

TIVO INC
Form 10-K
April 14, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 2006

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
(State or other jurisdiction of incorporation or organization)

77-0463167
(IRS Employer Identification No.)

2160 Gold Street, PO Box 2160, Alviso, CA
(Address of principal executive offices)

95002
(Zip Code)

(408) 519-9100

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

NONE

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Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, \$.001 PAR VALUE PER SHARE

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the registrant's common stock, \$0.0001 par value per share, held by non-affiliates of the registrant on July 29, 2005, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$434.6 million (based on the closing sales price of the registrant's common stock on that date as reported in the Nasdaq National Market System). Shares of the registrant's common stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

On April 3, 2006, the Registrant had 85,717,060 outstanding shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant's definitive proxy statement (the Proxy Statement) for the 2006 Annual Meeting of Shareholders to be filed on or before May 31, 2006.

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FORM 10-K

FOR THE FISCAL YEAR ENDED JANUARY 31, 2006

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TiVo, the TiVo Logo, the TiVo Smile design, WishList, TiVo Central, Can't Miss TV, Ipreview, TiVoMatic, TiVo, TV Your Way, want, when you want it, TiVolution, Active Preview, DIRECTIVO, Home Media Option, Life's too short for bad TV, Overtime Scheduler, Personal TV, Primetime Anytime, Season Pass, See it, want it, get it, Series2 (logo and text), the Jump Logo, TiVoToGo, the Thumbs Up logo and the Thumbs Down logo are trademarks or registered trademarks of TiVo Inc. or its subsidiaries worldwide. All other trademarks or trade names appearing in this report are the property of their respective owners.

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Except as the context otherwise requires, the terms TiVo, Registrant, company, we, us, or our as used herein are references to TiVo Inc. and its consolidated subsidiaries.

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PART I

ITEM 1. BUSINESS.
General Development of Business

TiVo is a leading provider of technology and services for digital video recorders (DVR). 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 recordings, and online scheduling. As of January 31, 2006, there were approximately 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, Comcast, as well as through consumer electronics retailers. We also provide innovative marketing solutions for the television industry, including a unique platform for advertisers and audience research.

We currently derive revenues from three sources:

Consumers. Our primary source of revenues is from consumers, who subscribe directly to the TiVo service and pay us monthly fees of up to \$19.95 per month. We also offer consumers the option to prepay for one to three years of TiVo service at prices ranging from \$155.40 to \$469. We reach consumers in part through distribution relationships with major retailers and also through our on-line store at TiVo.com.

Television service providers. We also work with DIRECTV, a satellite television provider, who largely pays us recurring monthly fees in order to offer the TiVo service to its subscribers. We receive fees for licensing and professional services from this and other customers.

Advertisers. We work directly with major television advertisers and agencies to offer a variety of solutions for the television advertising market. These include short- and long-form video advertising, limited audience measurement and research, lead generation, and commerce. Some of our key clients include General Motors, IRI, Nissan Motor Corp., ING, Earthlink, Visa, Novartis, Nautilus, and Warner Brothers.

We continue to be subject to a number of risks, including delays in product and service developments; competitive service offerings; lack of market acceptance; and uncertainty of future profitability; dependence on third parties for manufacturing, marketing, and sales support; intellectual property claims against us; and our ability to sustain or grow our subscription base. We conduct our operations through one reportable segment. We anticipate that our business will continue to be seasonal and expect to generate a significant number of our annual new subscriptions during and immediately after the holiday shopping season. To date, we have incurred significant losses and have had substantial negative cash flow. During the fiscal year ended January 31, 2006, we generated cash flow from operations for the first time in our history and had net losses of \$34.4 million. As of January 31, 2006, we had an accumulated deficit of \$691.5 million.

Industry Background

Consumer Demand is Driving Widespread Adoption of DVR Technology. We believe DVRs offer a compelling value proposition to consumers by providing the means to effectively sort through, select from, and organize the growing volume of broadcast video content. DVR technology also gives consumers the ability to easily fast forward, pause, and rewind recorded broadcast video content which should result in increased demand for DVR technology.

Television Distributors See DVR Technology as a Competitive Asset. Nearly all of the major television distributors in the United States including Comcast, DIRECTV, EchoStar, Time-Warner Cable, and others, are offering DVR technology to their customers and have indicated they consider DVR technology a competitive tool. For example, major satellite companies have used TiVo and other DVR technologies when advertising against their cable company competition. These operators are looking for ways to more effectively attract consumers to their own offerings.

DVR is Changing the Television Advertising Industry. The proliferation of DVRs, and their ability to easily skip through television content, is requiring television advertisers to evaluate new and different ways to reach out to consumers.

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Our Solution

We have created a unique set of technologies, products, and services that meet the needs of consumers, television distributors, and the advertising community.

Compelling, Easy-to-Use Consumer DVR Offering. The TiVo service, combined with a TiVo-enabled DVR, has many features that we believe dramatically improve a consumer's television viewing experience. Depending on the model, TiVo-enabled DVRs can support analog cable, digital cable, satellite, or over-the-air broadcast television, including high definition television. The TiVo service enables consumers to watch TV on their own schedule by automatically finding and digitally recording their favorite shows, all season long, even if the schedule changes, and can even skip reruns. The TiVo service allows consumers to find new shows to watch through features that enable them to search for shows to record by subject, title, genre, actor, director, or channel. The TiVo service can also suggest shows consumers may like based on shows they are recording. Consumers can also pause and rewind live and recorded television. Unlike with a VCR, consumers can playback a show from its beginning while it is in the middle of being recorded, and consumers can play back a previously recorded show while recording another show.

Differentiated Features. The TiVo service also offers home entertainment innovations with features like digital music and photos, multi-room viewing, mobility, and unique control over what television programming is viewable in the home. Customers with the TiVo service and a Series2 DVR connected to their home network can play their digital music collection through their home entertainment system, or view digital photos on their TV. Those with two or more TiVo Series2 DVRs and a home network can use the multi-room viewing feature to record a show in one room and play it back in another room. The TiVoToGo feature enables users to transfer programs recorded on a TiVo DVR to their own personal computer. Consumers can either watch the programming on their personal computer or transfer it to various portable media devices. TiVo is also working with companies like Intel® Corporation to establish more seamless integration with personal computer platforms. TiVo KidZone, when released, is expected to give parents improved ability to easily choose the best television programming for their families. In addition, the future release of the Series3 HD DMR (High Definition, Digital Media Recorder) is expected to provide users with dual tuner, high definition, and CableCARD functionalities. The Series3 is also expected to include advanced codec support that is expected to enable future broadband content delivery services. We believe these advanced features help to differentiate the TiVo service from other competitive DVR offerings.

Integrating Broadband and Broadcast Capabilities. When attached to a broadband connection, a TiVo-enabled DVR with the TiVo services provides access to additional features. The TiVo service enables broadband applications such as Yahoo! Photos that allows users to access photos stored in Yahoo! Photos from their television. Other broadband applications include access to internet radio, pod casting, theatrical movie listings, or games. The TiVo service also enables the delivery of video content through an internet connection expanding the consumer's access to video content of interest to them.

Portable Technology Platform. We are designing our technology for use both in standalone only DVRs and in devices that integrate DVR technology and other functionality, including digital cable and satellite set-top boxes, and DVD recorders. This allows us to offer consumer electronics manufacturers and television distributors a branded, highly respected DVR service that they can in turn offer to their customers.

Advanced Advertising and Promotion Solutions. We offer a variety of solutions to the advertising industry. Through our Showcases and other advertising and promotion solutions, we distribute video content designed to entertain consumers while providing a promotional vehicle for our advertising and promotion customers. For example, movie studios pay us to deliver previews of upcoming films, consumer product companies pay us to deliver their product and services content, and film and television companies pay us to promote upcoming programs.

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Our Strategy

Our goal is to generate recurring revenues through the deployment of our branded entertainment services and technology to television viewing households worldwide. The key elements of our strategy are:

Offer an Increasingly Differentiated Service. Our goal is to lead the market with innovations that expand the value and potential of our subscription service. We plan to continue to invest in innovation to improve consumer choice, convenience, and control over their home entertainment and to make TiVo more compelling for both current and potential customers. For example, we expect to launch, later this year, a new service feature called TiVo KidZone, which will be a personalized TV area where children will be able to find quality live or recorded programming that their parents deem appropriate. We plan to provide consumers with access to new interactive applications with the ability to receive more content delivered to their TiVo-enabled DVRs over a broadband connection. We believe that the combination of mobility, entertainment personalization, and broadcast/broadband integration will continue to enhance the TiVo service.

Diversify our Sources of Revenue. As our subscription base has grown, we have been able to offer interactive advertising capabilities to programmers and advertisers. We plan to continue developing and enhancing these offerings, which take advantage of the unique tagging, recording, storage, and viewing capabilities of the TiVo service. Some of our key clients include General Motors, IRI, Nissan Motor Corp., ING, Earthlink, Visa, Novartis, Nautilus, and Warner Brothers.

Integrate Our Technology. Our strategy focuses on creating, developing, and deploying a software version of the TiVo service that will be executable on certain third-party DVR platforms in order to promote the mass deployment of devices capable of running the TiVo service. The focus of this effort is primarily on cable television providers, which are deploying DVR s in increasing numbers. Last year we announced a partnership with Comcast to deploy, in the future, a software version of the TiVo service on DVR hardware manufactured by Motorola and deployed by Comcast.

Extend and Protect Our Intellectual Property. The convenience, control, and ease of use of the TiVo service is derived largely from the technology we have developed. We intend to continue to design, develop, and implement innovative technological solutions that leverage and enhance the TiVo service offering. We have adopted a proactive patent and trademark strategy designed to protect and extend our technology and intellectual property.

Promote and Leverage the TiVo Brand. We believe the strength of the TiVo brand is an advantage in attracting consumers, cable and satellite television providers, and other customers. In the past, we have dedicated substantial resources to promoting our brand through multiple advertising and marketing channels, participation in trade shows, sponsoring events, merchandising, and by leveraging strategic relationships.

Our Technology

TiVo has developed a technology portfolio that makes available the TiVo service both on a standalone retail DVR product line as well as on the integrated set-top boxes of a major satellite television provider. We anticipate making the TiVo service available on set-top boxes of additional cable television providers in the future. TiVo s technology for enabling the TiVo service includes: the TiVo service client software platform, the TiVo service infrastructure, and TiVo-enabled DVR hardware design.

TiVo Service Client Software. The TiVo service client software runs on TiVo-enabled DVRs. It consists of operational software required for a TiVo-enabled DVR to deliver the TiVo service. The software includes system components such as a media-oriented file system, a high-performance transactional database, an integrated security system, and application components such as media management and user interface. We have enhanced the client software to support multiple services and applications, such as digital music and photos. The TiVo client software manages interaction with the TiVo service infrastructure. After the initial set-up of the TiVo service, the TiVo-enabled DVR will automatically connect to the TiVo service infrastructure over a dial-up or broadband connection to download the program guide data, client software upgrades, Showcases, and other content.

We are currently extending the TiVo service client software to enable future deployment on certain industry standard integrated DVR set-top boxes. Under the terms of our agreement with Comcast, for example, we currently intend to make the TiVo service available as a software upgrade to the already installed base of certain Motorola DVRs already deployed by Comcast. We also intend to extend the TiVo service to run on other DVR set-top boxes capable of supporting Comcast-deployed middleware and the forthcoming Open Cable Application Platform (OCAP) solutions.

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TiVo Service Infrastructure. The TiVo service infrastructure enables the ongoing operation of the TiVo service, managing the distribution of proprietary services, and specialized content such as program guide data, Showcases, and TiVo client software upgrades. It interfaces with our billing and customer support systems for service authorization and bug tracking. In addition, the TiVo service infrastructure collects anonymous viewing information uploaded from TiVo-enabled DVRs for use in our audience measurement efforts. We believe the TiVo service infrastructure technology is scalable, robust, and reliable. The infrastructure has also been designed to work with the networks of service provider customers, for example, by utilizing DIRECTV's satellite bandwidth to deliver data to DIRECTV receivers with TiVo service.

TiVo-Enabled DVR Hardware Design. The TiVo-enabled DVR hardware design is a specification developed by TiVo for set-top boxes containing a hard disk drive, a CPU and memory, digital video chips, a modem, and other components. We provide this design to our contract manufacturer that produces TiVo-branded DVRs. The DVR hardware design has been integrated into a variety of products including standalone TiVo service DVRs, DIRECTV receivers, DVD players, and DVD recorders. The TiVo-enabled DVR hardware design includes a modular front-end that allows the basic platform to be used for digital and analog broadcast, digital and analog cable, and satellite applications. In addition, certain designs include USB ports to allow connection to broadband networks and external devices to enable existing and future services. A TiVo-enabled DVR without a subscription to the TiVo service has minimal functionality.

Significant Relationships

Comcast. On March 15, 2005, we entered into a non-exclusive licensing and marketing agreement with entities affiliated with Comcast Corporation. Pursuant to this agreement, we agreed to develop a TiVo-branded software solution for deployment on Comcast's DVR platforms, which would enable the TiVo user interface and DVR application, which includes features, such as WishList®, and Season Pass. In addition, we agreed to develop an 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 has also paid us fees for licensing the TiVo technology, and will continue to pay us fees for engineering services for the development and integration of the TiVo service software solution (subject to adjustment under certain circumstances) and will also pay us for the 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 advertising management system, subject to Comcast's option to terminate such right in exchange for certain advertising-related payments.

Development and deployment of the TiVo service software solution is targeted to occur within two years from the date of the agreement. Development and deployment of the TiVo advertising management system is targeted to begin after the second anniversary of this agreement, but by no later than February 15, 2008. In the event development of the TiVo service software solution and the TiVo advertising management system have not been completed by the relevant deadlines, we could be subject to certain consequences, including, but not limited to, termination of the agreement. As part of this agreement, Comcast received a non-exclusive, non-transferable license to our intellectual property in order to deploy the TiVo service software solution and advertising management system, including certain trademark branding rights and a 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.

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DIRECTV. DIRECTV is the largest provider of satellite television in the U.S. We have had a longstanding relationship with DIRECTV from 1999 to the present to provide the TiVo service to its customer base. As of January 31, 2006, we had acquired approximately 2.9 million subscriptions through this relationship. In the fiscal year ended January 31, 2006, we reported \$32.8 million of DIRECTV-related revenues, which include subscription revenues and DIRECTV-related advertising revenues. This represents 14% of our total net revenues.

DIRECTV currently pays us a recurring monthly per-household fee for access to the technology needed to offer its customers the TiVo service. We incur limited recurring expenses and, on a marginal basis, limited or no acquisition costs for these subscriptions. We also recognize revenue from DIRECTV for engineering services work on integrated DIRECTV satellite receivers with TiVo service and the related service infrastructure. We are currently providing DIRECTV with engineering services related to hardware and service cost improvements and feature enhancements for existing platforms and customers.

Additionally, DIRECTV distributes features that enable advanced automatic recording capabilities and the delivery of promotional video to DIRECTV receivers with TiVo service. Subject to certain restrictions and exceptions, both DIRECTV and TiVo may sell advertising and audience measurement data, with each party retaining all their respective revenues generated from such sales.

DIRECTV recently launched a competing DVR by NDS to compete with DIRECTV receivers with TiVo service. The new DIRECTV R15 DVR which includes software by NDS is not manufactured under license from TiVo. As of January 31, 2006, DIRECTV's only high definition DVR model was a TiVo-enabled DVR, which DIRECTV continues to distribute. DIRECTV has stated that its core initiatives and new customer acquisition efforts will focus on its new DVR from NDS and has stated its intention to add high definition programming in a format that is not compatible with the existing TiVo-enabled DVR distributed by DIRECTV. As a result, we have seen a reduction in the number of new DIRECTV receivers with TiVo service customers, a trend that we expect to continue.

On April 7, 2006, we entered into the Seventh Amendment of our 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, we will continue to provide maintenance and support for DIRECTV receivers with TiVo service through the expiration date of the Development Agreement. 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, we agreed that neither party would assert its patents against the other party with respect to each company's products and services employed prior to the expiration of the agreement, subject to limited exceptions. DIRECTV will continue to pay us 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, subject to a monthly minimum payment by DIRECTV. We will reserve a portion of these fees as a non-refundable credit to fund mutually agreed annual development, maintenance, and support services.

On April 7, 2006, we also entered into the First Amendment of our Amended and Restated Services Agreement, dated as of March 31, 2005, with DIRECTV. This amendment extends the term of the Services Agreement until February 15, 2010, and 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.

Hardware Manufacturers. Several consumer electronics manufacturers, including Toshiba, Humax, and Pioneer, have manufactured and distributed TiVo-enabled standalone DVRs during the last three years. Each manufacturer is responsible for the manufacturing and distribution of its branded DVRs and DVD recorders. We are solely responsible for the activation of the TiVo service on these DVRs or DVD recorders if the purchaser of the unit decides to purchase a subscription to the TiVo service. A TiVo-enabled DVR or DVD recorder without a subscription to the TiVo service has minimal functionality. We also engage contract manufacturers to build TiVo-enabled standalone DVRs. We distribute these DVRs, selling them both directly to consumers and to major retailers. The table below shows the breakdown of DVRs compatible with the TiVo service that were manufactured during the fiscal years ended January 31, 2006, 2005, and 2004. The table below does not include TiVo-enabled DVRs integrated with satellite set-top boxes of DIRECTV which are manufactured by DIRECTV and its manufacturers.

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	Fiscal Year Ended		
	January 31,		
TiVo-Enabled DVRs Manufactured by:	2006	2005	2004
Hardware Manufacturers	12%	64%	39%
Contract Manufacturers for TiVo	88%	34%	49%
Licensing and Engineering Professional Services Customers	0%	2%	12%
Total Manufactured TiVo-enabled DVRs	100%	100%	100%

TGC, Inc. On August 9, 2004, we acquired a minority interest in TGC, Inc. (TGC), a newly formed independent entity. In exchange for our interest in TGC, we granted TGC a license to certain aspects of our technology for use in The People's Republic of China, Singapore, Hong Kong, Macau and The Republic of China. Through TGC, we have gained access to high quality engineering resources for the design and development of additional digital video recorder platforms. TGC engages in design, development, and licensing activities related to digital video recorder platforms and technology. In fiscal year 2005, TGC performed design and development activities related to a potential TiVo product for the U.S. market. In December 2005 TGC launched a DVR product that includes TiVo technology and branding in The Republic of China. We expect that TGC will pursue opportunities to market TiVo technology in The People's Republic of China, Singapore, Hong Kong, and Macau. TGC's technology license from TiVo is exclusive for the first five years and non-exclusive to TGC for a perpetual period afterwards. Subject to certain terms and conditions, this license grants TGC limited access to portions of TiVo's source code and provides for both parties to exchange improvements to that code during the first five years. We will be entitled to royalty payments from TGC in limited circumstances. In addition, TGC has agreed not to market, without our prior consent, any DVR products or DVR services that do not support the TiVo service outside of the People's Republic of China, Singapore, Hong Kong, Macau and The Republic of China. In the United States, TGC may offer DVR products that support the U.S. TiVo service to TiVo, authorized TiVo licensees or with TiVo's prior approval retail distributors.

Sales and Marketing

Consumer Offerings. We sell subscriptions to the TiVo service directly to consumers who have purchased a TiVo-enabled DVR. We sell TiVo service-only subscriptions either for a monthly subscription rate of \$12.95 (with discounts available to subscribers who have multiple subscriptions to the TiVo service), or a pre-pay option of \$155.40 for one-year, \$299 for two-years or \$399 for three-years of TiVo service. We have announced our intention to eliminate the product lifetime service option. TiVo-enabled DVRs are available from major retailers across the United States, including Best Buy, Circuit City, CompUSA, and Target. We recognize revenues from the sale of TiVo-branded DVRs manufactured for us. To drive sales while managing costs, we have shared marketing expenses with key retailers, and in some cases, we have offered to share a portion of the subscription revenues.

We also sell bundled offering of a TiVo-enabled DVR and a subscription to the TiVo service through our direct sales channel. Current pricing offered through our direct channel is:

The price for an 80-hr TiVo-enabled DVR and a one-year service commitment is \$19.95 a month or \$224 prepaid

The price for an 80-hr TiVo-enabled DVR and a two-year service commitment is \$18.95 a month or \$369 prepaid

The price for an 80-hr TiVo-enabled DVR and a three-year service commitment is \$16.95 a month or \$469 prepaid

Services to Television Service Providers. We also sell our technology and services to television service providers, such as DIRECTV and Comcast, who then market (or in the case of Comcast, plan to market in the future) the TiVo service to their subscribers either directly or, in the case of DIRECTV, also through major retailers across the United States.

Services to the Advertising Industry. We also sell advertising and limited audience measurement research services, through a dedicated team of salespeople and through partnerships with third parties like Nielsen Media Research.

Customer Service and Support

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For our DIRECTV receivers with TiVo service, DIRECTV generally handles customer support. For our TiVo-Owned standalone DVRs, we provide customer support through outsourced service providers as well as our internal customer service personnel.

Individual customers have access to an Internet-based repository for technical information and troubleshooting techniques. They also can obtain support through other means such as the TiVo website, web forums, email, and telephone support.

We offer a manufacturer's warranty on our TiVo-Owned standalone DVRs of 90 days for labor and one year for parts. For our TiVo Package subscriptions that include both a TiVo-Owned standalone DVR and a subscription to our service, we offer to extend such manufacturer's warranty for parts only for the duration of the subscription which may last as long as three years. We contract with third parties to handle warranty repair.

Manufacturing and Supply Chain

We outsource the manufacturing of our products to third-party manufacturers. This outsourcing extends from prototyping to volume manufacturing and includes activities such as material procurement, final assembly, test, quality control, and shipment to distribution centers. Today the majority of our products are assembled in China and Mexico. Our primary distribution centers are operated on an outsourced basis in Texas and Nevada.

The components that make up our products are purchased from various vendors, including key suppliers such as Broadcom, which supplies microprocessors, Amtek, which is a supplier of the chassis, and Remote Solutions, which supplies remote controls and bezels. Some of our components, including microprocessors, chassis, remote controls, and certain discrete components are currently supplied by sole source suppliers.

Seasonality

Sales of our DVRs and subscriptions to the TiVo service are affected by seasonality. Thus, we generate a significant number of our annual DVR sales and new subscriptions during and immediately after the holiday shopping season with associated increases in revenue. We also incur significant increases in expenses in the second and third quarter related to hardware costs, rebates, revenue share and other payments to channel, and sales and marketing expenses in anticipation of the holiday shopping season.

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

TiVo Inc.	Fiscal Year Ended January 31,		
	2006	2005	2004
Research and Development Expenses	\$ 41.1	\$ 37.6	\$ 22.2

Although our total company employee headcount increased by approximately 25% in fiscal year 2006, we increased the number of our regular, temporary, and part-time employees engaged in research and development by 16% from a total of 228 to 264 as of January 31, 2006 compared to January 31, 2005.

Competition

We believe that the principal competitive factors in the DVR market are brand recognition and awareness, functionality, ease of use, availability, and pricing. We currently see two primary categories of DVR competitors: DVRs offered by cable and satellite operators and DVRs offered by consumer electronics and software companies.

Satellite and Cable DVR Competitors. We compete against cable and satellite set-top boxes that integrate DVR functionality.

Satellite: EchoStar offers a range of DVR models, including standard definition and high definition models, most of which offer dual tuner capabilities. Certain models can output signals to multiple TVs within the household. Certain models offer name-based recordings instead of timeslot-base recordings. DIRECTV has introduced a DVR technology from NDS. The current DIRECTV DVR from NDS does not support recording of high-definition broadcasts.

Cable: Cable operators have made DVR technology available on set-top boxes from Scientific-Atlanta and Motorola. These products combine digital and analog cable reception with DVR functionality; some versions offer dual tuner and/or high definition capabilities. Other competition in the cable DVR market comes from other software providers including TV Guide, Microsoft, Aptiv, Digital, and Digeo.

U.S. cable operators are currently deploying server-based Video on Demand (VOD) technology from SeaChange, Concurrent, and others, which could potentially evolve into competition. Additionally, we are aware of at least one U.S. cable operator, Cablevision, Inc., which has announced plans to test server-based DVR technology. Server-based VOD and DVR technology rely on content servers located within the cable operator's central head-end that stream video across the network to a digital cable set-top box within the consumer's home. Cable operators can use server-based VOD and DVR technology to deliver movies, television shows, and other content to consumers. Consumers can watch this programming on demand, with VCR-like pausing and rewinding capabilities. Operators can charge consumers for access to VOD content on a per-transaction or monthly subscription basis, or can offer content without charge. To the extent that cable operators offer regular television programming as part of their server-based VOD offerings and DVR technology, consumers have an alternate means of watching time-shifted shows besides DVRs.

Consumer Electronics Competitors. We compete against several types of products with basic time-slot based recordings or enhanced electronic program guide (EPG) based DVR functionality offered by consumer electronics companies. These products record an analog television signal output from a cable or satellite set-top box, analog cable feed, or antenna.

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Standalone DVRs and hard drive-equipped DVD recorders, TVs and game consoles: ReplayTV continues to offer standalone DVRs with enhanced DVR functionality in limited retail distribution. Several consumer electronics companies, including Panasonic and Sony, produce DVD recorders with hard drives. In addition, several consumer electronics companies, including RCA and Toshiba, offer TVs that can connect to external hard drives to allow for recording of television programming. Some of these TVs offer CableCARD functionality, allowing the receipt of encrypted digital cable programming without the need for a digital cable set-top box. In general, these hard-drive equipped DVD recorders and TVs do not require DVR service fees and offer basic DVR functionality. In the future, companies such as Sony and Microsoft could incorporate DVR technology into their video game consoles as well.

Personal computers with DVR software: Microsoft's Windows XP Media Center Edition contains expanded digital media features including enhanced DVR functionality. PC manufacturers including Dell and Hewlett Packard offer PCs running this Microsoft software and other PC manufacturers such as Apple Computer may offer similar functionality in the future.

Licensing Competitors. Our licensing revenues depend upon both our ability to successfully negotiate licensing agreements with our consumer electronics and service provider customers and, in turn, upon our customers' successful commercialization of their underlying products. In addition, we face competition from companies such as Microsoft, Gemstar, OpenTV, NDS, D&M Holdings, Digeo, Ucentric, Gotuit, and 2Wire, which have created competing digital video recording technologies. Such companies may offer more economically attractive licensing agreements to service providers and manufacturers of DVRs.

Established Competition for Advertising Budgets. Digital video recorder services, in general, and TiVo, specifically, compete with other advertising media such as print, radio, television, and Video on Demand for a share of advertisers' total advertising budgets. If advertisers do not perceive digital video recording services, in general, and TiVo specifically, as an effective advertising medium, they may be reluctant to devote a significant portion of their advertising budget to promotions on the TiVo service. In addition, advertisers may not support or embrace the TiVo technology due to a belief that our technology's ability to fast-forward through commercials will reduce the effectiveness of general television advertising.

Patents and Intellectual Property

We have filed patent applications relating to many critical aspects of the design, functionality, and operation of TiVo products and services. We have been awarded approximately 87 foreign and domestic patents and have approximately 138 foreign and domestic patent applications pending. We have also filed patent applications related to technology that we may incorporate in future versions of our products and services. Patents we hold the rights to include:

U.S. patent number 6,327,418, entitled *Method and Apparatus Implementing Random Access and Time-Based Functions on a Continuous Stream of Formatted Digital Data*, originally filed on April 3, 1998, which describes a method of controlling streaming media in a digital device, including the functions that enable DVRs to pause live TV as well as rewind, fast-forward, play, play faster, play slower, and play in reverse television signals cached by the DVR. We refer to this as the TrickPlay patent. The expiration date of the TrickPlay patent is April 3, 2018.

U.S. patent number 6,792,195 entitled *Method and Apparatus Implementing Random Access and Time-Based Functions on a Continuous Stream of Formatted Digital Data*, which is a continuation of the TrickPlay patent. The expiration date of this patent is likewise April 3, 2018.

U.S. patent 6,233,389, entitled *Multimedia Time Warping System*, originally filed on July 30, 1998, which describes many of the key inventions associated with the TiVo-enabled DVR software and hardware design. We refer to this as the TimeWarp patent. Key inventions claimed in the patent include a method for recording one program while playing back another or watching a program as it is recording, often referred to as time-shifting the program; a method for efficient and low-cost processing and synchronizing of the various multimedia streams in a television signal such as video, audio, and closed-captioning, and a storage format that easily supports advanced TrickPlay capabilities. The expiration date of the TimeWarp patent is July 30, 2018.

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TiVo has also acquired the exclusive right to license and enforce U.S. patent number 5,241,428 entitled *Variable-Delay Video Recorder* known in the industry as the Goldwasser Patent. Filed in March 1991, the Goldwasser Patent is one of the earliest patents regarding digital video recorders of which we are aware. This patent covers devices that permit the simultaneous recording and playback of video material with a variable time delay between recording and playback of a given video program segment. The expiration date of the Goldwasser Patent is March 12, 2011.

We have also purchased 12 foreign and domestic patents and 6 foreign patent applications from International Business Machines Corporation. These patents and patent applications generally relate to audience research and measurement, integration of television signals with internet access, automatic rescheduling of recordings, content screening, enhanced program information search, and electronic program guide interface enhancements.

Among others, we have secured U.S. registrations for the marks TiVo, the TiVo logo, the TiVo Smile design WishList, TiVo Central, Can't Miss TV, Ipreview, TiVoMatic, TiVo, TV Your Way, What you want, when you want it, TiVolution, Active Preview, Home Media Op Life's too short for bad TV, Overtime Scheduler, Personal TV, Primetime Anytime, TiVo Series2 (logo and text), the Jump logo, the Thumbs Up logo, and the Thumbs Down logo. We have filed many other trademark applications covering substantially all of our trade dress, sound effects, logos, and slogans, including: DIRECTIVO, Season Pass, and See it, want it, get it. These applications are currently pending with the U.S. Patent and Trademark Office. Additionally, we have international trademark applications pending for several of these trademarks. We have licensed the use of our name and logo to some of our customers and consumer electronics manufacturers.

We anticipate ongoing progress in our establishment of a defensible and useful intellectual property portfolio; however, we cannot assure you that current patents will be enforceable or our current patent applications will ever be allowed or granted. See Part I, Item 1A, Risk Factors Our success depends on our ability to secure and protect our patents, trademarks, and other proprietary rights and Pending Intellectual Property Litigation for additional information concerning our intellectual property.

Privacy Policy

We have adopted a privacy policy, which we make available on our website and deliver to each new subscriber to the TiVo service. This policy was last updated in July 2005 to cover new commerce features that we have introduced and plan to introduce in the future. This policy explains that we collect certain types of information such as anonymous viewing and diagnostic information, but all viewing-information that is linked or associated with an individual identity will not be disclosed without the viewer's affirmative consent. We further give subscribers the ability to opt-out from the collection of anonymous viewing information and diagnostic information log files.

We have designed a system that ensures that any viewing information transmitted from a TiVo enabled DVR is anonymous on the DVR and remains unidentifiable to a particular viewer (known as anonymous viewing information), unless that subscriber affirmatively consents to such identification before any viewing data leaves the DVR. Anonymous viewing information is collected separately from any information that identifies a viewer personally. As a result, we may be able to use this anonymous information to tell a broadcast or advertising client the percentage of our viewers that recorded a particular program or advertisement, but we will not know, nor be able to tell the client, which of our viewers did so, unless a viewer decides to provide that information.

Employees

At April 3, 2006, we employed approximately 400 employees, including 38 in service operations, 222 in research and development, 42 in sales and marketing, and 98 in general and administration. We also employ, from time to time, a number of temporary and part-time employees as well as consultants on a contract basis. At April 3, 2006, we employed 86 such persons. Our future success will depend in part on our ability to attract, train, retain, and motivate highly qualified employees. We may not be successful in attracting and retaining such personnel. Our employees are not represented by a collective bargaining organization and we have never experienced a work stoppage or strike. Our management considers employee relations to be good.

Table of Contents**Executive Officers and Key Employees (as of April 3, 2006):**

Name	Age	Position
Thomas S. Rogers	51	Chief Executive Officer and President
David H. Courtney	47	Executive Vice President and Chief Financial Officer
James Barton	47	Chief Technical Officer and Senior Vice President
Jeffrey Klugman	45	Senior Vice President and General Manager, Service Provider and Media and Advertising Services Division
Mark A. Roberts	45	Senior Vice President of Consumer Products and Operations
Matthew Zinn	41	Vice President, General Counsel, and Chief Privacy Officer
Stuart West	36	Vice President, Finance

Thomas S. Rogers was appointed by our Board to serve as a director in September 2003 and was named President and Chief Executive Officer of TiVo, effective July 1, 2005. In connection with being appointed as our President and Chief Executive Officer, Mr. Rogers resigned as Vice Chairman of our board of directors and as a Class II Director and was immediately reappointed by our board of directors as a Class III Director. Mr. Rogers served as Chairman of the Board of Teleglobe International Holdings, Ltd. (NASDAQ:TLGB), a provider of international voice, data, internet, and mobile roaming services, a position he held from November 2004 to February 2006. From July 2003 until July 2005, he also served as Chairman of TRget Media, a media industry investment and operations advisory firm. From 2004 until July 2005, he also served as the Senior Operating Executive for media and entertainment for Cerberus Capital Management, a large private equity firm. From October 1999 until April 2003, Mr. Rogers was Chairman and CEO of Primedia, Inc. (NYSE:PRM), a print, video, and online media company. From January 1987 until October 1999, Mr. Rogers held positions with National Broadcast Company, Inc. including President of NBC Cable and Executive Vice President. Mr. Rogers holds a B.A. degree in Government from Wesleyan University and a J.D. degree from Columbia Law School.

David H. Courtney joined TiVo in March 1999 as Chief Financial Officer and is currently Executive Vice President, and Chief Financial Officer, and a member of the board of directors. He has previously served as Vice President and Chief Financial Officer, Senior Vice President of Finance & Administration, Executive Vice President for Worldwide Operations and Administration, and most recently as Group Executive for Corporate Products and Services. Prior to joining TiVo, from May 1995 to July 1998, Mr. Courtney served as a Managing Director at J.P. Morgan, an investment bank, where he was responsible for building and expanding the firm's high technology investment banking business in the United States. From 1986 to 1995, Mr. Courtney was a member of the high technology investment banking group at Goldman, Sachs & Co., most recently serving as Vice President. He has previously served on the boards of Great Plains Software, Silicon Image, and KQED, the San Francisco-based affiliate of both the Public Broadcasting System and National Public Radio. Mr. Courtney currently serves on the Board of Trustees of the Golden Gate National Parks Conservancy. Mr. Courtney holds a B.A. degree in Economics from Dartmouth College and an M.B.A. degree from the Stanford Graduate School of Business. On September 28, 2005, Mr. Courtney entered into an employment transition and separation agreement with the Company pursuant to which on April 15, 2006, Mr. Courtney will resign from the Company and as a member of the Board of Directors.

James Barton is a co-founder of TiVo and served as TiVo's Vice President of Research and Development, Chief Technical Officer and Director since our inception to January 2004 and is currently Chief Technical Officer and Senior Vice President. From June 1996 to August 1997, Mr. Barton was President and Chief Executive Officer of Network Age Software, Inc., a company that he founded to develop software products targeted at managed electronic distribution. From November 1994 to May 1996, Mr. Barton served as Chief Technical Officer of Interactive Digital Solutions Company, a joint venture of Silicon Graphics Incorporation (SGI) and AT&T Network Systems created to develop interactive television systems. From June 1993 to November 1994, Mr. Barton served as Vice President and General Manager of the Media Systems Division of SGI. From January 1990 to May 1991, Mr. Barton served as Vice President and General Manager for the Systems Software Division of Silicon Graphics. Prior to joining SGI, Mr. Barton held technical and management positions with Hewlett-Packard and Bell Laboratories. Mr. Barton holds a B.S. degree in Electrical Engineering and an M.S. degree in Computer Science from the University of Colorado at Boulder.

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Jeffrey Klugman was named Senior Vice President and General Manager, Service Provider and Media and Advertising Services Division in April 2005. Mr. Klugman had served as Vice President of Technology Licensing from December 2001 until February, 2004 and Vice President, TiVo Platform Business from February 2004 until April 2005. Prior to joining TiVo, Mr. Klugman was CEO of PointsBeyond.com, an internet-portal start-up focused on outdoor activities and adventures. In 1999, Mr. Klugman was Vice President of Marketing and Business Development for Quantum Corporation's Consumer Electronics Business Unit. Mr. Klugman holds a B.S. degree in engineering from Carnegie Mellon University and an M.B.A. degree from the Stanford Business School.

Mark A. Roberts was named Senior Vice President of Consumer Products and Operations in October 2005 responsible for Consumer Products Engineering and Product Strategy, Manufacturing, Distribution, Call Center, Service Operations, Information Technology, Facilities and Broadcast Center Operations. He had served as Senior Vice President of Engineering since December 2002 until October 2005 and Chief Information Officer of TiVo from March 1999 until December 2002. Prior to joining TiVo, he served as Vice President of Information Technology at Acuson Corporation, a medical ultrasound company, from March 1996 to March 1999. From July 1990 to March 1996, Mr. Roberts was Director of Information Systems at SGI. Mr. Roberts holds a B.S. degree in Economics from Santa Clara University.

Matthew Zinn has served as Vice President, General Counsel, and Chief Privacy Officer since July 2000 and as Corporate Secretary since November 2003. From May 1998 to July 2000, Mr. Zinn was the Senior Attorney, Broadband Law and Policy for the MediaOne Group, a global communications company. From August 1995 to May 1998, Mr. Zinn served as corporate counsel for Continental Cablevision, the third largest cable television operator in the United States. From November 1993 to August 1995, he was an associate with the Washington, D.C., law firm of Cole, Raywid & Braverman, where he represented cable operators in federal, state, and local matters. Mr. Zinn holds a B.A. degree in Political Science from the University of Vermont and holds a J.D. degree from the George Washington University National Law Center.

Stuart West has served as Vice President, Finance since November 2002. On April 13, 2006, we announced that Mr. West would serve as Acting Chief Financial Officer, effective April 17, 2006. He had served as Director of Finance from October 2001 to November 2002 and as a consultant from December of 2000 to October 2001. Prior to joining TiVo in December 2000, Mr. West was a business development executive at venture-backed Silicon Valley software and service startups. Prior to that, Mr. West was a Vice President at J.P. Morgan, where he managed mergers, IPO's, and other financings for technology companies. Mr. West's other work experience includes Texas Instruments, the U.S. State Department, and the White House. He holds a B.A. in History from Yale University and completed the Stanford Business School's Executive Program for Growing Companies.

Other Information

TiVo was incorporated in August 1997 as a Delaware corporation and is located in Alviso, California. In August of 2000, we formed a wholly owned subsidiary, TiVo (UK) Ltd., in the United Kingdom. In October of 2001, we formed a subsidiary, TiVo International, Inc., a Delaware corporation. On January 12, 2004, we acquired Strangeberry, Inc., a small Palo Alto based technology company specializing in using home network and broadband technologies to create new entertainment experiences on television. 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.

We maintain an Internet website at the following address: www.tivo.com. The information on our website is not incorporated by reference in this annual report on Form 10-K or in any other filings we make with the Securities and Exchange Commission (the "SEC").

We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the SEC in accordance with the Securities Exchange Act of 1934 (the "Securities Exchange Act"). These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q, and our current reports on Form 8-K. We make this information available on or through our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS.

The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business.

We have incurred significant net losses and may never achieve sustained profitability.

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We have incurred significant net losses and have had substantial negative cash flows. During the fiscal years ended January 31, 2006, 2005 and 2004, our net loss were \$(34.4) million, \$(79.8) million, and \$(32.0) million, respectively. As of January 31, 2006, we had an accumulated deficit of \$(691.5) million. The size of future net losses will depend in part on our subscription revenues and on our expenses. We will need to generate significant additional revenues to achieve profitability. Although we did reach profitability for the three months ended July 31, 2005, we may not reach profitability again or be able to sustain or increase profitability on a quarterly or annual basis in the future.

We face intense competition from a number of sources, which may impair our revenues, increase our subscription acquisition cost, and hinder our ability to generate new subscriptions.

The DVR market is rapidly evolving, and we face significant competition. Moreover, the market for in-home entertainment is intensely competitive and subject to rapid technological change. As a result of this intense competition, we could incur increased subscription acquisition costs that could adversely affect our ability to reach or sustain profitability in the future. If new technologies render the DVR market obsolete, we may be unable to generate sufficient revenue to cover our expenses and obligations.

We believe that the principal competitive factors in the DVR market are brand recognition and awareness, functionality, ease of use, availability, and pricing. We currently see two primary categories of DVR competitors: DVRs offered by cable and satellite operators and DVRs offered by consumer electronics companies.

Within each of these two categories, the competition can be further segmented into those offering what we define as basic DVR functionality and those offering enhanced DVR functionality. Basic DVR functionality includes no or limited program guide data and VCR-like controls with manual timeslot-based recordings, usually with no DVR service fee after the consumer purchases the enabling hardware. The TiVo Basic service offered on select TiVo-enabled DVD recorders made by Toshiba and Pioneer is an example of basic DVR functionality. Enhanced DVR functionality includes rich program guide data and enhanced scheduling and personalization features, and may or may not require a DVR service fee. The TiVo service, required for most TiVo-enabled DVRs, and offered as an upgrade for select TiVo-enabled DVD recorders made by Toshiba and Pioneer, is an example of enhanced DVR functionality.

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Satellite: EchoStar offers a range of DVR models, including standard definition and high definition models, most of which offer dual tuner capabilities. Certain models can output signals to multiple TVs within the household. Certain models now offer name-based recordings instead of timeslot-base recordings. DIRECTV has introduced a competing DVR service from NDS. The current DIRECTV DVR from NDS does not support recording of high-definition broadcasts.

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