences, including, but not limited to, termination of the agreement. As part of this agreement, Comcast is receiving a non-exclusive, non-transferable license to the Company s intellectual property in order to deploy the TiVo service software solution and TiVo Interactive Advertising Management System, including certain trademark branding rights and a

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covenant not to assert under TiVo s patents, which rights extend only to Comcast Corporation, its affiliates, and certain of its vendors and suppliers with respect to Comcast products and services. Such non-exclusive, non-transferable license to the Company s intellectual property will, under certain circumstances, continue after the termination of this agreement. In addition, Comcast is entitled to certain most favored customer terms as compared with other multi-channel video distributors who license certain TiVo technology. Pursuant to the terms of this agreement, Comcast has the right to terminate the agreement in the event the Company is the subject of certain change of control transactions involving any of certain specified companies.

12. DEVELOPMENT AGREEMENT AND SERVICES AGREEMENT WITH DIRECTV, INC.

On April 7, 2006, the Company entered into the Seventh Amendment of the Development Agreement, dated as of February 15, 2002, with DIRECTV, Inc. Under this amendment, which amends the expiration date of the Development Agreement from February 15, 2007, to February 15, 2010, TiVo will continue to provide support for DIRECTV receivers with TiVo service through the extended expiration date of the Development Agreement, and will provide mutually agreed upon development services for no additional fee up to a defined maximum from February 2007 to February 2010. In addition, DIRECTV will continue to have the right to distribute DIRECTV receivers with TiVo service through February 15, 2007, and a related grace period as set forth in the Development Agreement. Further, TiVo and DIRECTV agreed that neither party would assert its patents against the other party with respect to each company s products and services deployed prior to the expiration of the agreement, subject to limited exceptions. DIRECTV will continue to pay a monthly fee for all households using DIRECTV receivers with TiVo service similar to the amount paid by DIRECTV for households with DIRECTV receivers with TiVo service currently being deployed immediately prior to this amendment, subject to a monthly minimum payment by DIRECTV. The Company defers a portion of these fees equal to the fair value of the undelivered development services. These deferred fees are classified on the Company s unaudited condensed consolidated balance sheets under deferred revenue, current.

On April 7, 2006, the Company also entered into the First Amendment of the Amended and Restated Services Agreement, dated as of March 31, 2005, with DIRECTV. This amendment extends the terms of the current advertising arrangement between TiVo and DIRECTV, the Services Agreement until February 15, 2010, and additionally provides DIRECTV with the ability to obtain additional technical support and training for its use of advertising-related software tools with DIRECTV receivers with TiVo service.

13. INVESTMENT IN TGC, INC.

On August 9, 2004, the Company acquired a minority interest of 49.3% in TGC, Inc. (TGC), a newly formed independent entity. The Company accounts for its investment in TGC under the equity method of accounting as it owns less than 50% of TGC s equity.

During the nine months ended October 31, 2005 and 2006, the Company paid and recognized as research and development expense $600,000 and $400,000, respectively, related to various research and development services provided by TGC.

During the nine months ended October 31, 2006 the Company capitalized $1.5 million as purchased technology related to assets it acquired from TGC. Of the $1.5 million, $1.1 million was paid as of October 31, 2006 and the remaining $375,000 payment is due on or before March 31, 2007.

14. COX AGREEMENT

On August 22, 2006, TiVo entered into a non-exclusive licensing and distribution agreement with Cox Communications (CoxCom, Inc. or Cox). Pursuant to the agreement, the Company has agreed to develop a TiVo-branded software solution for deployment on Cox s DVR platforms, which would enable Cox to offer TiVo DVR and advertising software to its customers and advertising clients respectively. In addition, the Company has agreed to develop an advertising management system for deployment on Cox platforms to enable the provision of local and national advertising to Cox subscribers.

Under the agreement, Cox will pay TiVo a recurring monthly fee per box receiving the TiVo service through Cox. Cox will also pay the Company fees for engineering services for the development and integration of the TiVo service software solution and the advertising management system. Cox will also pay the Company commissions on certain new subscribers who use the TiVo service as offered by Cox.

The initial term of the Company s agreement is for five years from completion of the TiVo service software solution, but no longer than seven years after the effective date of the agreement. During the term of the

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agreement, the Company will provide Cox with certain customer support and maintenance services. The Company will have the continuing right to sell certain types of advertising in connection with the TiVo service offered through Cox. The Company will also have a right to sell certain types of advertising on other Cox DVR set-top boxes enabled with the advertising management system. As part of our agreement, Cox is receiving a non-exclusive, non-transferable license to specific TiVo intellectual property to deploy the TiVo service software solution and advertising management system, including certain trademark branding rights. Cox will also reimburse TiVo for the cost of certain third-party license fees. In addition, Cox may be entitled to certain most favored customer terms if the Company enters into future agreements with multi-channel video distributors whose commitment to deploy TiVo DVR and advertising software is less than Cox s commitment. Cox has the right to terminate the agreement in the event the Company is the subject of certain change of control transactions involving any of certain specified companies. The Company has not yet recognized any revenues or expenses under this agreement.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion and analysis in conjunction with the consolidated financial statements and the accompanying notes included in this report and our most recent annual report on Form 10-K and current report on Form 8-K filed on July 21, 2006, the sections entitled Risk Factors in Item 1A of our most recent annual report on Form 10-K and Part II, Item 1A of this report and our quarterly report on Form 10-Q for the fiscal quarter ended April 30, 2006 and July 31, 2006, as well as other cautionary statements and risks described elsewhere in this Report and our most recent annual report on Form 10-K and Current Report on Form 8-K filed on July 21, 2006, before deciding to purchase, sell or hold our common stock.

Company Overview

We are a leading provider of technology and services for digital video recorders. The subscription-based TiVo service improves home entertainment by providing consumers with an easy way to record, watch, and control television with such features as Season Pass recordings, WishList® searches, TiVoToGo transfers, TiVo KidZone, and online scheduling. As of October 31, 2006, there were just over 4.4 million subscriptions to the TiVo service. We distribute the TiVo service through agreements with leading television service providers such as currently DIRECTV and in the future, in the U.S. through Comcast, and Cox, and internationally, in Mexico through Cablevisión, S.A. de C.V., as well as in the U.S. through the sale of TiVo enabled DVR s through our website and through consumer electronics retailers. We also provide innovative marketing solutions for the television industry, including a unique platform for advertisers and audience research.

Executive Overview and Outlook of Financial Results

During the three and nine months ended October 31, 2006, we experienced growth in our overall subscription base and service revenues through our continued investment in marketing and research and development. Additionally, we continued to invest in subscription acquisition activities to expand our subscription base and promote the TiVo brand for future partnerships. TiVo-Owned subscriptions gross additions in the third quarter of fiscal year 2007 were approximately 101,000, which was an increase of 10% from the quarter ended October 31, 2005. For the fiscal year ending January 31, 2007, we expect our subscription acquisition costs to increase due at least in part to the new multi-tiered pricing structure and bundled sales program we have implemented which includes a TiVo DVR in exchange for customer commitment to either a one, two, or three year service plan. We expect to continue achieving growth in our TiVo-Owned subscription base in fiscal 2007; however, we expect this growth to be offset by losses in our DIRECTV subscription base as DIRECTV shifts their focus on new deployments to a competing DVR technology and our current DIRECTV with TiVo subscriptions continue to churn out over time.

The following table sets forth selected information as of the three and nine months ended October 31, 2006 and 2005:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2006	2005	2006	2005
	(In thousands)			
		Adjusted		Adjusted
Service and technology revenues	$ 52,616	$ 43,197	$ 160,605	$ 123,891
Net revenues	$ 65,660	$ 49,615	$ 181,339	$ 135,858
Cost of revenues	(45,751)	(33,175)	(112,934)	(72,838)
Operating expenses	(32,155)	(31,420)	(99,790)	(81,053)
Loss from operations	$ (12,246)	$ (14,980)	$ (31,385)	$ (18,033)
Cash flows from operating activities			$ (55,212)	$ (12,262)

Service and Technology Revenues. Our service and technology revenues increased $9.4 million or 22% during the three months ended October 31, 2006 compared to the same prior-year period. This increase was primarily a result of an increase of $6.7 million in subscription revenue due to continued growth in our subscription base and the recognition of Comcast development revenue of $2.9 million.

Net Revenues. In addition to service and technology revenues, our net revenues include our hardware revenues as well as any offsetting effects of contra-revenue such as rebates, revenue shares, and other payments to channel. Net revenues increased by $16.0 million or 32% during the three months ended October 31, 2006 compared to the same prior-year period. Service and technology revenues increased significantly and we also experienced an increase in hardware revenues due to the rollout of our new TiVo Series2 DT Box (dual tuner model) and TiVo Series3 HD Digital Media Recorder coupled with a decrease in rebates, revenue shares, and other payments to channel.

Cost of Revenues. Our total costs of revenues, which include cost of service revenues, cost of technology revenues, and cost of hardware revenues, increased by $12.6 million or 38% during the three months ended October 31, 2006. The cost of service and technology revenues for the three months ended October 31, 2006 increased by $5.3 million, or 63%, compared to the same prior-year period primarily as a result of the recognition of Comcast development cost of revenues of $2.9 million and incremental costs associated with a larger subscription base. The cost of hardware revenues for the three months ended October 31, 2006 increased by $7.3 million or 29%, compared to the same prior-year period, and this increase is a result of our full recognition of hardware costs associated with our bundled sales coupled with the higher costs associated with our new Series3 HD Digital Media Recorder.

Operating Expenses. Our operating expenses, including research and development, sales and marketing, and general and administrative expenses, increased $735,000 or 2% during the three months ended October 31, 2006 compared to the same prior-year period. These costs remained relatively flat, despite an increase in costs associated with increased headcount related expenses of $2.1 million coupled with increased stock-based compensation expense of $3.6 million. These costs were partially offset by a decrease of $4.0 million largely due to the decrease in expenses related to the EchoStar litigation.

Cash Flows from Operating Activities. Our net cash used in operating activities for the nine months ended October 31, 2006 was $55.2 million, as compared to $12.3 million used in operating activities for the same prior-year period. This increase in cash flows used in operating activities is due to an increase in net loss of $12.3 million, increased inventory expenditures of $14.1 million in preparation for our holiday season and a decrease in deferred revenues of $17.9 million due to our discontinuation of the lifetime subscription plan.

Key Business Metrics

Management periodically reviews certain key business metrics in order to evaluate our operations, allocate resources, and drive financial performance in our business. Management monitors these metrics together and not individually as it does not make business decisions based upon any single metric.

Subscriptions. Management reviews this metric, and believes it may be useful to investors, in order to evaluate TiVo s relative position in the marketplace and to forecast future potential service revenues. Below is a table that details the growth in our subscription base during the past eight quarters. The TiVo-Owned lines refer to

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subscriptions sold directly by TiVo to consumers who have TiVo-enabled DVRs. The DIRECTV lines refer to subscriptions sold by DIRECTV to consumers who have integrated DIRECTV satellite receivers with TiVo service. Additionally, we provide a breakdown of the percent of TiVo-Owned subscriptions for which consumers pay recurring fees, including on a monthly and a prepaid one, two, or three year basis, as opposed to a one-time upfront product lifetime fee.

				Three Months Ended				
(Subscriptions in thousands)	**Oct 31, 2006**	**July 31, 2006**	**April 30, 2006**	**Jan 31, 2006**	**Oct 31, 2005**	**Jul 31, 2005**	**April 30, 2005**	**Jan 31, 2005**
TiVo-Owned Subscription Gross Additions:	101	74	91	221	92	77	104	276
Subscription Net Additions:								
TiVo-Owned	53	30	51	183	55	40	72	251
DIRECTV	-37	-29	2	173	379	214	247	447
Total Subscription Net Additions	**16**	**1**	**53**	**356**	**434**	**254**	**319**	**698**
Cumulative Subscriptions:								
TiVo-Owned	1,625	1,572	1,542	1,491	1,308	1,253	1,213	1,141
DIRECTV	2,809	2,846	2,875	2,873	2,700	2,321	2,107	1,860
Total Cumulative Subscriptions	**4,434**	**4,418**	**4,417**	**4,364**	**4,008**	**3,574**	**3,320**	**3,001**
% of TiVo-Owned Cumulative Subscriptions paying recurring fees	**55%**	**53%**	**52%**	**51%**	**51%**	**51%**	**51%**	**50%**

We define a subscription as a contract referencing a TiVo-enabled DVR for which (i) a consumer has paid for the TiVo service and (ii) service is not canceled. We previously offered a product lifetime subscription for general sale, under which consumers could purchase a subscription that is valid for the lifetime of a particular DVR. During the first quarter of fiscal year 2007, we discontinued general sale of the product lifetime service option. We count these as subscriptions until both of the following conditions are met: (i) the four-year period we use to recognize lifetime subscription revenues ends, and (ii) the related DVR has not made contact to the TiVo service within the prior six-month period. Lifetime subscriptions past the four-year mark which have not called into the TiVo service for six months are not counted in this total. We are not aware of any uniform standards for defining subscriptions and caution that our presentation may not be consistent with that of other companies.

We believe TiVo-Owned subscription net additions for the three months ended October 31, 2006 decreased by 2,000 compared to the same prior-year period largely due to an increase in churn resulting from a larger subscription base and because of increased competition from DVRs distributed by cable and satellite providers, including DIRECTV s TiVo and non-TiVo products. The percent of cumulative TiVo-Owned subscriptions on a monthly or prepay plan increased slightly, by 4% to 55% during the three months ended October 31, 2006, as compared to the same prior-year period. For the three months ended October 31, 2006, we experienced a decline in the DIRECTV cumulative subscription base of 37,000 subscriptions compared to our prior quarter. This decrease is due to DIRECTV s promotion of a competing DVR service from NDS.

As of October 31, 2006, approximately 138,000 product lifetime subscriptions had exceeded the four-year period we use to recognize product lifetime subscription revenues, but had made contact to the TiVo service within the prior six months. This represents approximately 17% of our cumulative lifetime subscriptions as compared to 12% for the three months ended October 31, 2005. We continue to incur costs of services for these subscriptions without recognizing corresponding subscription revenues.

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.

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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.

The following table presents our TiVo-Owned Churn Rate per month information:

	Three Months Ended							
(Subscriptions in thousands)	**Oct 31, 2006**	**July 31, 2006**	**April 30, 2006**	**Jan 31, 2006**	**Oct 31, 2005**	**Jul 31, 2005**	**April 30, 2005**	**Jan 31, 2005**
Average TiVo-Owned subscriptions	1,596	1,547	1,520	1,388	1,275	1,233	1,180	995
TiVo-Owned subscription cancellations	(48)	(44)	(40)	(38)	(37)	(37)	(32)	(25)
TiVo-Owned Churn Rate per month	-1.0%	-0.9%	-0.9%	-0.9%	-1.0%	-1.0%	-0.9%	-0.8%

The TiVo-Owned Churn Rate per month was 1.0% for the three months ended October 31, 2006 and 2005. The TiVo-Owned Churn rate per month of 1.0% for the three months ended October 31, 2006, is primarily comprised of cancellation of recurring subscriptions. We also count as churn those product lifetime subscriptions that have both reached the end of the four-year revenue recognition period and whose DVRs have not contacted the TiVo service within the prior six months. Conversely, we do not count as churn product lifetime subscriptions that have not reached the end of the four-year revenue recognition period, regardless of whether such subscriptions continue to contact the TiVo service. We anticipate our TiVo-Owned Churn Rate per month will increase in future periods as a result of increased competition in the marketplace and increased churn from product lifetime subscriptions.

Subscription Acquisition Costs 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.

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	Three Months Ended							
	Oct 31, 2006	Jul 31, 2006	Apr 30, 2006	Jan 31, 2006 Adjusted	Oct 31, 2005 Adjusted	Jul 31, 2005 Adjusted	Apr 30, 2005	Jan 31, 2005
	(In thousands, except SAC)							
Subscription Acquisition Costs								
Sales and marketing expenses	$ 10,123	$ 8,344	$ 7,389	$ 10,637	$ 10,006	$ 7,574	$ 6,830	$ 11,529
Rebates, revenue share, and other payments to channel	14,934	9,948	8,050	19,167	18,234	5,988	3,638	25,188
Hardware revenues	(27,978)	(16,235)	(9,453)	(32,266)	(24,652)	(4,649)	(10,526)	(50,452)
Cost of hardware revenues	31,925	21,607	15,146	38,811	24,667	7,697	15,642	52,267
Total Acquisition Costs	29,004	23,664	21,132	36,349	28,255	16,610	15,584	38,532
TiVo-Owned Subscription Gross Additions	101	74	91	221	92	77	104	276
Subscription Acquisition Costs (SAC)	$ 287	$ 320	$ 232	$ 164	$ 307	$ 216	$ 150	$ 140

	Twelve Months Ended							
	Oct 31, 2006	Jul 31, 2006	Apr 30, 2006 Adjusted	Jan 31, 2006 Adjusted	Oct 31, 2005 Adjusted	Jul 31, 2005 Adjusted	Apr 30, 2005	Jan 31, 2005
	(In thousands, except SAC)							
Subscription Acquisition Costs								
Sales and marketing expenses	$ 36,493	$ 36,376	$ 35,606	$ 35,047	$ 35,939	$ 40,145	$ 38,597	$ 37,367
Rebates, revenue share, and other payments to channel	52,099	55,399	51,439	47,027	53,048	52,758	53,346	54,696
Hardware revenues	(85,932)	(82,606)	(71,020)	(72,093)	(90,279)	(93,521)	(107,464)	(111,275)
Cost of hardware revenues	107,489	100,231	86,321	86,817	100,273	104,092	119,115	120,323
Total Acquisition Costs	110,149	109,400	102,346	96,798	98,981	103,474	103,594	101,111
TiVo-Owned Subscription Gross Additions	487	478	481	494	549	576	576	555
Subscription Acquisition Costs (SAC)	$ 226	$ 229	$ 213	$ 196	$ 180	$ 180	$ 180	$ 182

As a result of the seasonal nature of our subscription growth, 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. For example, we have historically incurred increased sales and marketing expense during our third quarter in anticipation of new subscriptions that may be added during the fourth quarter and in subsequent periods in addition to those added during the third quarter. As such, we have also provided SAC on a rolling twelve month basis.

During the three months ended October 31, 2006, our total acquisition costs were $29.0 million, and SAC was $287. Comparatively, total acquisition costs for the three months ended October 31, 2005 were $28.3 million and SAC was $307. SAC decreased by $20 or 7% for the three months ended October 31, 2006 compared to the prior-year period. During the twelve months ended October 31, 2006, our total acquisition costs increased by $11.2 million from the prior twelve months ended October 31, 2005, and SAC increased by $46 from $180 to $226 for the twelve months ended October 31, 2005 and 2006, respectively. This decrease in our three month SAC and increase in our twelve month SAC was primarily due our new multi-tiered pricing structure and bundled sales program that we implemented in March 2006 which includes a TiVo DVR in exchange for a customer commitment to either a one, two, or three year service plan. For the fiscal year ending January 31, 2007, we expect our subscription acquisition costs to continue to increase due to our new multi-tiered pricing structure and bundled sales programs.

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. 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.

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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 following table shows this calculation and reconciles ARPU for TiVo-Owned subscriptions to our reported service and technology revenues:

	Three Months Ended							
TiVo-Owned Average Revenue per Subscription	Oct 31, 2006	Jul 31, 2006	Apr 30, 2006	Jan 31, 2006	Oct 31, 2005	Jul 31, 2005	Apr 30, 2005	Jan 31, 2005
	(In thousands, except ARPU)							
Service and Technology revenues	$ 52,616	$ 52,880	$ 55,109	$ 46,968	$ 43,197	$ 40,674	$ 40,020	$ 34,165
Less: Technology revenues	(3,616)	(3,450)	(8,158)	(663)	(901)	(425)	(1,676)	(1,169)
Total Service revenues	49,000	49,430	46,951	46,305	42,296	40,249	38,344	32,996
Less: DIRECTV-related service revenues	(7,573)	(8,201)	(8,009)	(9,602)	(8,637)	(7,485)	(7,099)	(6,762)
TiVo-Owned-related service revenues	41,427	41,229	38,942	36,703	33,659	32,764	31,245	26,234
Average TiVo-Owned revenues per month	13,809	13,743	12,981	12,234	11,220	10,921	10,415	8,745
Average TiVo-Owned per month subscriptions	1,596	1,547	1,520	1,388	1,275	1,233	1,180	995
TiVo-Owned ARPU per month	$ 8.65	$ 8.88	$ 8.54	$ 8.82	$ 8.80	$ 8.86	$ 8.83	$ 8.79

TiVo-Owned ARPU per month for the three months ended October 31, 2006 decreased from the three months ended October 31, 2005 to $8.65 from $8.80, respectively, due to an increase of 49,000 TiVo-Owned product lifetime subscriptions that reached the end of the four-year period we use to recognize lifetime subscription revenue, as compared to the same prior year period This decrease in TiVo-Owned ARPU due to an increase in the number of fully amortized product lifetime subscriptions was partially offset by our new multi-tiered pricing structure and bundled sales program which yield a higher monthly subscription rate. 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 following table shows this calculation and reconciles ARPU for DIRECTV subscriptions to service and technology revenues:

	Three Months Ended							
DIRECTV Average Revenue per Subscription	Oct 31, 2006	Jul 31, 2006	Apr 30, 2006	Jan 31, 2006	Oct 31, 2005	Jul 31, 2005	Apr 30, 2005	Jan 31, 2005
	(In thousands, except ARPU)							
Service and Technology revenues	$ 52,616	$ 52,880	$ 55,109	$ 46,968	$ 43,197	$ 40,674	$ 40,020	$ 34,165
Less: Technology revenues	(3,616)	(3,450)	(8,158)	(663)	(901)	(425)	(1,676)	(1,169)
Total Service revenues	49,000	49,430	46,951	46,305	42,296	40,249	38,344	32,996
Less: TiVo-Owned-related service revenues	(41,427)	(41,229)	(38,942)	(36,703)	(33,659)	(32,764)	(31,245)	(26,234)
DIRECTV-related service revenues	7,573	8,201	8,009	9,602	8,637	7,485	7,099	6,762
Average DIRECTV revenues per month	2,524	2,734	2,670	3,201	2,879	2,495	2,366	2,254
Average DIRECTV per month subscriptions	2,837	2,858	2,881	2,818	2,505	2,200	1,994	1,622
DIRECTV ARPU per month	$ 0.89	$ 0.96	$ 0.93	$ 1.14	$ 1.15	$ 1.13	$ 1.19	$ 1.39

For fiscal 2007, pursuant to the recently amended DIRECTV agreement, TiVo 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. ARPU per month for DIRECTV subscriptions for the three months ended October 31, 2006 decreased from the same-year prior period to $0.89 from $1.15, respectively, largely as a result of the deferred DIRECTV revenues described above.

Critical Accounting Estimates

Critical accounting estimates are those that reflect significant judgments and uncertainties, and may potentially result in materially different results under different assumptions and conditions. We base our discussion and analysis on our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles as described in Part 1, Item 1, Note 1. Nature of

Operations in the notes to our condensed consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenue, and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances. The results of this analysis form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions. For a detailed discussion on the application of these and other accounting estimates, see Part 1, Item 1, Note 2. Summary of Significant Accounting Policies in the notes to our condensed consolidated financial statements.

Recognition Period for Lifetime Subscriptions Revenues. TiVo previously offered a product lifetime subscription option for general sale for the life of the DVR for a one-time, upfront payment. During the first quarter of fiscal year 2007, we discontinued general sale of the product lifetime service option. We recognize subscription revenues from lifetime subscriptions ratably over a four-year period, based on our estimate of the useful life of these DVRs. As of October 31, 2006, 138,000 product lifetime subscriptions had exceeded the four-year period we use to recognize product lifetime subscription revenues and had made contact with the TiVo service within the prior six month period. This represents approximately 17% of our cumulative lifetime subscriptions as compared to 12% for the three months ended October 31, 2005. If we determine at a later date that the useful life of a TiVo-enabled DVR is shorter or longer than four-years, we would recognize revenues from this source over a shorter or longer period. As we gather more user information, we may revise this estimated life.

Engineering Services Project Cost Estimates. For engineering services that are essential to the functionality of the software or involve significant customization or modification, we recognize revenues using the percentage-of-completion method, as described in Statement of Position (SOP) 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts. We recognize revenue by measuring progress toward completion based on the ratio of costs, principally labor, incurred to total estimated costs of the project, an input method. In general, these contracts are long-term and complex. We believe we are able to make reasonably dependable estimates based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. These estimates include forecasting of costs and schedules, estimating contract revenue related to contract performance, projecting cost to complete, tracking progress of costs incurred to date, and projecting the remaining effort to complete the project. Costs included in engineering services are labor, materials, and overhead related to the specific activities that are required for the project. Costs related to general infrastructure or platform development are not included in the engineering services project cost estimates. These estimates are assessed continually during the term of the contract and revisions are reflected when the conditions become known. In some cases, we have accepted engineering services contracts that were expected to be losses at the time of acceptance. Provisions for all losses on contracts are recorded when estimates determine that a loss will be incurred on a contract. Using different cost estimates, or different methods of measuring progress to completion, engineering services revenues and expenses may produce materially different results. A favorable change in estimates in a period could result in additional revenue and profit, and an unfavorable change in estimates could result in a reduction of revenue and profit or the recording of a loss that would be borne solely by TiVo.

Consumer Rebate Redemption Rate. In accordance with Emerging Issues Task Force (EITF) 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products), we record an estimated potential liability for our consumer rebate program that is based on the percentage of customers that were reimbursed for the rebate for similar past programs and adjust estimates to consider actual redemptions. Currently, the estimated redemption rate for the $150 rebate program is 64% based on historical redemptions for previous $150 rebate programs. . Starting November 5, 2006, the Company has new rebate programs which offer a rebate of $180 for a dual tuner DVR unit and $220 for a single tuner DVR unit. The estimated redemption rate for these programs is 69% and 76%, respectively. During the three months ended October 31, 2006, we recorded a total charge of $9.2 million, of which $6.2 million related to previous $150 rebate programs and $3.0 million related to the new rebate programs. Total rebate expense for the nine months ended October 31, 2006 was $19.9 million, of which $16.9 million related to previous $150 rebate programs and $3.0 million related to the new rebate programs. As of October 31, 2006, $13.8 million remains accrued on the Company s balance sheet. A one-percentage point deviation in our redemption rebate estimate would have resulted in an increase or decrease in our rebate liability as of October 31, 2006 of approximately $236,000. Upon full completion of consumer rebate programs, any unredeemed consumer rebate expense will be reversed. These consumer rebates and sales incentives programs are recognized as rebates, revenue share, and other payments to channel in our condensed consolidated financial statements.

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Valuation of Inventory. We maintain a finished goods inventory of TiVo-enabled DVRs throughout the year. We value inventory at the lower of cost or net realizable value with cost determined on the first-in, first-out method. We base write-downs to inventories upon current facts and circumstances and are determined in aggregate and evaluated on a total pool basis. We perform a detailed assessment of inventory at each balance sheet date, which includes a review of, among other factors, demand requirements and market conditions. Based on this analysis, we record adjustments, when appropriate, to reflect inventory at lower of cost or market. As of October 31, 2006, we have $180,000 in inventory reserves. Although we make every effort to ensure the accuracy of our forecasts of product demand and pricing assumptions, any significant unanticipated changes in demand or technological developments would significantly impact the value of our inventory and our reported operating results. In the future, if we find that our estimates are too optimistic and determine that our inventory needs to be written down further, we will be required to recognize such costs in our cost of revenue at the time of such determination. Conversely, if we find our estimates are too pessimistic and we subsequently sell product that has previously been written down, our gross margin in that period will be favorably impacted.

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

SFAS No. 123R requires the use of a valuation model to calculate the fair value of stock-based awards. We have elected to use the Black-Scholes option-pricing model, which incorporates various assumptions including volatility, expected life, and interest rates. The expected volatility is based on a combination of historical volatility of our common stock and implied volatility in market traded options on our common stock. The expected life of an award is based on the simplified calculation of expected life. The interest rate for periods within the contractual life of the award is based on the average of U.S. Treasury yield curve during the three months ended October 31, 2006.

In addition, SFAS No. 123R requires us to develop an estimate of the number of share-based awards which will be forfeited due to employee turnover. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. Quarterly changes in the estimated forfeiture rate can affect our gross margin, research and development expenses, sales and marketing expenses, and general and administrative expenses. The expense we recognize in future periods could also differ from the current period and/or our forecasts due to adjustments in the assumed forfeiture rates.

Results of Operations

Net Revenues. Our net revenues for the three and nine months ended October 31, 2006 and 2005 as a percentage of total net revenues were as follows:

	Three Months Ended				Nine Months Ended			
	October 31,				October 31,			
	2006		2005		2006		2005	
	(In thousands, except percentages)							
Service revenues	$ 49,000	75%	$ 42,296	85%	$ 145,381	80%	$ 120,889	89%
Technology revenues	3,616	6%	901	2%	$ 15,224	8%	$ 3,002	2%
Hardware revenues	27,978	42%	24,652	50%	53,666	30%	39,827	29%
Rebates, revenue share, and other payments to channel	(14,934)	-23%	(18,234)	-37%	(32,932)	-18%	(27,860)	-20%
Net revenues	$ 65,660		$ 49,615		$ 181,339		$ 135,858	
Change from same prior-year period	32%		29%		33%		21%	

<u>Service Revenues</u>. Service revenues for the three and nine months ended October 31, 2006 increased 16% and 20% or $6.7 million and $24.5 million, respectively, over the service revenues for the three and nine

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months ended October 31, 2005. This increase was primarily due to the year over year growth in our TiVo-Owned subscription base. During the three months ended October 31, 2006, we activated 53,000 new TiVo-Owned subscription net additions. Our total cumulative subscriptions were just over 4.4 million as of October 31, 2006, an 11% increase over the installed base as of October 31, 2005. We intend to generate continued TiVo-Owned subscription growth through our direct sales channel on our website and by managing our relationships with leading retailers like Best Buy, Circuit City, Target, Radio Shack, and others. Further, on March 15, 2006, we began a new multi-tiered pricing and bundled sales model for direct sales through our website that allows customers to receive a TiVo DVR in exchange for the customer s commitment to either a one, two, or three year service plan. We anticipate fiscal year 2007 will have continued service revenue growth as our TiVo-Owned subscription base grows; however, we expect this to be partially offset by revenue losses from our decreasing number of DIRECTV with TiVo subscriptions. Revenues from advertising and research, which are included in our service revenues, while not material in this period, were relatively flat in the three months ended October 31, 2006 and have increased in the nine month period ending October 31, 2006 as compared to the three and nine months ended October 31, 2005.

Technology Revenues. During the three and nine months ended October 31, 2006, we derived 6% and 8% of our net revenues, or $3.6 million and $15.2 million, from licensing and engineering services compared to 2% or $901,000 and $3.0 million in the same prior-year periods. This increase was primarily due to the recognition of Comcast development revenue of $13.1 million, of which $2.9 million and $8.5 million was related to the work performed in the three and nine month periods ended October 31, 2006 and $4.6 million was related to work performed in the fiscal year ended January 31, 2006. The Comcast development revenue of $13.1 million was offset by an equal amount of development cost recognized as cost of technology revenues. Technology revenues for the three and nine months ended October 31, 2005 were largely a result of amortization of deferred revenue on existing contracts, where development services were substantially completed. During the three months ended October 31, 2005 these revenues were partially offset by a reduction of $435,000 as we determined that we needed to incur additional development costs related to a loss contract deemed substantially complete in fiscal year 2005.

Hardware Revenues. Hardware revenues, net of allowance for sales returns, for the three and nine months ended October 31, 2006 were 42% and 30% of our net revenues compared to 50% and 29% for the same prior-year periods. Retail sales revenues for the three and nine month periods ending October 31, 2006 were lower than the same prior-year periods. One retail customer generated $7.4 million and $14.7 million of hardware revenues or 11% and 8% of net revenues, respectively for the three and nine months ended October 31, 2006. The same retail customer generated $14.6 million and $18.4 million of hardware revenues or 30% and 15% of net revenues for the three and nine months ended October 31, 2005, respectively. The increase in hardware revenues for the three and nine months ended October 31, 2006 as compared to the same prior-year period is primary a result of increased sales to our new and existing retail channel customers and the rollout of our new TiVo Series2 DT box (dual tuner model) and our new TiVo Series3 HD Digital Media Recorder .

Rebates, revenue share, and other payments to channel. We recognize certain marketing-related payments as a reduction of revenues in our condensed consolidated statements of operations. These reductions are recorded based on an estimated potential liability for our consumer rebate program, which is based on the percentage of customers that were reimbursed for rebates for similar past programs and then we adjust estimates to consider actual redemptions. Rebates, revenue share, and other payments to channel decreased by $3.3 million for the three months ended October 31, 2006 as compared to the same prior-year period. The primary contributor to the decrease was a lower actual rebate expense, slightly offset by higher expenses in our marketing development fund and rewards expenses during the same period. Rebates, revenue share, and other payments to channel increased by $5.1 million for the nine months ended October 31, 2006 as compared to the same prior-year period. This increase was primarily due to lower rebate expenses in the nine months ended October 31, 2005 because no rebate program was offered in the summer of 2005 and to a reversal of a rebate reserve of $7.7 million. The consumer rebate reversal during the six months ended July 31, 2005 was due to a reduction of the rebate accrual established in fiscal year 2005 for certain rebate programs that ended during the three months ended April 30, 2005. The increase in rebates, revenue share, and other payments to channel in the nine months ended October 31, 2006 as compared to the same prior-year period was slightly offset by lower expenses in our marketing development fund during the same period. Consumer rebate expense was $9.2 million and $19.9 million for the three and nine months ended October 31, 2006, respectively, as compared to $14.6 million and $12.4 million for the three and nine months ended October 31, 2005, respectively. Additionally, our marketing development expenses increased to $3.1 million from $1.2 million for the three ended October 31, 2006, as compared to the same prior year period, as we increased our co-op media programs with retailers. For the nine months ended October 31, 2006 marketing development expenses

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decreased to $5.0 million from $6.6 million as compared to the same prior year period due to higher than normal program spending in the quarter

Cost of service and technology revenues.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2006	2005	2006	2005
	(In thousands, except percentages)			
Cost of service revenues	$ 10,820	$ 8,431	$ 30,883	$ 23,929
Cost of technology revenues	$ 3,006	$ 77	$ 13,373	$ 903
Cost of service and technology revenues	$ 13,826	$ 8,508	$ 44,256	$ 24,832
Change from same prior-year period	63%	7%	78%	-1%
Percentage of service and technology revenues	26%	20%	28%	20%
Service gross margin	$ 38,180	$ 33,865	$ 114,498	$ 96,960
Technology gross margin	$ 610	$ 824	$ 1,851	$ 2,099
Service gross margin as a percentage of service revenue	78%	80%	79%	80%
Technology gross margin as a percentage of technology revenue	17%	91%	12%	70%

Costs of service and technology revenues consist primarily of telecommunication and network expenses, employee salaries, call center, credit card processing fees, and other expenses related to providing the TiVo service. Also included are expenses related to providing engineering services to our customers, including employee salaries and related costs, as well as prototyping and other material costs. Cost of service and technology revenues for the three and nine months ended October 31, 2006 increased by $5.3 million and $19.4 million or 63% and 78% as compared to the same prior-year periods primarily as a result of the recognition of Comcast development cost of revenues of $2.9 million and $13.1 million for the three and nine months ended October 31, 2006, respectively.

Cost of service revenues for the three and nine months ended October 31, 2006 increased by 28% and 29%, respectively or $2.4 million and $7.0 million, respectively, as compared to the same prior-year periods. The primary driver of the year over year increase was the 24% increase in the total cumulative TiVo-Owned subscriptions and the costs associated with supporting these additional subscriptions as well as TiVo s increased focus on issues of customer care and retention.

Cost of technology revenues increased by $2.9 million and $12.5 million for the three and nine months ended October 31, 2006, as compared to the same prior-year periods. This increase was a result of the recognition of $2.9 million and $13.1 million for the three and nine months ended October 31, 2006, respectively for Comcast development costs, of which $4.6 million of incurred costs was previously deferred as of January 31, 2006. The $2.9 million and the $13.1 million in cost of technology revenues for the three and nine months ended October 31, 2006, respectively, related to the Comcast development agreement was offset by an equal amount of development revenue recognized as technology revenues.

Cost of hardware revenues.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2006	2005	2006	2005
	(In thousands, except percentages)			
		Adjusted		Adjusted
Cost of hardware revenues	$ 31,925	$ 24,667	$ 68,678	$ 48,006
Change from same prior-year period	29%	-13%	43%	-29%
Percentage of hardware revenues	114%	100%	128%	121%
Hardware gross margin	$ (3,947)	$ (15)	$ (15,012)	$ (8,179)
Hardware gross margin as a percentage of hardware revenue	-14%	0%	-28%	-21%

Costs of hardware revenues include all product costs associated with the TiVo-enabled DVRs we distribute and sell, including manufacturing-related overhead and personnel, warranty, certain licensing, order fulfillment, and freight costs. We engage a contract manufacturer to build TiVo-enabled DVRs. We sell this hardware as a means to grow our service revenues and, as a result, do not intend to

generate positive gross margins from these

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hardware sales. The net number of DVRs sold in the quarter ended October 31, 2006 increased by approximately 6% compared to the same period of the prior-year. The adoption of our recently announced multi-tiered pricing and bundled sales model in our direct sales channel resulted in an increased gross margin loss, both in terms of absolute dollars and as a percentage of hardware revenue, for the three and nine months ended October 31, 2006 as compared to the same prior-year periods. This increase is a result of our full upfront recognition of hardware costs associated with these bundled sales with lower or no matching hardware revenues.

Research and development expenses.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2006	2005	2006	2005
	(In thousands, except percentages)			
Research and development expenses	$ 12,221	$ 9,712	$ 37,973	$ 30,394
Change from same prior-year period	26%	5%	25%	15%
Percentage of net revenues	19%	20%	21%	22%

Our research and development expenses consist primarily of employee salaries, related expenses, and consulting expenses. Research and development expenses, as a percentage of net revenue decreased 1% for the three and nine months ended October 31, 2006 as compared to the same prior-year periods. However, in terms of absolute dollars, research and development expenses increased 26% and 25% for the three and nine months ended October 31, 2006, as compared to the same prior-year periods. The absolute dollar increase in expenses for three and nine months ended October 31, 2006 was due largely to the costs associated with increased headcount of 48 employees, or $1.2 million and $3.7 million, respectively, as compared to the same prior-year periods. The headcount increased largely in response to our initiatives around building and supporting television service provider relationships and our increased focus on our advertising products. Additionally there was an increase of $1.6 million and $4.3 million increase in stock-based compensation expense for the three and nine months end October 31, 2006, respectively as compared to the same prior-year periods.

Sales and marketing expenses.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2006	2005	2006	2005
	(In thousands, except percentages)			
Sales and marketing expenses	$ 10,123	$ 10,006	$ 25,856	$ 24,410
Change from same prior-year period	1%	-30%	6%	-6%
Percentage of net revenues	15%	20%	14%	18%

Sales and marketing expenses consist primarily of employee salaries and related expenses, media advertising (including print, online, radio, and television), public relations activities, special promotions, trade shows, and the production of product related items, including collateral and videos. Sales and marketing expenses, as a percentage of net revenue, decreased by 5% and 4% for the three and nine months ended October 31, 2006, as compared to the same prior-year periods. However, in terms of absolute dollars, sales and marketing expenses increased by 1% and 6% for the three and nine months ended October 31, 2006, as compared to the same prior-year periods. The largest contributors to the increase in sales and marketing expenses for the three and nine months ended October 31, 2006, in terms of absolute dollars, was related to increased headcount of 16 employees or $323,000 and $1.1 million for the three and nine months periods ending October 31, 2006, as compared to the same prior-year periods. Additionally, stock-based compensation expense increased by $454,000 and $1.3 million, respectively as compared to the same prior-year periods. These three and nine month increases were offset by a decrease of $621,000 and $929,000 in production costs associated with commercial spots that aired in the three and nine months ended October 31, 2005.

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General and administrative expenses.

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2006	2005	2006	2005
	(In thousands, except percentages)			
General and administrative	$ 9,811	$ 11,702	$ 35,961	$ 26,249
Change from same prior-year period	-16%	168%	37%	112%
Percentage of net revenues	15%	24%	20%	19%

General and administrative expenses consist primarily of employee salaries and related expenses for executive, administrative, legal, accounting, information technology systems, customer operations personnel, facility costs, and professional fees. General and administrative expenses, as a percentage of net revenues decreased 9% for the three months ended October 31, 2006 and increased 1% for the nine months ended October 31, 2006 as compared to the same prior-year periods and in terms of absolute dollars decreased 16% and increased 37%, compared to the same prior-year periods. For the three and nine months ended October 31, 2006, legal and consulting expenses related to ongoing litigation decreased $4.8 million and increased $1.7 million, respectively, compared to the same prior-year periods. Additionally, headcount related costs increased by $614,000 and $2.7 million for the three and nine months ended October 31, 2006, respectively as compared to the same prior-year periods. These cost increases were due in part to increased headcount of 19 employees, largely within our Information technology systems department, for the three and nine months ended October 31, 2006, respectively. Additionally, stock-based compensation expense increased $1.5 million and $4.1 million for the three and nine months ended October 31, 2006. We expect to continue to incur legal expenses for all pending lawsuits, including material amounts related to the EchoStar Communications patent infringement cases in the future.

Interest income. Interest income resulting from cash and cash equivalents held in interest bearing accounts and short-term investments for the three and nine months ended October 31, 2006 was $1.3 million and $3.3 million, a 56% and 53% increase, respectively from the same prior-year periods. These increases were a result of an increase to 5.26% in the average interest rate earned in the nine months ended October 31, 2006 from 3.04% in the same prior-year period.

Quarterly Results of Operations

The following table presents certain unaudited statements of operations data for our eight most recent quarters ended October 31, 2006. In management s opinion, this unaudited information has been prepared on the same basis as the audited annual financial statements and includes all adjustments, consisting only of normal recurring adjustments necessary for a fair representation of the unaudited information for the quarters presented. This information should be read in conjunction with our audited consolidated financial statements and the notes thereto, which are included in our 2006 Annual Report on Form 10-K and Current Report on Form 8-K filed on July 21, 2006. The results of operations for any quarter are not necessarily indicative of results that may be expected for any future period. Certain amounts in prior periods have been adjusted to conform to the current year presentation in accordance with the Change Accounting Policy set forth under the Part I, Item 1, Note 2. Summary of Significant Accounting Policies in the notes to our condensed consolidated financial statements, as filed with our Quarterly Reports on Form 10-Q for the periods ended April 30, 2006 and July 31, 2006.

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	Oct 31, 2006	Jul 31, 2006	Apr 30, 2006	Three Months Ended Jan 31, 2006 Adjusted	Oct 31, 2005 Adjusted	Jul 31, 2005 Adjusted	Apr 30, 2005	Jan 31, 2005
	(unaudited, in thousands except per share data)							
Revenues								
Service revenues	$ 49,000	$ 49,430	$ 46,951	$ 46,305	$ 42,296	$ 40,249	$ 38,344	$ 32,996
Technology revenues	3,616	3,450	8,158	663	901	425	1,676	1,169
Hardware revenues	27,978	16,235	9,453	32,266	24,652	4,649	10,526	50,452
Rebates, revenue share, and other payments to channel	(14,934)	(9,948)	(8,050)	(19,167)	(18,234)	(5,988)	(3,638)	(25,188)
Net revenues	65,660	59,167	56,512	60,067	49,615	39,335	46,908	59,429
Cost of revenues								
Cost of service revenues	10,820	9,628	10,435	10,250	8,431	6,859	8,639	10,426
Cost of technology revenues	3,006	3,001	7,366	(121)	77	599	227	440
Cost of hardware revenues	31,925	21,607	15,146	38,811	24,667	7,697	15,642	52,267
Total cost of revenues	45,751	34,236	32,947	48,940	33,175	15,155	24,508	63,133
Gross margin	19,909	24,931	23,565	11,127	16,440	24,180	22,400	(3,704)
Operating Expenses								
Research and development	12,221	12,891	12,861	10,693	9,712	9,778	10,904	11,206
Sales and marketing	10,123	8,344	7,389	10,637	10,006	7,574	6,830	11,529
General and administrative	9,811	11,091	15,059	11,769	11,702	8,409	6,138	4,194
Loss from operations	(12,246)	(7,395)	(11,744)	(21,972)	(14,980)	(1,581)	(1,472)	(30,633)
Interest income	1,291	988	1,062	900	826	734	624	458
Interest expense and other	(133)	(29)	(3)	(1)	(10)	(2)	(1)	(3,464)
Loss before income taxes	(11,088)	(6,436)	(10,685)	(21,073)	(14,164)	(849)	(849)	(33,639)
Provision for income taxes	(4)	(12)	(19)	(13)		(43)	(8)	(26)
Net loss	$ (11,092)	$ (6,448)	$ (10,704)	$ (21,086)	$ (14,164)	$ (892)	$ (857)	$ (33,665)
Net loss per common share basic and diluted	$ (0.12)	$ (0.07)	$ (0.13)	$ (0.25)	$ (0.17)	$ (0.01)	$ (0.01)	$ (0.42)
Weighted average common shares used to calculate basic net loss per share	91,930	85,978	85,134	84,643	84,201	83,506	82,381	80,793

Liquidity and Capital Resources

We have financed our operations and met our capital expenditure requirements from the proceeds of the sale of equity and debt securities, as well as revenues generated from our operations. Our cash resources are subject, in part, to the amount and timing of cash received from our subscriptions, licensing and engineering services customers, and hardware customers. Historically, our cash outflows have been higher in the third quarter as we build inventory ahead of the holiday season, followed by a recovery in the fourth quarter as we receive receipts from our retailing partners and consumers. At October 31, 2006, we had $107.0 million of cash and cash equivalents and short-term investments. We believe our cash and cash equivalents and short-term investments, and funds generated from operations represent sufficient resources of liquidity to fund operations, capital expenditures, and working capital needs through the next twelve months.

Statement of Cash Flows Discussion

Our primary sources of liquidity are cash flows provided by subscription revenues and by financing activities. Although we currently anticipate our current resources of liquidity, identified above, will be sufficient to meet our cash needs through the next twelve months, we may require or choose to obtain additional financing. Our ability to obtain financing will depend, among other things, on our development efforts, business

plans, operating performance, and the condition of the capital markets at the time we seek financing. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock, and our stockholders may experience dilution. Please refer to Part II, Item 1A, Risk Factors in this Report and Part I, Item 1A, Risk Factors in our most recent annual report on Form 10-K for further discussion.

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The following table summarizes our cash flow activities:

	Nine Months Ended October 31, 2006	2005
	(in thousands)	
		Adjusted
Net cash used in operating activities	$ (55,212)	$ (12,262)
Net cash used in investing activities	(28,392)	(2,562)
Net cash provided by financing activities	77,204	4,185

Net Cash Used in Operating Activities

The net cash used in operating activities was approximately $55.2 million during the nine months ended October 31, 2006, an increase of approximately $42.9 million from a use of $12.3 million in the same prior-year period. This increase in cash flows used in operating activities during the nine months ended October 31, 2006 is due to an increase in net loss of $12.3 million, increased inventory expenditures of $14.1 million in preparation for our holiday season and a decrease in deferred revenues of $17.9 million due to our discontinued general sale of the lifetime subscription plan.

Net Cash Used in Investing Activities

The net cash used in investing activities was approximately $28.4 million during the nine months ended October 31, 2006, an increase of approximately $25.8 million from a use of $2.6 million in the same prior-year period. This increase was largely due to purchases of property and equipment for $6.1 million to support our business growth, $1.1 million used to purchase technology utilized within our new TiVo Series2 DT box (dual tuner model), $12.0 million for acquisition of intellectual property rights, and $13.5 million for purchases of short-term investments. This usage was offset by the sale of short-term investments of $4.4 million.

Net Cash Provided by Financing Activities

The net cash provided by financing activities was approximately $77.2 million during the nine months ended October 31, 2006, an increase of approximately $73.0 million from the net cash provided of $4.2 million during the same prior-year period. The principal source of cash generated from financing activities related to the issuance of common stock, of which $64.5 million was the net proceeds of our September 5, 2006 underwritten public offering, $8.6 million was related to stock option exercises, $3.3 million was issuances related to warrant exercises and $1.3 million was issuances related to our employee stock purchase plan. For the nine months ended October 31, 2005, cash generated from financing activities was $3.5 million in borrowings under our bank line of credit, $6.4 million and $2.2 million from issuance of common stock for stock options exercised and our employee stock purchase plan, respectively. These amounts were offset by payments to our bank line of credit of $8.0 million.

Financing Agreements

$100 Million Universal Shelf Registration Statement. We have an effective universal shelf registration statement on Form S-3 (No. 333-113719) on file with the Securities and Exchange Commission under which we may issue up to $100,000,000 of securities, including debt securities, common stock, preferred stock, and warrants. On September 5, 2006 we sold 8,264,463 shares of our common stock, par value $.001 per share, at $7.865 per share in an underwritten public offering. The sale of the shares closed on September 11, 2006. The sale of the shares was registered pursuant to our $100 million universal shelf registration statement on Form S-3 (File No. 333-113719). The net proceeds from this sale were approximately $64.5 million after deducting our estimated offering expenses of $484,000. We intend to use the net proceeds from the sale of our common stock for general corporate purposes, which may include: funding research, development, sales and marketing, increasing our working capital, reducing indebtedness, and capital expenditures. Pending the application of the net proceeds, we expect to invest the net proceeds primarily in U.S. government securities and money market funds, as well as in investment-grade, interest bearing securities. Depending upon market conditions, we may issue additional securities under this or future registration statements.

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Contractual Obligations

Contractual Obligations	Total	Payments due by Period Less than 1 year	1-3 years	3-5 years
		(In thousands)		
Operating leases	$ 7,715	$ 2,319	$ 4,855	$ 541
Purchase obligations	29,516	29,516		
Total contractual cash obligations	**$ 37,231**	**$ 31,835**	**$ 4,855**	**$ 541**

Purchase Commitments with Contract Manufacturers and Suppliers. We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to manage manufacturing lead times and help assure adequate component supply, we enter into agreements with contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by us or that establish the parameters defining our requirements. In certain instances, these agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed. The table above displays that portion of our purchase commitments arising from these agreements that is firm, non-cancelable, and unconditional. The purchase commitments of $37.2 million as of October 31, 2006 are significantly higher than the same prior-year period primarily related to the building of new DVR models. The purchase commitments of $17.2 million as of October 31, 2005 were much lower than the same period this year as a result of a larger than expected amount of inventory in the channel and on-hand during the quarter.

Off-Balance Sheet Arrangements

As part of our ongoing business, we generally do not engage in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities. Accordingly, our operating results, financial condition, and cash flows are not generally subject to off-balance sheet risks associated with these types of arrangements. We did not have any material off-balance sheet arrangements at October 31, 2006.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio and we conduct transactions in U.S. dollars. Our investment portfolio only includes highly liquid instruments with original maturities of less than one year, held for investment purposes, not trading purposes.

We are subject to fluctuating interest rates that may affect, adversely or otherwise, our results of operations or cash flows for our cash and cash equivalents and our short-term investments.

The table below presents principal amounts and related weighted average interest rates as of October 31, 2006 for our cash and cash equivalents and short-term investments.

Cash and cash equivalents and short-term investments (in thousands)	$ 106,965	
Average interest rate		5.26%

Although payments under the operating lease for our facility are tied to market indices, we are not exposed to material interest rate risk associated with the operating lease.

ITEM 4. CONTROLS AND PROCEDURES.

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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As required by Rule 13a-15(b) and 15d-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal quarter covered by this report. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in reaching a level of reasonable assurance in achieving our desired control objectives.

In the ordinary course of business, we routinely enhance our information systems by either upgrading our current systems or implementing new systems. During the current quarter, we completed a significant upgrade to our information systems that track and account for various aspects of our hardware business. These enhancements primarily focus on automating many of the processes used to account for our hardware business that were formally done manually. There have been no other changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information under the heading Legal Matters set forth under Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1. of this Report, is incorporated herein by reference.

ITEM 1A. RISK FACTORS.

We have filed a patent infringement lawsuit against EchoStar Communications Corporation. We are incurring significant expenses as a result, and an adverse outcome in the lawsuit could harm our business.

On January 5, 2004, we filed a complaint against EchoStar Communications Corporation (ECC) in the U.S. District Court for the Eastern District of Texas alleging willful and deliberate infringement of U.S. Patent No. 6,233,389, entitled Multimedia Time Warping System. On January 15, 2004, we amended our complaint to add EchoStar DBS Corporation, EchoStar Technologies Corporation, and Echosphere Limited Liability Corporation as additional defendants. We allege that we are the owner of this patent and further allege that the defendants have willfully and deliberately infringed this patent by making, selling, offering to sell and/or selling digital video recording devices, digital video recording device software, and/or personal television services in the United States. On April 13, 2006, the jury rendered a verdict in our favor for the amount of approximately $74.0 million dollars. The jury ruled that our patent is valid and that all nine of the asserted claims in our patent are infringed by each of the accused EchoStar products. The jury also ruled that the defendants willfully infringed the patent. On May 16, 2006, the USPTO issued its first Office Action in response to a request by the defendants for reexamination of the 389 patent. The USPTO reexamined all 61 claims set forth in the 389 patent, confirming the validity of the majority of the claims, including two of the claims that the defendants have been found to have willfully infringed, and rejecting some of the claims. TiVo intends to vigorously defend the validity of the rejected claims. On June 26-28, 2006, the Court held a bench trial on the defendants remaining defenses, including inequitable conduct, and a hearing on other issues such as the amount of pre-judgment interest, supplemental damages, enhanced damages, attorney s fees and costs, and an injunction. On August 17, 2006, the Court denied the defendants remaining defenses, and granted our motion for permanent injunction to prevent EchoStar Communications Corporation from making, using, offering for sale or selling in the United States the following EchoStar DVRs: DP-501, DP-508, DP-510, DP-721, DP-921, DP-522, DP-625, DP-942, and all EchoStar Communications Corporation DVRs that are not more than colorably different from any of these products. The Court also ordered ECC to pay TiVo approximately $74.0 million in damages as awarded by the jury, prejudgment interest at the prime rate through October 31, 2006 of approximately $5.6 million, and supplemental damages for infringement through October 31, 2006 in the amount of approximately $10.3 million. The Court denied our request for enhanced damages and attorney s fees and costs. The Court denied EchoStar s request to stay the injunction pending appeal. On October 3, 2006, the United States Court of Appeals for the Federal Circuit stayed the district court s injunction pending appeal. On November 27, 2006, the district court denied all of EchoStar s post-judgment motions. We are incurring material expenses in this litigation.

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We engage in various advertising, marketing, and other promotions that are regulated by state and federal laws and regulations and any violation of these laws and regulations could harm our business.

We engage in various advertising, marketing, and other promotional activities, such as offering rebates and gift subscriptions to consumers, which are subject to state and federal laws and regulations. An evolving network of state and federal laws is increasingly regulating these promotional activities. If we were to violate any of these laws or regulations governing these promotional activities, we could be subject to suit, penalties, and/or negative publicity in which case our business could be harmed.

On December 22, 2005, a consumer class-action lawsuit against TiVo Inc. was filed in the Superior Court of the State of California, County of San Francisco. This action, which is captioned Nolz, et al. v. TiVo, was brought on behalf of a purported class of purchasers of our gift subscriptions, which were allegedly sold to consumers in violation of California law that restricts the sale of gift certificates in California containing an expiration date. In November 2006, we entered into a settlement agreement with the plaintiffs which is expected to result in dismissal of the action in our first quarter of fiscal year 2008.

We depend on a limited number of third parties to manufacture, distribute, and supply critical components, assemblies, and services for the DVRs that enable the TiVo service. We may be unable to operate our business if these parties do not perform their obligations.

The TiVo service is enabled through the use of a DVR made available by us through a third-party contract manufacturer and a limited number of other third parties. In addition, we rely on sole suppliers for a number of key components for the DVRs. We also rely on third parties with whom we outsource supply-chain activities related to inventory warehousing, order fulfillment, distribution, and other direct sales logistics. We cannot be sure that these parties will perform their obligations as expected or that any revenue, cost savings, or other benefits will be derived from the efforts of these parties. If any of these parties breaches or terminates their agreement with us or otherwise fails to perform their obligations in a timely manner, we may be delayed or prevented from commercializing our products and services. Because our relationships with these parties are non-exclusive, they may also support products and services that compete directly with us, or offer similar or greater support to our competitors. Any of these events could require us to undertake unforeseen additional responsibilities or devote additional resources to commercialize our products and services. This outcome would harm our ability to compete effectively and achieve increased market acceptance and brand recognition.

In addition, we face the following risks in relying on these third parties:

If our manufacturing relationships are not successful, we may be unable to satisfy demand for our products and services. We manufacture DVRs that enable the TiVo service through a third-party contract manufacturer. We also have entered and anticipate entering into agreements with consumer electronics manufacturers to manufacture and distribute DVRs that enable the TiVo service. However, we have no minimum volume commitments from any manufacturer. The ability of our consumer electronics manufacturers to reach sufficient production volume of DVRs to satisfy anticipated demand is subject to delays and unforeseen problems such as defects, shortages of critical components and cost overruns. Moreover, they will require substantial lead times to manufacture anticipated quantities of the DVRs that enable the TiVo service. Delays, product shortages, and other problems could impair the retail distribution and brand image and make it difficult for us to attract subscriptions. In addition, the loss of a manufacturer would require us to identify and contract with alternative sources of manufacturing, which we may be unable to do and which could prove time-consuming and expensive. Although we expect to continue to contract with additional consumer electronics companies for the manufacture of DVRs in the future, we may be unable to establish additional relationships on acceptable terms.

We are dependent on sole suppliers for several key components and services. If these suppliers fail to perform their obligations, we may be unable to find alternative suppliers or deliver our products and services to our customers on time. We currently rely on sole suppliers for a number of the key components used in the TiVo-enabled DVRs and the TiVo service. For example:

- Broadcom is the sole supplier of the MPEG2 encoder and decoder semiconductor devices;
- Amtek is the sole supplier of the chassis; and
- Remote Solutions is the sole supplier of remote controls.

We do not currently have written supply agreements with Broadcom or Amtek, but do with Remote Solutions. Therefore, Broadcom and Amtek may not be contractually obligated to supply us with these key components on a long-term basis or at all. In addition to the above, we have several sole suppliers for key components of our products currently under development.

Tribune is the sole supplier of the program guide data for the TiVo service. Tribune Media Services, Inc., or Tribune, is the current sole supplier of program guide data for the TiVo service. Our current Television Listings Data Agreement with Tribune became effective on March 1, 2004 and has an initial term of three years and will automatically renew for up to two additional terms of one year each unless we notify Tribune of our desire to terminate the agreement at least 90 days before the end of the then-current term. Tribune may only terminate in the case of an uncured breach by TiVo. If Tribune breaches its obligation to provide us with data, or otherwise fails to perform its obligations under our agreement, we would be unable to provide certain aspects of the TiVo service to our customers. This would have serious repercussions on our brand and our ability to succeed in the market. We may be unable to secure an alternate source of guide data on acceptable terms.

If our arrangements or our consumer electronics manufacturers arrangements with Broadcom, Amtek, Remote Solutions or Tribune were to terminate or expire, or if we or our manufacturers were unable to obtain sufficient quantities of these components or required program guide data from our suppliers, our search for alternate suppliers could result in significant delays, added expense or disruption in product or service availability.

We depend upon third parties to provide supply chain services related to inventory management, order fulfillment, and direct sales logistics. We rely on third party vendors to provide cost-effective and efficient supply chain services. Among other activities, these outsourced services relate to direct sales logistics, including order fulfillment, inventory management and warehousing, and distribution of inventory to third party retailers. If one or several of our third party supply chain partners were to discontinue services for us, our ability to fulfill direct sales orders and distribute inventory timely, cost effectively, or at all, would be hindered which could in turn harm our business.

We are dependent on our major retail partners for distribution of our products to consumers. We currently rely on our relationships with major retail distributors including Best Buy, Circuit City, Fry s Electronics, and others for distribution of TiVo-enabled DVRs. We do not typically enter into long-term volume commitments with our major retail distributors. If one or several of our major retail partners were to discontinue selling our products, the volume of TiVo-enabled DVRs sold to consumers could decrease which could in turn harm our business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
10.1 +	The Second Amendment to the Licensing and Marketing Agreement, effective October 23, 2006, between TiVo Inc. and Comcast STB Software DVR, LLC and Comcast Corporation (filed herewith).
31.1	Certification of Thomas S. Rogers, President and Chief Executive Officer of TiVo Inc. dated December 11, 2006 pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Steven J. Sordello, Senior Vice President and Chief Financial Officer of TiVo Inc. dated December 11, 2006 pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Thomas S. Rogers, President and Chief Executive Officer of TiVo Inc. dated December 11, 2006 in accordance with 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Steven J. Sordello, Senior Vice President and Chief Financial Officer of TiVo Inc. dated December 11, 2006 in accordance with 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\+ Confidential Treatment has been requested as to portions of this exhibit.

Trademark Acknowledgments

TiVo, the TiVo Logo, TiVo Smile Design, TiVo Central, Can t Miss TV, Ipreview, the Jump Logo, Personal Video Recorder, See it, want it, TiVoMatic, TiVo, TV Your Way, TiVolution, the Thumbs Up Logo, the Thumbs Down Logo, What you want, when you want it, and WishList are registered trademarks of TiVo Inc.

Guru Guide, Active Preview, Home Media Option , Overtime Scheduler, Primetime Anytime, Season Pass , TiVoToGo , and TiVo Ser and text) are trademarks of TiVo Inc. All other trademarks or trade names appearing in this report are the property of their respective owners.

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SIGNATURES

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

	TIVO INC.	
Date: December 11, 2006	By:	/s/ THOMAS S. ROGERS Thomas S. Rogers President and Chief Executive (Principal Executive Officer)
Date: December 11, 2006	By:	/s/ STEVEN J. SORDELLO Steven J. Sordello Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)