TIVO INC
Form 10-K/A
September 13, 2002
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K/A
Amendment No. 1

Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934 for the fiscal year ended January 31, 2002

Commission file number 000-27141

TIVO INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0463167**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
2160 Gold Street, PO Box 2160, Alviso, CA	**95002**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

Indicate by check mark 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 amendments to this Form 10-K. ¨

As of March 18, 2002 there were 47,429,196 shares of the registrant s common stock outstanding, and the aggregate market value of such shares held by non-affiliates of the registrant (based upon the closing sale price of such shares on the NASDAQ National Market on March 18, 2002) was approximately $136.4 million.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of Registrant s Proxy Statement for the Annual Meeting of Stockholders to be held on August 2, 2002 are incorporated by reference into Part III of this Annual Report on Form 10-K (The Report of the Compensation Committee, the Report of the Audit Committee and the Comparative Stock Performance graph of the Registrant s Proxy Statement are expressly not incorporated by reference herein.)

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K for TiVo Inc. (the Company) for the fiscal year ended January 31, 2002 is being filed to amend and restate the items described below contained in our Annual Report on Form 10-K originally filed with the Securities and Exchange Commission on April 3, 2002.

This Amendment No.1 makes changes to Item 6 (Selected Financial Data), Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 8 (Financial Statements and Supplementary Data), and Item 14 (Exhibits, Financial Statement Schedules, and Reports on Form 8-K) for the following purposes:

- To restate our consolidated financial statements for the fiscal year ended January 31, 2002, to correct certain non-operating, non-cash items related to the accounting for our convertible senior notes, as more fully described in Note 2 to our consolidated financial statements included in Item 8;
- In connection with the restatement, to describe the effects of recording the transactions resulting from the issuance of our convertible senior notes in Note 11 to our consolidated financial statements included in Item 8;
- To include the report of KPMG LLP on our consolidated financial statements for the fiscal year ended January 31, 2002 in Item 8;
- To recast the Quarterly Results of Operations table in Item 6 to be consistent with the actual periods in our consolidated financial statements rather than reclassified periods that conform to our current fiscal year;
- To recast the Results of Operations period to period discussions in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 to be consistent with the actual audited periods in our consolidated financial statements rather than reclassified periods that conform to our current fiscal year;
- To restate our income tax disclosure as a result of the restated net loss in Note 7 (Income Tax) included in Item 8;
- To restate our equity incentive plans disclosure as a result of the restated net loss in Note 8 (Equity Incentive Plans) included in Item 8;
- To add additional information regarding our facilities leases to Note 15 (Commitments and Contingencies) in Item 8; and
- To include in Note 18 (Subsequent Events) information with respect to events that occurred subsequent to the original filing of the Annual Report.

In order to preserve the nature and character of the disclosures set forth in such Items as originally filed, this report continues to speak as of the date of the original filing, and we have not updated the disclosures in this report to speak as of a later date. While this report primarily relates to the historical period covered, events may have taken place since the original filing that might have been reflected in this report if they had taken place prior to the original filing. All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in our reports filed with the Securities and Exchange Commission subsequent to the date of the original filing of the Annual Report.

Table of Contents

TABLE OF CONTENTS

PART II		4
ITEM 6.	Selected Financial Data	4
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	6
ITEM 8.	Financial Statements and Supplementary Data	28
PART IV		66
ITEM 14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	66
SIGNATURES		71

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (The Annual Report) 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 financial position, services, business development, strategy and our management s plans and objectives for future operations. 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 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in this amended Annual Report. The reader is cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as of the date of this Annual Report. The reader is strongly urged to read the information set forth under the captions Part I, Item 1, Business, contained in the original filing of the Annual Report and Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, in particular Factors That May Affect Future Operating Results, for a more detailed description of these significant risks and uncertainties, as well as all periodic and current reports we have filed with the Securities and Exchange Commission subsequent to the date of the original filing of this Annual Report.

PART II

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data as of and for the one-month transition period ended January 31, 2001 and calendar years ended December 31, 2000, December 31, 1999 and December 31, 1998 and for the period from August 4, 1997 (Inception) to December 31, 1997 have been derived from our financial statements audited by Arthur Andersen LLP, independent accountants. Additionally, the following selected financial data as of and for the fiscal year ended January 31, 2002 has been derived from our financial statements audited by KPMG LLP, independent accountants. These historical results are not necessarily indicative of the results of operations to be expected for any future period.

The data set forth below (in thousands, except per share data) should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements included in Item 8. Financial Statements and Supplementary Data. The selected financial data as of and for the fiscal year ended January 31, 2002 has been restated to reflect the effects of the corrections described in Note 2 to the consolidated financial statements.

	Restated Year Ended January 31, 2002	One-Month Ended January 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	Period from August 4, 1997 (Inception), to December 31, 1997
			(in thousands, except per share data)			
Consolidated Statement of Operations Data:						
Revenues	$ 19,397	$ 989	$ 3,571	$ 223	$	$
Costs and expenses						
Cost of revenues	19,949	1,710	18,382	4,067		
Research and development	26,859	2,507	24,279	9,727	5,614	356
Sales and marketing	28,509	7,884	102,091	24,502	1,277	28
Sales and marketing-related parties	75,832	6,632	53,604	15,172		
General and administrative	18,495	1,326	14,346	7,027	2,946	241
Stock-based compensation	1,247	175	3,115	1,530		
Other operating expense, net				7,210		
Loss from operations	(151,494)	(19,245)	(212,246)	(69,012)	(9,837)	(625)
Interest income	2,163	672	7,928	2,913	136	49
Interest expense and other	(7,374)	(17)	(522)	(466)	(20)	(19)
Loss before taxes	(156,705)	(18,590)	(204,840)	(66,565)	(9,721)	(595)
Provision for income taxes	(1,000)					

Net loss	(157,705)	(18,590)	(204,840)	(66,565)	(9,721)	(595)
Less: Series A redeemable convertible preferred stock dividend	(3,018)	(423)	(1,514)			
Net loss attributable to common stockholders	$ (160,723)	$ (19,013)	$ (206,354)	$ (66,565)	$ (9,721)	$ (595)
Net loss per share						
Basic and diluted	$ (3.74)	$ (0.47)	$ (5.55)	$ (5.49)	$ (3.25)	$ (0.20)
Weighted average shares	42,956	40,850	37,175	12,129	2,990	2,917

4

Table of Contents

	Restated As of January 31, 2002	As of January 31, 2001	As of December 31, 2000	As of December 31, 1999	As of December 31, 1999
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 52,327	$ 124,474	$ 106,096	$ 139,687	$ 2,248
Total assets	149,934	211,543	236,318	152,842	3,543
Current redeemable convertible preferred stock	2	2	3		
Long-term portion of obligations under capital lease	2	538	606	1,141	
Redeemable common stock			1		
Total paid-in capital for current redeemable convertible preferred stock and redeemable common stock	46,553	46,553	96,986		
Total stockholders equity (deficit)	$ (29,944)	$ 50,337	$ 34,849	$ 133,247	$ 2,121

Quarterly Results of Operations

The following table represents certain unaudited statement of operations data for our eight most recent quarters ended January 31, 2002 and the one-month transition period ended January 31, 2001, due to the change in year end. 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 consolidated financial statements, including the notes thereto, included elsewhere in this Annual Report. The results of operations for any quarter are not necessarily indicative of results that may be expected for any future period. Prior quarters have been reclassified in order to conform to current quarter classifications. The quarterly results of operations for the three months ended January 31, 2002 have been restated to reflect the effects of the corrections described in Note 2 to the consolidated financial statements.

	Three Months Ended				Month Ended	Three Months Ended			Restated
	Mar 31, 2000	Jun 30, 2000	Sep 30, 2000	Dec 31, 2000	Jan 31, 2001	Apr 30, 2001	Jul 31, 2001	Oct 31, 2001	Jan 31, 2002
	(unaudited, in thousands except per share data)								
Revenues	$ 424	$ 719	$ 1,002	$ 1,426	$ 989	$ 3,196	$ 4,106	$ 5,342	$ 6,753
Costs and expenses									
Cost of revenues	4,168	4,988	4,019	5,207	1,710	5,497	4,415	5,207	4,830
Research and development	4,678	5,679	8,318	5,604	2,507	6,827	6,786	7,431	5,815
Sales and marketing	9,180	11,384	30,308	51,219	7,884	13,020	5,756	7,084	2,649
Sales and marketing related parties	4,527	5,349	18,953	24,755	6,632	23,488	16,146	11,239	24,959
General and administrative	2,691	3,631	3,527	4,497	1,326	4,507	4,288	5,214	4,486
Stock-based compensation	969	919	657	570	175	289	339	346	273
Loss from operations	(25,089)	(31,231)	(64,780)	(90,426)	(19,245)	(50,432)	(33,624)	(31,179)	(36,259)
Interest income	1,824	1,907	1,625	2,572	672	1,390	607	65	101
Interest expense and other	(70)	(112)	(252)	(88)	(17)	(50)	(45)	(1,171)	(4,465)
Interest expense related parties							(559)	(553)	(531)
Loss before taxes	(24,055)	(29,436)	(63,407)	(87,942)	(18,590)	(49,092)	(33,621)	(32,838)	(41,154)
Provision for income taxes								(1,000)	
Net loss	(24,055)	(29,436)	(63,407)	(87,942)	(18,590)	(49,092)	(33,621)	(33,838)	(41,154)
Less: Series A redeemable convertible preferred stock dividend			(240)	(1,274)	(423)	(1,092)	(840)	(658)	(428)

Net loss attributable to common stockholders	$ (24,055)	$ (29,436)	$ (63,647)	$ (89,216)	$ (19,013)	$ (50,184)	$ (34,461)	$ (34,496)	$ (41,582)
Net loss per share									
Basic and diluted	$ (0.68)	$ (0.82)	$ (1.72)	$ (2.19)	$ (0.47)	$ (1.20)	$ (0.82)	$ (0.81)	$ (0.92)
Weighted average shares	35,353	35,743	36,924	40,682	40,850	41,787	42,095	42,668	45,276

5

Table of Contents

The TiVo Service is enabled through a personal video recorder that is sold in retail channels like other consumer electronic devices. As a result, we anticipate that our business will be seasonal and we expect to generate a significant number of our annual new subscribers during the holiday shopping season. We also expect to generate a portion of future revenues from licensing agreements. Periodically when we complete our obligations under our licensing and professional services agreements we will recognize revenue.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included in Item 8 of this Annual Report on Form 10-K.

Overview

We were incorporated in August 1997 as a Delaware corporation and are located in Alviso, California. On August 21, 2000, TiVo (UK) Ltd., a wholly owned subsidiary of TiVo Inc., was incorporated in the United Kingdom. On October 9, 2001 we formed a new subsidiary TiVo International, Inc., also a Delaware corporation. The TiVo Service is a subscription-based television service that provides viewers with greater control, easier navigation and a wider range of viewing options when watching television. The TiVo Service also provides television content providers and advertisers with a new platform for content delivery, interactive viewing options and in-home commerce. The TiVo Service is enabled through a personal video recorder designed and developed by TiVo.

We launched the personal video recorder and service into the retail channel in the second half of calendar year 1999. We incurred losses of $204.8 million in calendar year 2000, $18.6 million for the one-month transition period ended January 31, 2001 and $157.7 million for the fiscal year ended January 31, 2002, and we expect to continue to incur losses for the foreseeable future.

We currently generate revenues from the following sources: subscription revenue, non-subscription revenue, licensing revenue and engineering professional services revenue. Subscriptions to the TiVo Service are available on a monthly or lifetime basis. The current price for a monthly subscription to the TiVo Service is $9.95 and the price for a lifetime subscription is $249.00. As of April 2, 2002, the price for a monthly subscription for stand-alone recorders will increase to $12.95. A lifetime subscription allows access to the TiVo Service for the life of the personal video recorder. Subscription fees are paid by the viewer when activating the TiVo Service. Subscription revenues from lifetime subscriptions are recognized ratably over a four-year period, our best estimate of the useful life of the personal video recorder. Deferred revenue relates to subscription fees collected, for which service has not yet been provided. Since the TiVo Service is enabled through a personal video recorder that is sold in retail channels like other consumer electronic devices, we anticipate that our business will be seasonal and we expect to generate a significant number of our annual new subscriptions during the holiday shopping season.

Non-subscription revenue primarily includes charter advertising and sponsorship revenue from consumer companies and media networks that have provided content on the TiVo Service. Revenue is recognized as the advertising and content is delivered. To date, our non-subscription revenue has not been significant.

Licensing revenue consists of revenues generated from licensing our technology to consumer electronics companies and service providers for the purpose of creating an open standards platform design for digital video recorders (DVR). At this time, TiVo has signed one licensing agreement (see Item 8. Note 12).

Engineering professional services revenue includes revenues earned for engineering services performed.

Table of Contents

We have agreed to share a substantial portion of our subscription and other fees with some of our strategic partners in order to promote the TiVo Service and encourage the manufacture and distribution of the personal video recorders that enable the TiVo Service. These agreements may require us to share substantial portions of the subscription and other fees attributable to the same subscriber with multiple partners. Our decision to share subscription revenues is based on our expectation that our partnerships will help us obtain subscribers, broaden market acceptance of personal television and increase our future revenues. If these expectations are not met, we may be unable to generate sufficient revenue to cover our expenses and obligations. Expenses related to our strategic partners in exchange for marketing services and who are also stockholders are recognized as sales and marketing related parties expense. Expenses related to our partners in exchange for marketing services who are not our stockholders are recognized as sales and marketing expense (see Item 8. Note 10 and Item 8. Note 14).

In the past, we have issued stock in exchange for services to our strategic partners. For example, TiVo closed an Investment Agreement with AOL for $200 million. The AOL investment is part of a three-year strategic Product Integration and Marketing Agreement between AOL and TiVo, in which TiVo was to become an AOL TV programming partner offering AOL TV subscribers access to features of the TiVo Service. In return for AOL s investment, TiVo issued to AOL a combination of convertible redeemable preferred stock, a portion of common stock subject to redemption, common stock and initial and performance warrants (see Item 8. Note 10).

We have issued convertible notes in exchange for services to our strategic partners. In August 2001, we closed a private placement of $51.8 million of convertible debt. TiVo received cash proceeds of approximately $43.7 million from noteholders and non-cash proceeds of $8.1 million in the form of advertising and promotional services from Discovery Communications, Inc. (Discovery) and the National Broadcasting Company, Inc. (NBC), who are existing stockholders. Issuance costs were approximately $3.6 million, resulting in net proceeds of approximately $40.1 million. Of the total proceeds of $51.8 million, $8.1 million is designated for advertising and promotional services. In addition, the Company paid $5.0 million in October 2001 to NBC for advertising that ran for the period that began October 1, 2001 and ended December 31, 2001 (see Item 8. Note 11).

During the fourth quarter of the fiscal year ended January 31, 2002, we sold shares of our common stock for general corporate purposes. On January 10, 2002, we sold to Acqua Wellington North American Equities Fund, Ltd. 2,147,239 shares of our common stock at $6.52 per share, pursuant to a common stock purchase agreement we entered into with Acqua Wellington on December 21, 2001. Our net proceeds from this sale were approximately $13.8 million, after deducting our estimated sales expense.

In 2002, we expect to experience a transition period related to certain sales of our Series2 platform, including those through Best Buy and directly by TiVo. We consider these sales as incidental to our business and, as a result, anticipate reporting such transactions as Other Operating Expense, net, during the upcoming year.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. On an on-going 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 which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that our most critical accounting policies are those described below. For a detailed discussion on the application of these and other accounting policies, see Item 8. Note 3 in the notes to the consolidated financial statements.

Revenue Recognition of Lifetime Subscriptions

Based on the guidance provided by Securities and Exchange Commission (SEC), Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements , we recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, collectibility is reasonably assured, and we have received customer acceptance, or are otherwise released from our service obligation or customer acceptance obligations.

Table of Contents

Subscription revenues from lifetime subscriptions are recognized ratably over a four-year period, the best estimate of the useful life of the personal video recorder. If the useful life of the recorder was shorter or longer than the estimated four-year period, revenues would be recognized earlier or later, respectively, than our current policy. Our product is still relatively new and as more user information is gathered, this estimated life could be revised.

Complex Agreements

TiVo has a number of related party transactions and commitments. Many of these transactions are complex and involve multiple elements and types of consideration, including cash, debt, equity, and services. The Company has utilized its best estimate of the value of the various elements in accounting for these transactions. Had alternative assumptions been used, the values obtained may have been materially different.

The Company recognizes revenue under its technology license and engineering professional services agreement with Sony Corporation in accordance with the American Institute of Certified Public Accountant s Statement of Position, 97-2, Software Revenue Recognition (SOP-97-2). This agreement constitutes a multiple-element arrangement in which vendor specific objective evidence (VSOE) is required for all undelivered elements in order to recognize license revenue. The Company has not established VSOE on undelivered elements of the arrangement and must defer revenue related to this arrangement until all elements have been delivered. The Company intends to enter into additional technology licensing transactions in the future, and the timing of revenue recognition related to these transactions will depend, in part, on whether the Company can establish VSOE and on how these deals are structured. As such, revenue recognition may not correspond to the timing of related cash flows or TiVo s work effort.

Stock Based Compensation

We have a history of issuing stock options to employees and directors as an integral part of our compensation programs. Generally accepted accounting principles allow alternative methods of accounting for these plans. We have chosen to account for our stock option plans under APB opinion 25, which requires that only the intrinsic value of stock option grants be recognized as an expense on the statement of operations. Accordingly, no compensation expense related to the time value of stock options is included in determining net loss and net loss per share in the consolidated financial statements. The alternative method of accounting for stock options is prescribed by Statement of Financial Accounting Standards No. 123, and requires that both the intrinsic value and time value of options be recognized as an expense for employee stock option awards. Note 9 to the consolidated financial statements sets forth calculations of pro forma net loss and net loss per share computed in accordance with this alternative method. Had we used SFAS No. 123 to value our employee stock option awards, our net loss and net loss per share would have been greater for all periods presented.

Assumptions on Non-Cash Expenses

Several of our arrangements require TiVo to make estimations and assumptions for the valuation of non-cash expenses. For example, under the AOL agreements we calculate the estimated fair market value of the AOL Initial Common Stock Warrants using the Black-Scholes option-pricing model. Several assumptions are made in the model such as the term and risk-free rate of return. If the market conditions at the time AOL earns the performance warrants are different then date on which the assumptions are based, the valuation of the Initial Common Stock Warrants could significantly increase or decrease from the estimated calculations and our expense would be different.

Valuation Allowance Against Deferred Tax Assets

We provided a valuation allowance of $184.3 million against our entire net deferred tax asset, primarily consisting of net operating loss carryforwards as of January 31, 2002 and 2001. The valuation allowance was recorded given the losses we incurred through January 31, 2002 and our uncertainties regarding future operating profitability and taxable income. If we do not achieve profitability we will not fully realize the deferred tax benefits.

Table of Contents

As of January 31, 2002, the Company has the following contractual cash obligation payments:

	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
			($ s in 000 s)		
Contractual cash obligations					
Capital lease obligations	$ 553	$ 551	$ 2	$	$
Operating lease obligations	16,103	3,006	6,266	6,558	273
Long-term convertible notes payable at face value	44,250			44,250	
Coupon interest on long-term convertible notes payable	14,171	3,097	6,195	4,879	
Total Contractual Cash Obligations	$ 75,077	$ 6,654	$ 12,463	$ 55,687	$ 273

Other commercial commitments as of January 31, 2002, expiration per period are as follows:

	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
			($ s in 000 s)		
Other commercial commitments					
Standby letters of credit	$ 4,389	$ 3,913	$	$ 476	$
Total commercial commitments	$ 4,389	$ 3,913	$	$ 476	$

Restatement

In May 2002, we terminated Arthur Andersen and engaged KPMG as our independent auditor. We asked KPMG to re-audit our financial statements for our fiscal year ended January 31, 2002. During the course of the re-audit, we concluded that, in preparation of our fiscal year 2002 financial statements, certain errors were made in calculating certain non-operating, non-cash items related to convertible notes which were issued in August 2001. After consultation with KPMG, we concluded that we should adjust certain non-cash items on our balance sheet and non-cash interest expense on our income statement for the quarter ended January 31, 2002. The consolidated financial statements as of and for the year ended January 31, 2002 and notes thereto included in this amended Annual Report on Form 10-K have been restated to include the effects of these corrections. For additional information regarding the restatement, please refer to Note 2 to the consolidated financial statements included in Item 8.

Results of Operations

On February 1, 2001, TiVo announced a fiscal year end change from December 31 of each year to January 31 of each year. TiVo believes that the change in fiscal year will help align the seasonal patterns of demand in TiVo s business with its reporting cycle and better align TiVo s promotional activities with those of its retail, service and network partners.

The following discussion of historical operating results compares the fiscal year ended January 31, 2002 to the fiscal year ended December 31, 2000 and the fiscal years ended December 31, 2000 and 1999, respectively. Although the January 31, 2002 and December 31, 2000 fiscal years are not identical year comparisons, we are including the periods in the discussion since both years have been audited. Because there is no comparable audited period and the Company believes that such a comparison would not aid the reader of this Annual Report in interpreting the historical trends of the Company s results of operations, the Company has elected not to compare the one-month transition period ended January 31, 2001 to a comparable unaudited period in the prior calendar year.

Year Ended January 31, 2002 Compared to the Year Ended December 31, 2000

Revenues. Revenues for the year ended January 31, 2002 were $19.4 million, over 300% higher than the year ended December 31, 2000 revenue of $3.6 million. The increase is attributable to increased customer subscriptions to the TiVo Service. During the year ended January 31, 2002, TiVo activated approximately 226,000 new subscribers to the TiVo Service bringing the total installed subscriber base to approximately 380,000 as of January 31, 2002, more than double the installed base as of December 31, 2000. We anticipate fiscal year 2003 will have

continued revenue growth as we begin to realize the impact of our revised business model and new distribution agreements.

Table of Contents

Cost of revenues. Cost of revenues consists primarily of telecommunication and network expenses, employee salaries, call center and other expenses related to providing the TiVo Service to subscribers. Cost of services for the year ended January 31, 2002 was $19.9 million compared to $18.4 million for the year ended December 31, 2000. This 8% increase was primarily attributable to service center expenses resulting from the increase in number of activations. Total salaries and benefits accounted for 12% of the total increase due to the expansion of the scalable call center department. We have reduced our per-subscriber cost of revenue over the prior fiscal year. We expect to continue to control spending in our broadcast and customer service operations, resulting in further reductions in our per-subscriber cost of revenue as our subscriber base grows.

Research and development expenses. TiVo s research and development expenses consist primarily of employee salaries and related expenses and consulting fees relating to the design of the personal video recorder that enables the TiVo Service. Research and development expenses for the year ended January 31, 2002 were $26.9 million, 11% higher than the year ended December 31, 2000. The increase in absolute dollars was a result of continued investments in the improvement and addition of features and functionality of current products as well as the design of new platforms. As a result of the hiring of additional engineers instead of using consultants, total salaries expenses increased 23%. We expect our research and development expenses to decline in fiscal year 2003 due to agreements that include substantial funded engineering from our partners to TiVo.

Sales and marketing expenses. Sales and marketing expenses consist primarily of employee salaries and related expenses, media advertising, public relations activities, special promotions, trade shows and the production of product related items, including collateral and videos. Sales and marketing expenses for the year ended January 31, 2002 were $28.5 million compared to $102.1 million for the year ended December 31, 2000. The 70% decrease in expenses was attributable to reduced expenditures for advertising, public relations and trade shows in connection with the continued retail marketing campaign of the TiVo Service and the personal video recorder that enables the TiVo Service. This is due to the initiatives we have put in place with our partners to maximize our joint marketing effectiveness with much lower levels of cash investment by TiVo and by reducing our direct advertising expenses. We believe our latest agreements with our partners allow us to continue to reduce our sales and marketing expenses as our partners are more fully involved the marketing and distribution programs and related costs required to drive the demand for the TiVo Service. We expect our marketing expenses for fiscal year 2003 to be comparable to fiscal year 2002.

Sales and marketing related parties expense. Sales and marketing related parties expense consist of cash and non-cash charges related primarily to agreements with AOL, DIRECTV, Philips, Sony, Quantum, and Creative Artists Agency, LLC (CAA) all of which hold stock in TiVo. Sales and marketing related parties expense for the year ended January 31, 2002 was $75.8 million compared to $53.6 million for the year ended December 31, 2000. The increase in sales and marketing related parties expense is primarily attributable to the activations of subscribers to the TiVo Service and AOL media insertion orders.

Sales and marketing related parties expense for the year ended January 31, 2002, consists of cash charges of $62.2 million and non-cash charges of $13.6 million. The non-cash portion is related to the amortization of warrants or common stock issued for services to AOL and DIRECTV. The total amount of warrant valuation and common stock issued for services as of January 31, 2002 was $44.4 million, of which $15.9 million has not yet been amortized. We amortize the valuation of the warrants and common stock issued for services on a straight-line basis over the period that the services are provided.

The cash portion of sales and marketing related parties expense is comprised of revenue share and manufacturing subsidy payments to Philips, Sony, Quantum and DIRECTV. Additionally included are media insertion orders paid to NBC, Discovery and AOL. Subsidies are formula based payments to our partners in exchange for key activities and results. The formulas are periodically adjusted based on our partners manufacturing costs and selling prices. A portion of the subsidy is payable after shipment and the balance is payable after the subscription is activated. We have also agreed to share a portion of our revenues with some of our strategic partners in order to promote the TiVo Service and encourage the manufacture and distribution of the personal video recorders that enable the TiVo Service. Revenue share is calculated as an agreed upon percentage of revenue for a specified group of TiVo subscribers. We have negotiated deferred payment schedules of payables due as of March 31, 2001 with certain partners in the amount of $15.6 million. In general, interest started accruing from March 31, 2001 and beginning in October of 2001, we have made payments including interest for the deferred amounts as well as have continued to pay current payables on a timely basis. In our revised business model we intend to sharply reduce our subsidy payments and have been working with our partners to eliminate subsidy requirements.

General and administrative expenses. General and administrative expenses consist primarily of employee salaries and related expenses for executive, administrative, accounting, information systems, customer operations

personnel, facility costs and professional fees. General and administrative expenses for the year ended January 31, 2002 increased 29% to $18.5 million compared to $14.3 million for the year ended December 31, 2000. Salaries, employee benefits and temporary expenses increased 41%. Most of the increase was due to headcount hired at the end of fiscal year ended January 31, 2001. We expect to hold headcount and expenses flat to slightly higher during fiscal year 2003.

Stock-based compensation. During calendar years 1999 and 2000, we granted stock options with exercise prices that were less than the estimated fair value of the underlying shares of common stock for accounting purposes on the date of grant. As a result, stock-based compensation expense is being recognized over the period that these stock options vest. The stock-based compensation expense was approximately $1.2 million for the year ended January 31, 2002 and $3.1 million for the year ended December 31, 2000. We anticipate the unamortized balance of $1.0 million will be fully amortized by June 2005.

Interest income. Interest income resulting from cash and cash equivalents held in interest bearing accounts and short term investments was $2.1 million for the year ended January 31, 2002 compared to $7.9 million for the year ended December 31, 2000, as cash balances have declined combined with lower interest rates prevailing in the U.S. market.

Interest expense and other. Interest expense and other was $5.7 million for the year ended January 31, 2002. This includes the coupon interest expense of $1.0 million on the convertible notes payable and $4.5 million of interest expense related to the debt issuance costs for the convertible senior notes. Also included is the amortization of the value assigned primarily to the Comdisco warrant for interest expense of $71,000. For the year ended December 31, 2000, interest expense and other was $522,000.

Interest expense related parties. Interest expense related parties was $1.6 million for the year ended January 31, 2002. This includes $1.2 million for interest expense payable to our strategic partners according to negotiated deferred payment schedules and notes payable related parties.

Provision for income taxes. Income tax expense for the year ended January 31, 2002 was $1.0 million due to tax withheld by the government of Japan as foreign source income tax from payments made by Sony Corporation under the terms of the technology licensing agreement.

Series A redeemable convertible preferred stock dividend. Under the terms of the Series A redeemable convertible preferred stock, the Company is required to pay dividends to the Series A redeemable convertible preferred stockholders. The dividends payable for the year ended January 31, 2002 was $3.0 million for the year ended December 31, 2000 was $1.5 million, respectively. The dividends are payable quarterly as declared by our board of directors.

Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999

Revenues. Revenues for the year ended December 31, 2000 were $3.6 million, compared to $223,000 for the year ended December 31, 1999. The increase is attributable to increased customer subscriptions to the TiVo Service, which grew by approximately 118,000 new subscribers during calendar year 2000, bringing the total installed subscriber base to approximately 136,000 as of December 31, 2000.

Cost of revenues. Cost of revenues for the year ended December 31, 2000 was $18.4 million compared to $4.1 million for the year ended December 31, 1999. This increase was primarily attributable to increased telecommunications and network expenses due to the increase in number of activations. The increase was $7.3 million for the year ended December 31, 2000. Total salaries and benefits accounted for 16% of the total increase due to the expansion and staffing of the broadcast operations department and customer service departments.

Research and development expenses. TiVo s research and development expenses for the year ended December 31, 2000 were $24.3 million compared to $9.7 million for the year ended December 31, 1999. Approximately 49% of the total increase in expenses was due to the hiring of additional engineers to help support the improvement and addition of features and functionality of current products as well as the design of new platforms. Approximately 22% of the total increase was related to research and development consulting expenses.

Sales and marketing expenses. Sales and marketing expenses for the year ended December 31, 2000 were $102.1 million compared to $24.5 million for the year ended December 31, 1999. The increase was primarily attributable to an increase in expenditures for advertising, public relations and trade shows in connection with the

Table of Contents

continued retail marketing campaign of the TiVo Service and the personal video recorder that enables the TiVo Service. Advertising expenses, including public relations and trade shows, comprised over 78% of the total increase in sales and marketing expenses from 1999 to 2000. For the year ended December 31, 2000, channel sales support was $7.2 million compared to $1.7 million for the year ended December 31, 1999. Channel sales support accounted for 7% of the total increase.

Sales and marketing related parties expense. Sales and marketing related parties expense for the year ended December 31, 2000 was $53.6 million compared to $15.2 million for the year ended December 31, 1999. The increase in sales and marketing related parties expense is primarily attributable to the manufacturing and shipments of personal video recorders and to the related activations of subscribers to the TiVo Service.

Sales and marketing related parties expense as of December 31, 2000, consists of cash charges of $44.0 million and non-cash charges of $9.6 million. The non-cash portion is related to the amortization of warrants or common stock issued for services that we issued to AOL, Quantum, DIRECTV and CAA. The total amount of warrant valuation and common stock issued for services as of December 31, 2000 was $44.4 million. As of December 31, 2000, $22.1 million has not yet been amortized. We amortize the valuation of the warrants and common stock issued for services on a straight-line basis over the period that the services are provided.

General and administrative expenses. General and administrative expenses for the year ended December 31, 2000 were $14.3 million compared to $7.0 million for the year ended December 31, 1999. Over 31% of the increase was primarily attributable to the hiring of additional personnel and related expenses. Also contributing to the increase were accounting and legal expenses totaling 19% of the total increase.

Stock-based compensation. During calendar years 1999 and 2000, we granted stock options with exercise prices that were less than the estimated fair value of the underlying shares of common stock for accounting purposes on the date of grant. As a result, stock-based compensation expense is being recognized over the period that these stock options vest. The stock-based compensation expense was approximately $3.1 million for the year ended December 31, 2000 and $1.5 million for the year ended December 31, 1999.

Other operating expenses, net. Other operating expenses, net consists of the revenues from the sale of personal video recorders sold directly by TiVo, less the cost of the personal video recorders sold. For the year ended December 31, 2000, other operating expenses, net was zero compared to $7.2 million for the year ended December 31, 1999. We transitioned manufacturing and selling personal video recorders in the fourth quarter of 1999 to Philips. The revenues and costs resulting from the sale of personal video recorders were not expected to be recurring and are therefore considered incidental to our business and as such have been classified as other operating expense, net.

Interest income. Interest income resulting from cash and cash equivalents held in interest bearing accounts and short term investments was $7.9 million for the year ended December 31, 2000 compared to $2.9 million for the year ended December 31, 1999, as cash balances have increased largely due to the AOL investment in calendar year 2000.

Interest expense and other. Interest expense and other was $522,000 for the year ended December 31, 2000. This includes amortization of the value assigned primarily to the Comdisco for interest expense and convertible debt warrants of $164,000 and disposal of an asset no longer used of approximately $227,000. For the year ended December 31, 1999, interest expense and other was $466,000.

Liquidity and Capital Resources

From inception through January 31, 2002, we financed our operations and met our capital expenditure requirements primarily from the proceeds of the private sale of equity securities, the proceeds from our initial public offering and the private placement of convertible debt with warrants. At January 31, 2002, we had $52.3 million of cash and cash equivalents. We believe these funds represent sufficient resources to fund operations, capital expenditures and working capital needs through at least the next 12 months.

On August 28, 2001, we issued $51.8 million of convertible debt with warrants in a private placement to accredited investors. Of the $40.1 million net cash proceeds, the Company paid $5.0 million in October 2001 to NBC for prepaid advertising.

Additionally, in October 2001, TiVo received an upfront cash fee payment from Sony Corporation under the terms of the license agreement.

On January 10, 2002, we sold to Acqua Wellington North American Equities Fund, Ltd. 2,147,239 shares of our common stock at $6.52 per share pursuant to an effective Registration Statement on Form S-3 (File No. 333-53152). Our net proceeds from this sale were approximately $13.8 million, after deducting the estimated sale expenses payable by us.

During February 2002, we entered into a second common stock purchase agreement which, under certain circumstances, may allow us to sell to Acqua Wellington North American Equities Fund, Ltd. up to $19.0 million of our common stock during the fourteen-month period ending April 13, 2003. We view this purchase agreement as an auxiliary financing tool with the potential to provide us with an efficient and flexible mechanism to raise cash to fund our working capital needs. The shares of common stock which we may sell pursuant to the purchase agreement are registered under the Securities Act of 1933 pursuant to an effective Registration Statement on Form S-3 (File No. 333-53152).

From time to time, we may present Acqua Wellington with draw down notices over a draw down period consisting of two periods of ten consecutive trading days each, unless we agree otherwise with Acqua Wellington. Each draw down notice sets forth a threshold price and the dollar value of shares Acqua Wellington is obligated to purchase during the draw down period. The threshold price we choose, which cannot be less than $3.00 without the consent of Acqua Wellington, establishes the maximum value of the stock we can obligate Acqua Wellington to buy during the period and the discount that Acqua Wellington will receive, unless we agree otherwise with Acqua Wellington. Once presented with a draw down notice, Acqua Wellington is required to purchase a pro rata portion of the shares on each trading day during the draw down period on which the daily volume weighted average price for our common stock exceeds the threshold price determined by us. The per share purchase price for the shares equals the daily volume weighted average price of our common stock on each date during the draw down period on which shares are purchased, less a discount ranging from 3% to 5.4%, based on the threshold price, unless we agree otherwise with Acqua Wellington. If the daily volume weighted average price of our common stock falls below the threshold price on any trading day during a draw down period, Acqua Wellington will not be obligated but still may purchase the pro rata portion of shares of common stock allocated to that day at the threshold price for the draw down period, less the discount. The number of shares Acqua Wellington would be obligated to buy on any trading day during a draw down period is arrived at by dividing that day s pro rata part of the total purchase amount by that day s volume weighted average price, less Acqua Wellington s discount. The total number of shares Acqua Wellington would be required to purchase during a draw down period is the aggregate of the daily amounts.

The purchase agreement also provides that from time to time and at our discretion we may grant Acqua Wellington the right to exercise one or more call options to purchase additional shares of our common stock during each draw down period for the amount that we specify, so long as the aggregate of all such call option amounts and draw down amounts under the purchase agreement do not exceed $19,000,000. Upon Acqua Wellington s exercise of the call option, we will issue and sell the shares of our common stock subject to the call option at a price equal to the greater of the daily volume weighted average price of our common stock on the day Acqua Wellington notifies us of its election to exercise its call option or the threshold price for the call option determined by us and set forth in the draw down notice, less a discount ranging from 3% to 5.4%, based on the threshold price, unless we agree otherwise with Acqua Wellington.

The purchase agreement further provides that if, during a draw down period with Acqua Wellington, we enter into an agreement with a third party to issue common stock or securities convertible into common stock, the principal purpose of which is to raise capital, Acqua Wellington will have the option to purchase shares of the draw down amount and any call option amounts requested by us at the price otherwise applicable to the sale to Acqua Wellington, or at the third party s price. Acqua Wellington may also decide not to purchase the shares during that draw down period. If, between draw down pricing periods, we enter into an agreement with a third party to issue common stock or securities convertible into common stock, the principal purpose of which is to raise capital, Acqua Wellington will have the option to purchase up to the draw down amount that would be applicable based on the gross price per share to be paid for the common stock in the other financing on the same terms and conditions contemplated in the other financing, net of the third party s discount and fees, or, if the applicable share price is below the minimum threshold price, up to 20% of the total amount to be raised by us in the other financing.

Under the terms of the Investment Agreement between America Online, Inc. (AOL) and TiVo, dated June 9, 2000, as amended, the Company holds $51.7 million in an interest bearing escrow account as restricted cash. If the AOL TV/ TiVo set-top box launch does not occur by December 31, 2001 or a later date agreed to by both parties, and AOL has not committed a material breach of the Commercial Agreement or if we have breached our

Table of Contents

obligations with respect to the financial covenants, then AOL has a put option pursuant to which AOL could require TiVo to repurchase up to 1.6 million shares of current Series A redeemable convertible preferred stock at a liquidation value of up to $48.0 million. We currently record the $48.0 million on the consolidated balance sheets as restricted cash of $48.0 million plus the interest income earned on restricted cash. The set-top box was not launched by December 31, 2001 and we recently modified our agreements with AOL so that AOL has 100 days from the agreed upon launch date to exercise its put option (see Note 18). At this point, we have not agreed with AOL on this agreed upon launch date as we believe that AOL does not plan to deploy the AOL TV/TiVo set-top box as originally envisioned. We are in discussions with AOL regarding modification of the terms of the current agreements, including product definition, development funding, deployment, launch date, and other commercial terms. There can be no assurances about the outcome of these discussions. If the outcome includes exercise of the put option, our cash and cash equivalents would increase by $3.7 million, reflecting the deferred interest on the restricted cash, and the restricted cash balance would be reduced to zero. We do not include restricted cash in our calculations of working capital available for operations. As a result, we do not expect that the preferred stock repurchase would have a material effect on our business operations.

Additionally, under the terms of the AOL Investment Agreement, we must maintain a positive net cash position in excess of $25.0 million, measured at the end of each fiscal quarter. Net cash is defined as consolidated current assets (excluding deferred tax assets and escrowed funds) minus consolidated current liabilities (excluding deferred revenue, deferred interest income on escrowed funds, sublessee prepaid rent and leasing obligations). We advise AOL monthly, on an informational basis, of our net cash position. Per the agreement, if we fall below the $25.0 million net cash position at the end of our fiscal quarter, AOL has the right to exercise its put option. We were in compliance with the net cash position requirement as of January 31, 2002.

The financial covenants shall terminate upon the earlier of the date of the set-top box launch, so long as such set-top box launch occurs before the agreed upon launch date, the expiration of the put option or the day following the first anniversary of the agreed upon launch date.

Net cash used in operating activities was $120.8 million for the year ended January 31, 2002. During this same period, we continued to provide the TiVo Service, incurring a net loss of $157.7 million. Uses of cash from operating activities included a decrease in accrued liabilities-related parties of $23.2 million, a decrease in accrued liabilities of $7.2 million, a decrease in accounts payable of $15.0 million, a decrease in prepaid expenses of $3.5 million, an increase in prepaid expenses-related parties of $10.7 million, an increase in notes payable-related parties of $2.3 million, an increase in accounts receivable-related parties of $1.9 million and an increase in accounts receivable of $351,000. These uses were offset by sources of cash provided from operating activities consisting of an increase in long-term deferred revenue of $11.4 million, an increase in deferred revenue-related parties of $11.4 million, and increase in deferred revenue of $6.6 million and an increase in other long-term liabilities of $3.8 million.

Net cash used in investing activities for the year ended January 31, 2002 was $3.3 million for the acquisition of property and equipment.

Net cash provided by financing activities was $52.0 million for the year ended January 31, 2002. Of this amount, $3.0 million was used for payment of the Series A redeemable convertible preferred stock dividend and $796,000 was used for payment on a capital lease. We obtained $43.7 million, less cash financing expense of $3.6 million, of financing as proceeds from the issuance of convertible notes payable on August 28, 2001. We obtained $14.0 million, less cash financing expense of $175,000, for the sale of common stock to Acqua Wellington North American Equities Fund, Ltd. on January 10, 2002. An additional $1.2 million of financing was obtained as proceeds from the issuance of common stock through our employee stock purchase plan, $503,000 from the issuance of common stock for stock options exercised and $205,000 of financing was obtained from the reduction of financing expenses related to the AOL Investment Agreement.

We have commitments for future lease payments under facilities operating leases of $16.1 million and obligations under capital leases of $553,000 as of January 31, 2002. The obligations under the capital lease relate to equipment leased under a total available lease line of $2.5 million, which expired in February 2000.

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. Our capital lease obligations are not subject to changes in the interest rate and, therefore, are not exposed to interest rate risk.

The conversion price of our convertible notes will be reduced on August 23, 2002 if the conversion price is greater then the average closing price per share of our commons stock for the 10 consecutive trading days preceding

Table of Contents

August 23, 2002. In addition, the conversion price on the notes may be reduced if we issue common stock or common stock equivalents at an issuance price (or with respect to common stock equivalents, such additional stock is issued with a conversion or exercise price per share less than the conversion price of the notes then in effect immediately prior to the issuance) that is lower than the conversion price then in effect immediately prior to the issuance. A reduced conversion price on the convertible notes would increase our interest expense.

Our future capital requirements will depend on a variety of factors, including market acceptance of the personal video recorder and the TiVo Service, the resources we devote to developing, marketing, selling and supporting our products and other factors. We expect to devote substantial capital resources:

to develop new or enhance existing services or products;

to continue support of our customer call center;

for advertising to educated consumers;

to continue to support our existing efforts in the United Kingdom market; and

for general corporate purposes.

We believe that our cash and cash equivalents, will be sufficient to fund our operations at least through the fiscal year ending January 31, 2003. Despite our expectations, we may need to raise additional capital before the end of our fiscal year.

In addition, in order to meet long-term liquidity needs, we may need to raise additional funds, establish a credit facility or seek other financing arrangements. Additional funding may not be available on favorable terms or at all. See Factors That May Affect Future Operating Results If we are unable to raise additional capital on acceptable terms, our ability to effectively manage growth and build a strong brand could be harmed.

Factors That May Affect Future Operating Results

In addition to the other information included in this Annual Report on Form 10-K, the following factors should be considered in evaluating our business and future prospects:

We have recognized very limited revenue, have incurred significant net losses and may never achieve profitability.

We have recognized limited revenue, have incurred significant losses and have had substantial negative cash flow. During the fiscal year ended January 31, 2002, the one-month transition period ended January 31, 2001 and the calendar year ended December 31, 2000, we recognized revenues of $19.4 million, $989,000 and $3.6 million, respectively. As of January 31, 2002, we had an accumulated deficit of $463.0 million. We expect to incur significant operating expenses over the next several years in connection with the continued development and expansion of our business. As a result, we expect to continue to incur losses for the foreseeable future. The size of these net losses depends in part on our subscriber revenues and on our expenses. With increased expenses, we will need to generate significant additional revenues to achieve profitability. Consequently, we may never achieve profitability, and even if we do, we may not sustain or increase profitability on a quarterly or annual basis in the future.

Our limited operating history may make it difficult for us or investors to evaluate trends and other factors that affect our business.

We were incorporated in August 1997 and have been obtaining subscribers only since March 31, 1999. Prior to that time, our operations consisted primarily of research and development efforts. As of January 31, 2002, only a limited number of personal video recorders had been sold and we obtained only a limited number of subscribers to the TiVo Service. As a result of our limited operating history, our historical financial and operating information is of limited value in evaluating our future operating results. In addition, any evaluation of our business must be made in light of the risks and difficulties encountered by companies offering products or services in new and rapidly evolving markets. For example, it may be difficult to accurately predict our future revenues, costs of revenues, expenses or results of operations. Personal television is a new product category for consumers and it may be difficult to predict the future growth rate, if any, or size of the market for our products and services. We may be unable to accurately forecast customer behavior and recognize or respond to emerging trends, changing preferences

Table of Contents

or competitive factors facing us. As a result, we may be unable to make accurate financial forecasts and adjust our spending in a timely manner to compensate for any unexpected revenue shortfall. This inability could cause our net losses in a given quarter to be greater than expected, which could cause the price of our stock to decline.

If our marketing in the retail channel is not successful, consumers and consumer electronics manufacturers may not accept the TiVo Service and products that enable the TiVo Service.

Our success depends upon a continually successful retail marketing campaign for the TiVo Service and related personal video recorders, which began in the third quarter of calendar year 1999. We rely in part on our consumer electronics partners to manufacture, market, sell and support the personal video recorder that enables the TiVo Service. We also rely on the efforts of AT&T Broadband, DIRECTV and BSkyB to market, sell and support the TiVo Service to AT&T Broadband, DIRECTV and BSkyB subscribers. The ongoing marketing campaign requires, among other things, that we:

- educate consumers on the benefits of the TiVo Service and related personal video recorder, which will require an extensive marketing campaign;
- commit a substantial amount of human and financial resources to achieve continued, successful retail distribution; and
- coordinate our own sales, marketing and support activities with those of AT&T Broadband, DIRECTV, AOL and other strategic partners.

We or our strategic partners may not achieve any or all of these objectives. In addition, consumers may perceive the TiVo Service and related personal video recorder as too expensive or complex and our marketing campaign may not effectively attract new subscribers. Because of competitive offerings or changing preferences, consumers may delay or decline the purchase of the TiVo Service and related personal video recorder. All of these events would reduce consumer demand and market acceptance, diminish our brand and impair our ability to attract subscribers to the TiVo Service.

We have agreed to share a substantial portion of the revenue we generate from subscription fees with some of our strategic partners. We may be unable to generate enough revenue to cover these obligations.

We have agreed to share a substantial portion of our subscription and other fees with some of our strategic partners in exchange for manufacturing, distribution and marketing support and discounts on key components for personal video recorders. Given how these amounts are calculated, we may be required to share substantial portions of the subscription and other fees attributable to the same subscriber with multiple partners. These agreements require us to share a portion of our subscription fees whether or not we increase or decrease the price of the TiVo Service. If we change our subscription fees in response to competitive or other market factors, our operating results would be adversely affected. Our decision to share subscription revenues is based on our expectation that our partnerships will help us obtain subscribers, broaden market acceptance of personal television and increase our future revenues. If these expectations are not met, we may be unable to generate sufficient revenue to cover our expenses and obligations.

We depend on a limited number of third parties to manufacture, distribute and supply critical components and services for the personal video recorders 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 personal video recorder made available by TiVo and a limited number of third parties. In addition, we rely on sole suppliers for a number of key components for the personal video recorders. We do not control the time and resources that these third parties devote to our business. 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 its 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 quickly achieve market acceptance and brand recognition.

Table of Contents

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

If our manufacturing partnerships are not successful, we may be unable to establish a market for our products and services. We have manufactured a certain number of the personal video recorders that enable the TiVo Service through a third-party contract manufacturer. We have also entered and anticipate entering into agreements with consumer electronics partners to manufacture and distribute the personal video recorders that enable the TiVo Service. However, we have no minimum volume commitments from any manufacturer. The ability of our manufacturing partners to reach sufficient production volume of the personal video recorder 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 personal video recorders 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 subscribers. In addition, the loss of a manufacturing partner 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 personal video recorders in the future, we may be unable to establish additional relationships on acceptable terms.

If our corporate partners fail to perform their obligations, we may be unable to effectively market and distribute our products and services. In addition to our efforts, our manufacturing partners distribute the personal video recorder that enables the TiVo Service. We rely on their sales forces, marketing budgets and brand images to promote and support the personal video recorder and the TiVo Service. We expect to continue to rely on our manufacturing partners and other strategic partners to promote and support the personal video recorder and other devices that enable the TiVo Service. The loss of one or more of these partners could require us to undertake more of these activities on our own. As a result, we would spend significant resources to support personal video recorders and other devices that enable the TiVo Service. We also expect to rely on AOL, AT&T Broadband, DIRECTV and other partners to provide marketing support for the TiVo Service. The failure of one or more of these partners to provide anticipated marketing support will require us to divert more of our limited resources to marketing the TiVo Service. If we are unable to provide adequate marketing support for the personal video recorder and the TiVo Service, our ability to attract subscribers to the TiVo Service will be limited.

We are dependent on single 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 and services used in the personal video recorders and the TiVo Service. For example:

- NEC is the sole supplier of the CPU and application specific integrated circuit semiconductor devices;
- Broadcom is the sole supplier of the MPEG2 encoder and decoder semiconductor devices;
- ATMEL is the sole supplier of the secure microcontroller semiconductor device; and
- Tribune Media Services is the sole supplier of program guide data.

In addition to the above, we have several sole suppliers for key components of our products currently under development.

We cannot be sure that alternative sources for key components and services used in the personal video recorders and the TiVo Service will be available when needed or, if available, that these components and services will be available on favorable terms. If our agreements or our manufacturing partners agreements with Broadcom, ATMEL, NEC or Tribune Media Services were to terminate or expire, or if we or our manufacturing partners were unable to obtain sufficient quantities of these components or required program guide data, our search for alternate suppliers could result in significant delays, added expense or disruption in product availability.

We have limited experience in overseeing manufacturing processes and managing inventory and failure to do so effectively may result in supply imbalances.

In fiscal year ending January 31, 2003, to transition to the Series2 platform, we will contract for the manufacture of certain Series2 personal video recorders with contract manufacturers. We will sell these units through Best Buy and AT&T Broadband, as well as through TiVo s own online sales efforts. As part of this effort, we expect to maintain some inventory of the Series2 units throughout the year. Overseeing manufacturing processes and managing inventory are outside of TiVo s core business and our experience in these areas is limited. If TiVo

fails to effectively oversee manufacturing process and manage inventory, TiVo may suffer from insufficient inventory to meet consumer demand or excess inventory.

Our ability to generate revenues from subscription fees is unproven and may fail.

We expect to generate a substantial portion of our revenues from subscription fees for the TiVo Service. Many of our potential customers already pay monthly fees for cable or satellite television services. We must convince these consumers to pay an additional subscription fee to receive the TiVo Service. The availability of competing services that do not require subscription fees will harm our ability to effectively attract subscribers. In addition, the personal video recorder that enables the TiVo Service can be used to record programs and pause, rewind and fast forward through live or recorded shows without an active subscription to the TiVo Service. If a significant number of purchasers of the personal video recorders use these devices without subscribing to the TiVo Service, our revenue growth will decline and we may not achieve profitability.

Our business is expanding and our failure to manage growth could disrupt our business and impair our ability to generate revenues.

Since we began our business in August 1997, we have expanded our operations. We may need to adjust our headcount and infrastructure to allow us to pursue market opportunities. This growth in our subscriber base has placed, and will continue to place, a significant strain on our management, operational and financial resources and systems. Specific risks we face as our business expands include:

We need to attract and retain qualified personnel, and any failure to do so may impair our ability to offer new products or grow our business. Our success will depend on our ability to attract, retain and motivate managerial, technical, marketing, financial, administrative and customer support personnel. Competition for such employees is intense, especially for engineers in the San Francisco Bay Area, and we may be unable to successfully attract, integrate or retain sufficiently qualified personnel. If we are unable to hire, train, retain and manage required personnel, we may be unable to successfully introduce new products or otherwise implement our business strategy.

Any inability of our systems to accommodate our expected subscriber growth may cause service interruptions or delay our introduction of new services. We internally developed many of the systems we use to provide the TiVo Service and perform other processing functions. The ability of these systems to scale as we rapidly add new subscribers is unproven. We must continually improve these systems to accommodate subscriber growth and add features and functionality to the TiVo Service. Our inability to add software and hardware or to upgrade our technology, systems or network infrastructure could adversely affect our business, cause service interruptions or delay the introduction of new services.

We will need to provide acceptable customer support, and any inability to do so will harm our brand and ability to generate and retain new subscribers. Our ability to increase sales, retain current and future subscribers and strengthen our brand will depend in part upon the quality of our customer support operations. Some customers require significant support when installing the personal video recorder and becoming acquainted with the features and functionality of the TiVo Service. We have limited experience with widespread deployment of our products and services to a diverse customer base, and we may not have adequate personnel to provide the levels of support that our customers require. In addition, we have entered into agreements with third parties to provide this support and will rely on them for a substantial portion of our customer support functions. Our failure to provide adequate customer support for the TiVo Service and personal video recorder will damage our reputation in the personal television and consumer electronics marketplace and strain our relationships with customers and strategic partners. This could prevent us from gaining new or retaining existing subscribers and could cause harm to our reputation and brand.

We will need to improve our operational and financial systems to support our expected growth, and any inability to do so will adversely impact our billing and reporting. To manage the expected growth of our operations, we will need to improve our operational and financial systems, procedures and controls. Our current and planned systems, procedures and controls may not be adequate to support our future operations and expected growth. For example, we replaced our accounting and billing system at the beginning of August 2000. Delays or problems associated with any improvement or expansion of our operational and financial systems and controls could adversely impact our relationships with subscribers and cause harm to our reputation and brand. Delays or problems associated with any improvement or expansion of our operational and financial systems and controls could also result in errors in our financial and other reporting.

Table of Contents

If we are unable to create multiple revenue streams, we may not be able to cover our expenses or meet our obligations to strategic partners and other third parties.

Although our initial success will depend on building a significant customer base and generating subscription fees from the TiVo Service, our long-term success will depend on securing additional revenue streams such as:

- advertising;
- audience measurement research;
- revenues from programmers; and
- electronic commerce.

In order to derive substantial revenues from these activities, we will need to attract and retain a large and growing base of subscribers to the TiVo Service. We also will need to work closely with television advertisers, cable and satellite network operators, electronic commerce companies and consumer electronics manufacturers to develop products and services in these areas. We may not be able to effectively work with these parties to develop products that generate revenues that are sufficient to justify their costs. In addition, we are currently obligated to share a portion of these revenues with several of our strategic partners. Any inability to attract and retain a large and growing group of subscribers and strategic partners will seriously harm our ability to support new services and develop new revenue streams.

It will take a substantial amount of time and resources to achieve broad market acceptance of the TiVo Service and products that enable the TiVo Service and we cannot be sure that these efforts will generate a broad enough subscriber base to sustain our business.

Personal television products and services represent a new, untested consumer electronics category. The TiVo Service is in an early stage of development and many consumers are not aware of its benefits. As a result, it is uncertain whether the market will demand and accept the TiVo Service and products that enable the TiVo Service. Retailers, consumers and potential partners may perceive little or no benefit from personal television products and services. Likewise, consumers may not value, and may be unwilling to pay for the TiVo Service and products that enable the TiVo Service. To develop this market and obtain subscribers to the TiVo Service, we will need to devote a substantial amount of time and resources to educate consumers and promote our products. We may fail to obtain subscribers, encourage the development of new devices that enable the TiVo Service and develop and offer new content and services. We cannot be sure that a broad base of consumers will ultimately subscribe to the TiVo Service or purchase the products that enable the TiVo Service.

We face intense competition from a number of sources, which may impair our revenues and ability to generate subscribers.

The personal television market is new and rapidly evolving and we expect competition from a number of sources, including:

Companies offering similar products and services. We are likely to face intense direct competition from companies such as Microsoft, OpenTV, NDS, EchoStar Communications Corp., CacheVision, Keen Personal Media, Inc., Moxi Digital and SONICblue. These companies offer, or have announced their intention to offer, products with one or more of the TiVo Service s functions or features and, in some instances, combine these features with Internet browsing or traditional broadcast, cable or satellite television programming. Many of these companies have greater brand recognition and market presence and substantially greater financial, marketing and distribution resources than we do. For example, Microsoft Corporation controls and provides financial backing to UltimateTV. Some of these companies also have established relationships with third party consumer electronic manufacturers, network operators and programmers, which could make it difficult for us to establish relationships and enter into agreements with these third parties. Some of these competitors also have relationships with our strategic partners. For example, DIRECTV enables its subscribers to receive Microsoft s UltimateTV service. AOL Time Warner has made an investment in Moxi Digital. Faced with this competition, we may be unable to expand our market share and attract an increasing number of subscribers to the TiVo Service.

Established competitors in the consumer electronics market. We compete with consumer electronic products in the television and home entertainment industry. The television and home entertainment industry is characterized by rapid technological innovation, a small number of dominant manufacturers and intense price

Table of Contents

competition. As a new product category, personal television enters a market that is crowded with several established products and services. The competition for consumer spending in the television and home entertainment market is intense, and our products and services compete with:

satellite television systems;

video on demand services;

digital video disc players; and

laser disc players.

Most of these technologies or devices have established markets, a broad subscriber base and proven consumer acceptance. In addition, many of the manufacturers and distributors of these competing devices have substantially greater brand recognition, market presence, distribution channels, advertising and marketing budgets and promotional and other strategic partners. Faced with this competition, we may be unable to effectively differentiate the personal video recorder or the TiVo Service from these devices.

Established competition for advertising budgets. Personal television, in general, and TiVo, specifically, also compete with traditional advertising media such as print, radio and television for a share of advertisers total advertising budgets. If advertisers do not perceive personal television as an effective advertising medium, they may be reluctant to devote a significant portion of their advertising budget to promotions on the TiVo Service.

If we are unable to introduce new products or services, or if our new products and services are unsuccessful, the growth in our subscriber base and revenues may suffer.

To attract and retain subscribers and generate revenues, we must continue to add functionality and content and introduce products and services which embody new technologies and, in some instances, new industry standards. This challenge will require hardware and software improvements, as well as new collaborations with programmers, advertisers, network operators, hardware manufacturers and other strategic partners. These activities require significant time and resources and may require us to develop and promote new ways of generating revenue with established companies in the television industry. These companies include television advertisers, cable and satellite network operators, electronic commerce companies and consumer electronics manufacturers. In each of these examples, a small number of large companies dominate a major portion of the market and may be reluctant to work with us to develop new products and services for personal television. If we are unable to further develop and improve the TiVo Service or expand our operations in a cost-effective or timely manner, our ability to attract and retain subscribers and generate revenue will suffer.

If we do not successfully establish strong brand identity in the personal television market, we may be unable to achieve widespread acceptance of our products.

We believe that establishing and strengthening the TiVo brand is critical to achieving widespread acceptance of our products and services and to establishing key strategic partnerships. The importance of brand recognition will increase as current and potential competitors enter the personal television market with competing products and services. Our ability to promote and position our brand depends largely on the success of our marketing efforts and our ability to provide high quality services and customer support. These activities are expensive and we may not generate a corresponding increase in subscribers or revenues to justify these costs. If we fail to establish and maintain our brand, or if our brand value is damaged or diluted, we may be unable to attract subscribers and effectively compete in the personal television market.

Product defects, system failures or interruptions to the TiVo Service may have a negative impact on our revenues, damage our reputation and decrease our ability to attract new subscribers.

Our ability to provide uninterrupted service and high quality customer support depends on the efficient and uninterrupted operation of our computer and communications systems. Our computer hardware and other operating systems for the TiVo Service are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures and similar events. They are also subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. These types of interruptions in the TiVo Service may reduce our revenues and profits. Our business also will be harmed if consumers believe our service is unreliable. In addition to placing increased burdens on our engineering staff, service outages will create a flood of customer questions and complaints

Table of Contents

that must be responded to by our customer support personnel. Any frequent or persistent system failures could irreparably damage our reputation and brand.

We have detected and may continue to detect errors and product defects. These problems can affect system uptime, result in significant warranty and repair problems, which could cause customer service and customer relations problems. Correcting errors in our software requires significant time and resources, which could delay product releases and affect market acceptance of the TiVo Service. Any delivery by us of products or upgrades with undetected material product defects or software errors could harm our credibility and market acceptance of the personal video recorders and the TiVo Service.

Intellectual property claims against us can be costly and could result in the loss of significant rights.

From time to time, we receive letters form third parties alleging that we are infringing their intellectual property. If any of these third parties or others were to bring suit against us, our business could be harmed because intellectual property litigation may:

- be time-consuming and expensive;
- divert management s attention and resources away from our business;
- cause delays in product delivery and new service introduction;
- cause the cancellation of new products or services; or
- require us to pay significant royalties or licensing fees.

The emerging enhanced-television industry is highly litigious, particularly in the area of on-screen program guides. Additionally, many patents covering interactive television technologies have been granted but have not been commercialized. For example, we are aware of at least seven patents for pausing live television. A number of companies in the enhanced-television industry earn substantial profits from technology licensing, and the introduction of new technologies such as ours is likely to provoke lawsuits from such companies. A successful claim of infringement against us, our inability to obtain an acceptable license from the holder of the patent or other right or our inability to design around an asserted patent or other right could cause our manufacturing partners to cease manufacturing the personal video recorder, our retailers to stop selling the product or us to cease providing our service, or all of the above, which would eliminate our ability to generate revenues.

On January 18, 2000, StarSight Telecast Inc., a subsidiary of Gemstar International Group Limited filed a lawsuit against us in the U.S. District Court for the Northern District of California alleging willful and deliberate violation of U.S. Patent Number 4,706,121, entitled TV Schedule System and Process, held by StarSight. The complaint alleged that we infringed the patent by, among other things, making, using, selling, offering to sell and/or importing our TV schedule systems and processes without a license from StarSight. StarSight seeks unspecified monetary damages and an injunction against our operations. The suit also seeks attorneys fees and costs. We believe that we have meritorious defenses against the suit and intend to vigorously defend ourselves. On February 25, 2000, we counterclaimed against StarSight, Gemstar Development Corporation and Gemstar International Group Limited seeking damages for federal antitrust violations and state unfair business practices claims, as well as declaratory relief of non-infringement, invalidity and unenforceability with respect to the patent. We could be forced to incur material expenses during this litigation, and in the event we were to lose this suit, our business would be harmed.

On September 25, 2001, Pause Technology filed a complaint against TiVo in the US District Court for the District of Massachusetts alleging willful and deliberate infringement of US Reissue Patent No. 36,801, entitled Time Delayed Digital Video System Using Concurrent Recording and Playback. Pause Technology seeks unspecified monetary damages as well as an injunction against our operations. It also seeks attorneys fees and costs. TiVo s answer was filed on December 26, 2001. We believe we have meritorious defenses and intend to defend this action vigorously; however, we could be forced to incur material expenses in the litigation, and in the event there is an adverse outcome, our business could be harmed.

Table of Contents

On December 12, 2001, SONICblue Incorporated filed a lawsuit against TiVo in the U.S. District Court for the Northern District of California, alleging infringement of US Patent No. 6,324,338 entitled Video Data Recorder with Integrated Channel Guides. SONICblue seeks unspecified monetary damages as well as an injunction against our operations. TiVo s answer was filed on January 23, 2002. We believe that we have meritorious defenses against this suit and intend to vigorously defend ourselves. However, we could be forced to incur material expenses during this litigation and, in the event we were to lose the lawsuit, our business could be harmed.

On January 23, 2002, we filed a separate lawsuit against SONICblue Incorporated and its wholly owned subsidiary, ReplayTV, Inc., in the U.S. District Court for the Northern District of California, alleging that we are the owner of United States Patent No. 6,233,389, entitled Multimedia Time Warping System, and alleging further that SONICblue and ReplayTV have willfully and deliberately infringed the patent by making, using, offering to sell and/or selling within the United States digital video recording devices, software and/or personal television services falling within the scope of the patent. We have requested that the court enjoin SONICblue and ReplayTV from further infringement of the patent and award us compensatory damages, treble damages and attorneys fees and costs. We could be forced to incur material expenses during this litigation and, in the event we were to lose the lawsuit, our business could be harmed.

On February 5, 2002, Sony Corporation notified us that Command Audio Corporation had filed a complaint against Sony Electronics, Inc. on February 2, 2002 in the United States District Court for the Northern District of California. The complaint alleges that, in connection with its sale of personal video recorders, Sony infringes upon two patents owned by Command Audio (United States Patent Nos. 5,590,195 (Information Dissemination Using Various Transmission Modes) and 6,330,334 (Method and System for Information Dissemination Using Television Signals)). The complaint seeks injunctive relief, compensatory and treble damages and Command Audio s costs and expenses, including reasonable attorneys fees. Under the terms of our agreement with Sony governing the distribution of certain personal video recorders that enable the TiVo Service, we are required to indemnify Sony against any and all claims, damages, liabilities, costs and expenses relating to claims that our technology infringes upon intellectual property rights owned by third parties. We believe Sony has meritorious defenses against this lawsuit; however, due to our indemnification obligations, we could be forced to incur material expenses during this litigation, and, if Sony were to lose this lawsuit, our business could be harmed.

In addition, we are aware that some media companies may attempt to form organizations to develop standards and practices in the personal television industry. These organizations or individual media companies may attempt to require companies in the personal television industry to obtain copyright or other licenses. A number of articles have appeared in the press regarding the formation of a consortium of broadcast and cable television networks called the Advanced Television Copyright Coalition. Some of those articles have indicated that the coalition is prepared to support litigation and to explore legislative solutions unless the members of the personal television industry agree to obtain license agreements for use of the companies programming. We have received letters from Time Warner Inc. and Fox Television stating that these entities believe our personal television service exploits copyrighted networks and programs without the necessary licenses and business arrangements. Lawsuits or other actions taken by these types of organizations or companies could make it more difficult for us to introduce new services, delay widespread consumer acceptance of our products and services, restrict our use of some television content, increase our costs and adversely affect our business.

Our success depends on our ability to secure and protect patents, trademarks and other proprietary rights.

Our success and ability to compete are substantially dependent upon our internally developed technology. We rely on patent, trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our proprietary rights. However, the steps we take to protect our proprietary rights may be inadequate. We have filed patent applications and provisional patent applications covering substantially all of the technology used to deliver the TiVo Service and its features and functionality. To date, several of these patents have been granted, and we cannot assure you that any additional patents will ever be granted, that any issued patents will protect our intellectual property or that third parties will not challenge any issued patents. In addition, other parties may independently develop similar or competing technologies designed around any patents that may be issued to us. Our failure to secure and protect our proprietary rights could have a material adverse effect on our business.

Table of Contents

Laws or regulations that govern the television industry and the delivery of programming could expose us to legal action if we fail to comply or could require us to change our business.

Personal television and the delivery of television programming through the TiVo Service and a personal video recorder represents a new category in the television and home entertainment industries. As such, it is difficult to predict what laws or regulations will govern our business. Changes in the regulatory climate, the enactment of new legislation or the enforcement or interpretation of existing laws could expose us to additional costs and expenses and could require changes to our business. For example, copyright laws could be applied to restrict the capture of television programming, which would adversely affect our business. It is unknown whether existing laws and regulations will apply to the personal television market. Therefore, it is difficult to anticipate the impact of current or future laws and regulations on our business.

The Federal Communications Commission has broad jurisdiction over the telecommunications and cable industries. The majority of FCC regulations, while not directly affecting us, do affect many of the strategic partners on whom we substantially rely for the marketing and distribution of the personal video recorder and the TiVo Service. As such, the indirect effect of these regulations may adversely affect our business. In addition, the FCC could promulgate new regulations, or interpret existing regulations in a manner that would cause us to incur significant compliance costs or force us to alter the features or functionality of the TiVo Service.

We need to safeguard the security and privacy of our subscribers confidential data, and any inability to do so may harm our reputation and brand and expose us to legal action.

The personal video recorder collects and stores viewer preferences and other data that many of our subscribers consider confidential. Any compromise or breach of the encryption and other security measures that we use to protect this data could harm our reputation and expose us to potential liability. Advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments could compromise or breach the systems we use to protect our subscribers confidential information. We may be required to make significant expenditures to protect against security breaches or to remedy problems caused by any breaches.

Uncertainty in the marketplace regarding the use of data from subscribers could reduce demand for the TiVo Service and result in increased expenses.

Consumers may be concerned about the use of viewing information gathered by the TiVo Service and personal video recorder. Currently, we gather anonymous information about our subscribers viewing choices while using the TiVo Service, unless a subscriber affirmatively consents to the collection of personally identifiable viewing information. This anonymous viewing information does not identify the individual subscriber. Privacy concerns, however, could create uncertainty in the marketplace for personal television and our products and services. Changes in our privacy policy could reduce demand for the TiVo Service, increase the cost of doing business as a result of litigation costs or increased service delivery costs, or otherwise harm our reputation and business.

In the future, our revenues and operating results may fluctuate significantly, which may adversely affect the market price of our common stock.

We expect our revenues and operating results to fluctuate significantly due to a number of factors, many of which are outside of our control. Therefore, you should not rely on period-to-period comparisons of results of operations as an indication of our future performance. It is possible that in some future periods our operating results may fall below the expectations of market analysts and investors. In this event, the market price of our common stock would likely fall.

Factors that may affect our quarterly operating results include:

- demand for personal video recorders and the TiVo Service;
- the timing and introduction of new services and features on the TiVo Service;
- seasonality and other consumer and advertising trends;
- changes in revenue sharing arrangements with our strategic partners;
- entering into new or terminating existing strategic partnerships;
- changes in the subsidy payments we make to certain strategic partners;

23

Table of Contents

- changes in our pricing policies, the pricing policies of our competitors and general pricing trends in the consumer electronics market;
- loss of subscribers to the TiVo Service; and
- general economic conditions.

Because our expenses precede associated revenues, unanticipated shortfalls in revenue could adversely affect our results of operations for any given period and cause the market price of our common stock to fall.

Seasonal trends may cause our quarterly operating results to fluctuate and our inability to forecast these trends may adversely affect the market price of our common stock.

Consumer electronic product sales have traditionally been much higher during the holiday shopping season than during other times of the year. Although predicting consumer demand for our products is very difficult, we have experienced that sales of personal video recorders and new subscriptions to the TiVo Service have been disproportionately high during the holiday shopping season when compared to other times of the year. If we are unable to accurately forecast and respond to consumer demand for our products, our reputation and brand will suffer and the market price of our common stock would likely fall.

We expect that a portion of our future revenues will come from targeted commercials and other forms of television advertising enabled by the TiVo Service. Expenditures by advertisers tend to be seasonal and cyclical, reflecting overall economic conditions as well as budgeting and buying patterns. A decline in the economic prospects of advertisers or the economy in general could alter current or prospective advertisers spending priorities or increase the time it takes to close a sale with our advertisers, which could cause our revenues from advertisements to decline significantly in any given period.

If we are unable to raise additional capital on acceptable terms, our ability to effectively manage growth and build a strong brand could be harmed.

We expect that our existing capital resources will be sufficient to meet our cash requirements through at least the next 12 months. However, as we continue to grow our business, we may need to raise additional capital, which may not be available on acceptable terms or at all. If we cannot raise necessary additional capital on acceptable terms, we may not be able to develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements.

If additional capital is raised through the issuance of equity securities, the percentage ownership of our existing stockholders will decline, stockholders may experience dilution in net book value per share, or these equity securities may have rights, preferences or privileges senior to those of the holders of our common stock. Any debt financing, if available, may involve covenants limiting, or restricting our operations or future opportunities.

We have agreed to subsidize the cost of manufacturing personal video recorders, which may adversely affect our operating results and ability to achieve profitability.

We have entered into agreements with our consumer electronic manufacturing partners to manufacture the personal video recorder that enables the TiVo Service. Although we intend to reduce subsidy payments in the future, in certain agreements, we have agreed to pay our manufacturing partners a per-unit subsidy for each personal video recorder that they manufacture and sell. The amount of the payments can vary depending upon the manufacturing costs and selling prices. In addition, in the event our manufacturing partners are unable to manufacture the personal video recorders at the costs currently estimated or if selling prices are less than anticipated, we may owe additional amounts to them, which could adversely affect our operating results. We are obligated to pay a portion of the subsidy when the personal video recorder is shipped, and we will not receive any revenues related to the unit until the unit is sold and the purchaser activates the TiVo Service. We may make additional subsidy payments in the future to consumer electronic and other manufacturers in an effort to maintain a commercially viable retail price for the personal video recorders and other devices that enable the TiVo Service.

Table of Contents

The lifetime subscriptions to the TiVo Service that we currently offer commit us to providing services for an indefinite period. The revenue we generate from these subscriptions may be insufficient to cover future costs.

We currently offer product lifetime subscriptions that commit us to provide service for as long as the personal video recorder is in service. We receive the lifetime subscription fee for the TiVo Service in advance and amortize it as subscription revenue over four years, which is our estimate of the service life of the personal video recorder. If these lifetime subscribers use the personal video recorder for longer than anticipated, we will incur costs without a corresponding revenue stream and therefore will be required to fund ongoing costs of service from other sources.

If we lose key management personnel, we may not be able to successfully operate our business.

Our future performance will be substantially dependent on the continued services of our senior management and other key personnel. The loss of any members of our executive management team and our inability to hire additional executive management could harm our business and results of operations. In addition, we do not have employment agreements with, or key man insurance policies for, any of our key personnel.

If there is an adverse outcome in either class action litigation that has been filed against TiVo, our business may be harmed.

On June 12, 2001, a securities class action lawsuit in which we and certain of our officers and directors are named as defendants was filed in the United States District Court for the Southern District of New York. In addition to the TiVo defendants, this action, which is captioned *Wercberger v. TiVo et al.*, also names several of the underwriters involved in our initial public offering as defendants. This class action is brought on behalf of a purported class of purchasers of our common stock from September 30, 1999, the time of our initial public offering, through December 6, 2000. The central allegation in this action is that the underwriters in our initial public offering solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased our 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 allegedly undisclosed arrangements. More than 300 issuers have been named in similar lawsuits. The TiVo defendants time to respond to the complaint has not yet expired, and it is likely that this response will not be due for several months, after certain procedural issues are resolved. At the appropriate time, the TiVo defendants intend to move to dismiss the consolidated complaint for failure to state a claim. We believe that the TiVo defendants have meritorious defenses and intend to defend this action vigorously; however, we could be forced to incur material expenses in the litigation, and in the event there is an adverse outcome, our business could be harmed.

On August 13, 2001, Alan Federbush, an individual resident in the state of New York, and Mitchell Brink, an individual resident in the state of Illinois, filed, on behalf of themselves and all similarly situated purchasers of Sony or Philips digital television recorders and the TiVo Service, a class action complaint against us in the Superior Court of the State of California, Santa Clara County, alleging violation of California s Consumers Legal Remedies Act, California s Unfair Practices Act, and fraudulent concealment. The complaint states that Mr. Federbush and Mr. Brink each experienced problems with the modem contained in the digital television recorders. The complaint alleges, among other things, that we knew or had reason to know of these malfunctions and therefore misrepresented or failed to disclose material information about the digital television recorders to consumers. The complaint seeks an award of actual damages, as well as unspecified punitive damages, interest, attorneys fees and other costs. The complaint additionally seeks broad equitable relief, requesting that we be enjoined from continuing the practices described in the complaint and engaging in false and misleading advertising regarding the digital television recorders. We filed our answer to the complaint on October 19, 2001. Discovery, through which we would seek to investigate the plaintiff s claims, has not commenced. Based on the information available, we are unable to form a conclusion regarding the amount, materiality or range of potential loss, if any, which might result if the outcome of this matter were unfavorable. We believe we have meritorious defenses and intend to defend this action vigorously; however, we could be forced to incur material expenses in the litigation, and in the event there is an adverse outcome, our business could be harmed.

We expect to experience volatility in our stock price.

The market price of our common stock is highly volatile. Since our initial public offering in September 1999 through March 18, 2002, our common stock has closed between $71.50 per share and $3.01 per share, closing at $5.36 on March 18, 2002. The market price of our common stock may be subject to significant fluctuations in response to, among other things, the factors discussed in this section and the following factors:

Table of Contents

- Changes in estimates of our financial performance or changes in recommendations by securities analysts;
- Our failure to meet the expectations of securities analysts or investors;
- Release of new or enhanced products or introduction of new marketing initiatives by us or our competitors;
- Announcements by us or our competitors of the creation, developments under or termination of significant strategic partnerships, joint ventures, significant contracts or acquisitions;
- Fluctuations in the market prices generally for technology-related stocks;
- Fluctuations in general economic conditions;
- Fluctuations in interest rates;
- Market conditions affecting the television and home entertainment industry;
- Fluctuations in operating results; and
- Additions or departures of key personnel.

The stock market has from time to time experienced extreme price and volume fluctuations, which have particularly affected the market prices for emerging companies, and which have often been unrelated to their operating performance. These broad market fluctuations may adversely affect the market price of our common stock.

Our Certificate of Incorporation, Bylaws, Rights Agreement and Delaware law could discourage a third party from acquiring us and consequently decrease the market value of our common stock.

We may become the subject of an unsolicited attempted takeover of our company. Although an unsolicited takeover could be in the best interests of our stockholders, certain provisions of Delaware law, our organizational documents and our Rights Agreement could be impediments to such a takeover.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, the statute prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Our Amended and Restated Certificate of Incorporation and Bylaws also require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of the stockholders and may not be effected by a consent in writing. In addition, special meetings of our stockholders may be called only by our board of directors, the chairman of the board or the chief executive officer. Our Amended and Restated Certificate of Incorporation and Bylaws also provide that directors may be removed only for cause by a vote of a majority of the stockholders and that vacancies on the board of directors created either by resignation, death, disqualification, removal or by an increase in the size of the board of directors may be filled by a majority of the directors in office, although less than a quorum. Our Amended and Restated Certificate of Incorporation also provides for a classified board of directors and specifies that the authorized number of directors may be changed only by resolution of the board of directors.

On January 9, 2001, our board of directors adopted a Rights Agreement. Each share of our common stock has attached to it a right to purchase one one-hundredth of a share of our Series B Junior Participating Preferred Stock at a price of $60 per one one-hundredth of a preferred share in the event that the rights become exercisable. The rights become exercisable upon the earlier to occur of (i) ten days following a public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of our common stock, subject to limited exceptions, or (ii) ten business days (or such later date as may be determined by action of our board of directors prior to such time as any person or group of affiliated persons becomes an acquiring person as described in the preceding clause) following the commencement or announcement of an intention to make a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 15% or more of our common stock, subject to limited exceptions.

Table of Contents

These provisions of Delaware law, our Amended and Restated Certificate of Incorporation and Bylaws and our Rights Agreement could make it more difficult for us to be acquired by another company, even if our acquisition is in the best interests of our stockholders. Any delay or prevention of a change of control or change in management could cause the market price of our common stock to decline.

The nature of some of our strategic relationships may restrict our ability to operate freely in the future.

From time to time, we may engage in discussions with other parties concerning strategic relationships, which may include equity investments by such parties in our company. We currently have such relationships with a number of our strategic partners, including AOL, DIRECTV, Sony and Philips. While we believe that such relationships have enhanced our ability to finance and develop our business model, the terms and conditions of such relationships may place some restrictions on our freedom to operate in the future.

If the conversion price on the notes were reduced, it would result in dilution to the existing holders of our common stock.

The conversion price on the notes will be reduced on August 23, 2002 if the conversion price is greater than the average closing price per share of our common stock for the 10 consecutive trading days preceding August 23, 2002. In addition, the conversion price on the notes may be reduced if we issue common stock or common stock equivalents at an issuance price (or with respect to common stock equivalents, such additional common stock is issued with a conversion or exercise price per share less than the conversion price of the notes then in effect immediately prior to the issuance) that is lower than the conversion price then in effect immediately prior to the issuance. If the conversion price on the notes is reduced as a result of these adjustments, holders of the notes will receive a greater number of shares of our common stock in connection with the conversion of the notes, thereby resulting in dilution to the existing holders of our common stock.

If shares of common stock are purchased in a transaction under the February 2002 common stock purchase agreement with Acqua Wellington North American Equities Fund, Ltd., described above in Item 7 under the heading Liquidity and Capital Resources, existing common stockholders will experience immediate dilution and, as a result, our stock price may go down.

We have entered into a common stock purchase agreement with Acqua Wellington North American Equities Fund, Ltd. pursuant to which Acqua Wellington may purchase shares of our common stock at a discount between 3.0% and 5.4%, unless otherwise agreed to by us and Acqua Wellington. As a result, our existing common stockholders will experience immediate dilution upon the purchase of any shares of our common stock by Acqua Wellington. The purchase agreement with Acqua Wellington provides that, at our request, Acqua Wellington will purchase a certain dollar amount of shares, with the exact number of shares to be determined based on the daily volume weighted average price of our common stock over the draw down period for such purchase. As a result, if the per share market price of our common stock declines over the draw-down period, Acqua Wellington will receive a greater number of shares for its purchase price, thereby resulting in further dilution to our stockholders and potential downward pressure on the price of our stock.

Risks Pertaining to Arthur Andersen Our access to capital markets and timely financial reporting may be impaired if Arthur Andersen is unable to perform required audit-related services.

On March 14, 2002, our independent public accountant, Arthur Andersen, was indicted on federal obstruction of justice charges arising from the government s investigation of Enron. Arthur Andersen has indicated that it intends to contest vigorously the indictment. The Securities and Exchange Commission has said that it will continue accepting financial statements audited by Arthur Andersen, and interim financial statements reviewed by it, so long as Arthur Andersen is able to make certain representations to its clients. Our access to the capital markets and our ability to make timely Securities and Exchange Commission filings could be impaired if the Securities and Exchange Commission ceases accepting financial statements audited by Arthur Andersen, if Arthur Andersen becomes unable to make the require representations to us or if for any other reason Arthur Andersen is unable to perform required audit-related services for us.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company s consolidated financial statements and notes thereto appear on pages 31 to 65 of this Annual Report on Form 10-K. The unaudited quarterly results of our consolidated operations for our two most recent fiscal years are incorporated herein by reference under Item 6. Selected Financial Data.

The consolidated financial statements as of and for the year ended January 31, 2002 have been restated to reflect the effects of the corrections described in Note 2 to the consolidated financial statements.

Index to Financial Statements

Independent Auditors Reports 29
Consolidated Balance Sheets 31
Consolidated Statements of Operations 33
Consolidated Statements of Stockholders Equity (Deficit) 34
Consolidated Statements of Cash Flows 38
Notes to Consolidated Financial Statements 40

Table of Contents

INDEPENDENT AUDITORS REPORT

To the Board of Directors and Stockholders of TiVo Inc.:

We have audited the accompanying consolidated balance sheet of TiVo Inc. and subsidiaries (the Company) as of January 31, 2002 and the related consolidated statements of operations, stockholders deficit and cash flows for the year ended January 31, 2002. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TiVo Inc. and subsidiaries as of January 31, 2002, and the results of their operations and their cash flows for the year ended January 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the accompanying consolidated financial statements, the consolidated balance sheet as of January 31, 2002 and the related consolidated statements of operations, stockholders deficit and cash flows for the year ended January 31, 2002 have been restated.

/s/ KPMG LLP

Mountain View, California
August 16, 2002

Table of Contents

To the Board of Directors and Stockholders of TiVo Inc.:

We have audited the accompanying consolidated balance sheets of TiVo Inc. (a Delaware corporation) as of January 31, 2001, December 31, 2000 and December 31, 1999, and the related consolidated statements of operations, stockholders equity and cash flows for the one-month ended January 31, 2001 and for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TiVo Inc. as of January 31, 2001, December 31, 2000 and December 31, 1999, and the results of its operations and its cash flows for the one-month ended January 31, 2001 and for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

San Francisco, California
March 2, 2001

This audit report of Arthur Andersen LLP, our former independent public accountants, is a copy of the original audit report dated March 2, 2001 rendered by Arthur Andersen LLP on our financial statements included in our Transition Report on Form 10-KT filed on April 30, 2001, and has not been reissued by Arthur Andersen LLP since that date. Our financial statements for the fiscal year ended January 31, 2002 have been re-audited by and are reported on by KPMG LLP at page 29 of this amended Annual Report on Form 10-K/A. Based on this re-audit, we have been informed by Arthur Andersen LLP that Arthur Andersen LLP has withdrawn its audit report dated March 28, 2002. We are including this copy of the March 2, 2001 Arthur Andersen LLP audit report pursuant to Rule 2-02(e) of Regulation S-X under the Securities Act of 1933.

Table of Contents

TIVO INC.

CONSOLIDATED BALANCE SHEETS

	Restated January 31, 2002	January 31, 2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 52,327,000	$ 124,474,000
Restricted cash	51,735,000	50,104,000
Accounts receivable, net of allowance for doubtful accounts of $23,000 and $201,000	2,185,000	1,834,000
Accounts receivable-related parties, net of allowance for doubtful accounts of zero and $62,000	6,687,000	4,816,000
Prepaid expenses and other	3,916,000	6,693,000
Prepaid expenses and other-related parties	7,541,000	1,698,000
Total current assets	124,391,000	189,619,000
LONG-TERM ASSETS		
Property and equipment, net of accumulated depreciation	18,146,000	21,924,000
Prepaid expenses and other	2,515,000	
Prepaid expenses and other-related parties	4,882,000	
Total long-term assets	25,543,000	21,924,000
Total assets	$ 149,934,000	$ 211,543,000
LIABILITIES, CURRENT REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIT)		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 7,003,000	$ 21,971,000
Accrued liabilities	12,618,000	19,863,000
Accrued liabilities related parties	26,640,000	49,839,000
Deferred interest income on restricted cash	3,735,000	2,104,000
Notes payable related parties	2,262,000	
Deferred revenue	12,786,000	6,210,000
Deferred revenue related parties	11,427,000	
Current portion of obligations under capital lease	536,000	796,000
Total current liabilities	77,007,000	100,783,000
CURRENT REDEEMABLE CONVERTIBLE PREFERRED STOCK		
Series A Redeemable convertible preferred stock, par value $0.001, redemption value $30.000: Issued and outstanding shares 1,600,000	2,000	2,000
Additional paid-in capital	46,553,000	46,553,000
Total current redeemable convertible preferred stock	46,555,000	46,555,000
Total current liabilities and current redeemable convertible preferred stock	123,562,000	147,338,000
LIABILITIES		
LONG-TERM LIABILITIES		
Long-term portion of obligations under capital lease	2,000	538,000
Convertible notes payable (face value $29,250,000)	18,315,000	

Convertible notes payable related parties (face value $15,000,000)	9,426,000	
Deferred revenue	23,552,000	12,113,000
Other	5,021,000	1,217,000
Total long-term liabilities	56,316,000	13,868,000

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

31

Table of Contents

TIVO INC.

CONSOLIDATED BALANCE SHEETS (continued)

	Restated	
	January 31, 2002	January 31, 2001
Total liabilities and current redeemable convertible preferred stock	179,878,000	161,206,000
STOCKHOLDERS EQUITY (DEFICIT)		
Series A Convertible preferred stock, par value $0.001:		
Authorized shares are 10,000,000		
Issued and outstanding shares are 1,111,861	$ 1,000	$ 1,000
Common stock, par value $0.001:		
Authorized shares are 150,000,000		
Issued and outstanding shares are 47,411,355 and 43,430,023, respectively	47,000	43,000
Additional paid-in capital	449,829,000	406,294,000
Deferred compensation	(1,099,000)	(2,786,000)
Prepaid marketing expenses	(14,183,000)	(48,458,000)
Note receivable	(1,568,000)	(2,509,000)
Accumulated deficit	(462,971,000)	(302,248,000)
Total stockholders equity (deficit)	(29,944,000)	50,337,000
Total liabilities, current redeemable convertible preferred stock and stockholders equity (deficit)	$ 149,934,000	$ 211,543,000

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

32

Table of Contents

TIVO INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Restated			
	Year Ended January 31, 2002	One-Month Ended January 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
	(in thousands, except per share data)			
Revenues (includes $100,000 of revenues related parties for the year ended January 31, 2002)	$ 19,397,000	$ 989,000	$ 3,571,000	$ 223,000
Costs and expenses				
Cost of revenues (excludes ($35,000), $9,000, $16,000, $141,000 and $116,000 of amortization of stock-based compensation)	19,949,000	1,710,000	18,382,000	4,067,000
Research and development (excludes $346,000, $37,000, $89,000, $791,000 and $431,000 of amortization of stock-based)	26,859,000	2,507,000	24,279,000	9,727,000
Sales and marketing (excludes $556,000, $60,000, $78,000, $992,000 and $176,000 of amortization of stock-based compensation)	28,509,000	7,884,000	102,091,000	24,502,000
Sales and marketing related parties	75,832,000	6,632,000	53,604,000	15,172,000
General and administrative (excludes $380,000, $69,000, $138,000, $1,191,000 and $807,000 of amortization of stock-based compensation)	18,495,000	1,326,000	14,346,000	7,027,000
Stock-based compensation	1,247,000	175,000	3,115,000	1,530,000
Other operating expense, net				7,210,000
Loss from operations	(151,494,000)	(19,245,000)	(212,246,000)	(69,012,000)
Interest income	2,163,000	672,000	7,928,000	2,913,000
Interest expense and other	(5,731,000)	(17,000)	(522,000)	(466,000)
Interest expense related parties	(1,643,000)			
Loss before taxes	(156,705,000)	(18,590,000)	(204,840,000)	(66,565,000)
Provision for income taxes	(1,000,000)			
Net loss	(157,705,000)	(18,590,000)	(204,840,000)	(66,565,000)
Less: Series A redeemable convertible preferred stock dividend	(3,018,000)	(423,000)	(1,514,000)	
Net loss attributable to common stockholders	$ (160,723,000)	$ (19,013,000)	$ (206,354,000)	$ (66,565,000)
Net loss per common share basic and diluted	$ (3.74)	$ (0.47)	$ (5.55)	$ (5.49)
Weighted average common shares outstanding basic and diluted	42,956,310	40,850,353	37,175,493	12,128,560

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

Table of Contents

TIVO INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Deferred Compensation	Prepaid Marketing Expense	Note Receivable	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount						
BALANCE, DECEMBER 31, 1998	11,174,427	$ 12,242,000	5,216,937	$ 5,000	$ 190,000	$	$	$	$ (10,316,000)	$ 2,121,000
Issuance of Series D preferred stock at $3.68 per share for cash	1,358,695	4,973,000								4,973,000
Issuance of Series E preferred stock at $7.40 per share for cash	270,270	1,982,000								1,982,000
Issuance of Series F preferred stock at $7.40 per share for cash	405,405	2,960,000								2,960,000
Issuance of Series G preferred stock at $7.40 per share for cash	1,013,513	7,431,000								7,431,000
Issuance of Series H preferred stock at $7.40 per share for cash	1,351,351	9,992,000								9,992,000
Issuance of Series I preferred stock at $10.41 per share for cash	3,121,994	31,494,000								31,494,000
Issuance of Series J preferred stock at $10.41 per share for cash	3,123,789	31,740,000								31,740,000
Conversion of preferred stock to common stock	(21,819,444)	(102,814,000)	21,819,444	22,000	102,792,000					
Issuance of preferred stock warrants for services					12,828,000		(12,454,000)			374,000
Issuance of common stock through initial public offering, net of issuance costs			6,166,875	6,000	90,249,000					90,255,000
Issuance of common stock for marketing services			1,852,329	2,000	12,038,000		(12,040,000)			
Issuance of common stock for marketing services and note receivable			1,128,867	1,000	7,336,000		(4,515,000)	(2,822,000)		
Issuance of common stock warrants for					498,000					498,000

services					
Exercise of stock options for common stock	525,064	1,000	1,191,000		1,192,000
Exercise of warrants for common stock	1,125,234	1,000	(1,000)		
Common stock exchanged for services	137,983		605,000		605,000
Common stock repurchases	(226,342)		(28,000)		(28,000)
Amortization of prepaid marketing expenses				12,668,000	12,668,000
Amortization of warrants for services			25,000		25,000

The accompanying notes are an integral part of these statements.

34

Table of Contents

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Deferred Compensation	Prepaid Marketing Expense	Note Receivable	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount						
Recognition of deferred compensation					7,700,000	(7,700,000)				
Stock-based compensation expense						1,530,000				1,530,000
Net loss									(66,565,000)	(66,565,000)
BALANCE, DECEMBER 31, 1999			37,746,391	$ 38,000	$ 235,423,000	$ (6,170,000)	$ (16,341,000)	$ (2,822,000)	$ (76,881,000)	$ 133,247,000
Series A redeemable convertible preferred stock dividend, $0.56 per share									(1,514,000)	(1,514,000)
Issuance of common stock for cash and prepaid marketing			4,327,833	4,000	99,996,000		(8,500,000)			91,500,000
Issuance costs for common stock					(3,050,000)					(3,050,000)
Recognition of marketing expenses							3,888,000			3,888,000
Issuance of warrants for marketing expenses					246,000					246,000
Issuance of common stock warrants for prepaid marketing expenses					15,364,000		(15,364,000)			
Issuance of common stock employee stock purchase plan			177,907		2,185,000					2,185,000
Exercise of stock options for common stock.			395,465		1,110,000					1,110,000
Common stock repurchases.			(50,066)		(4,000)					(4,000)
Reversal of deferred compensation.					(83,000)	83,000				
Stock-based compensation expense						3,115,000				3,115,000
Amortization of prepaid marketing expenses							7,160,000			7,160,000
								235,000		235,000

Amortization of note receivable										
Amortization of warrants					(36,000)		1,607,000			1,571,000
Net loss									(204,840,000)	(204,840,000)
BALANCE, DECEMBER 31, 2000			42,597,530	$ 42,000	$ 351,151,000	$ (2,972,000)	$ (27,550,000)	$ (2,587,000)	$ (283,235,000)	$ 34,849,000
Series A redeemable convertible preferred stock dividend declared, $0.16 per share									(423,000)	(423,000)
Removal of redemption feature-Series A convertible preferred stock	1,111,861	1,000			32,351,000					32,352,000
Removal of redemption feature-common stock			806,889	1,000	18,082,000					18,083,000
Exercise of stock options for common stock.			25,604		21,000					21,000
Issuance of common stock warrants for marketing expenses					76,000					76,000

The accompanying notes are an integral part of these statements.

Table of Contents

	Convertible Preferred Stock		Common Stock							
	Shares	**Amount**	**Shares**	**Amount**	**Additional Paid-In Capital**	**Deferred Compensation**	**Prepaid Marketing Expense**	**Note Receivable**	**Accumulated Deficit**	**Total**
Repricing of common stock warrants for prepaid marketing expenses and other consideration					4,874,000		(4,874,000)			
Recognition of prepaid marketing expenses							(18,502,000)			(18,502,000)
Amortization of value of warrants							453,000			453,000
Amortization of prepaid marketing expenses							627,000			627,000
Recognition of marketing expenses							1,388,000			1,388,000
Reversal of deferred compensation.					(11,000)	11,000				
Recognition of stock-based compensation expense						175,000				175,000
Amortization of note receivable								78,000		78,000
Issuance costs for convertible preferred stock and common stock					(250,000)					(250,000)
Net loss									(18,590,000)	(18,590,000)
BALANCE, JANUARY 31, 2001	1,111,861	$ 1,000	43,430,023	$ 43,000	$ 406,294,000	$ (2,786,000)	$ (48,458,000)	$ (2,509,000)	$ (302,248,000)	$ 50,337,000

The accompanying notes are an integral part of these statements.

36

Table of Contents

	Convertible Preferred Stock		Common Stock		Restated				Restated	Restated
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Deferred Compensation	Prepaid Marketing Expense	Note Receivable	Retained Deficit	Total
BALANCE, JANUARY 31, 2001	1,111,861	$ 1,000	43,430,023	$ 43,000	$ 406,294,000	$ (2,786,000)	$ (48,458,000)	$ (2,509,000)	$ (302,248,000)	$ 50,337,000
Series A redeemable convertible preferred stock dividend declared, $1.11 per share									(3,018,000)	(3,018,000)
Issuance of common stock for cash, net of issuance costs			2,147,239	2,000	13,823,000					13,825,000
Adjustment to reduce financing expenses accrued in prior year					205,000					205,000
Recognition of marketing expenses-related party							21,726,000			21,726,000
Issuance of common stock warrants for marketing expenses					85,000					85,000
Issuance of common stock employee stock purchase plan			313,482		1,206,000					1,206,000
Exercise of stock options for common stock			202,073		503,000					503,000
Common stock repurchases			(57,608)		(61,000)					(61,000)
Reversal of deferred compensation.					(440,000)	440,000				
Recognition of stock-based compensation expense						1,247,000				1,247,000
Amortization of prepaid marketing expenses							5,351,000			5,351,000
Amortization of note receivable								941,000		941,000
Amortization of value of warrants-related parties							7,198,000			7,198,000
Restated conversion of notes payable			1,376,146	2,000	7,498,000					7,500,000
					(571,000)					(571,000)

Restated issuance costs for common stock issued for conversion of notes payable										
Issuance of warrants to convertible noteholders					9,608,000					9,608,000
Issuance of warrants to investment bankers for convertible notes payable					552,000					552,000
Restated amount of beneficial conversion of convertible notes payable					11,127,000					11,127,000
Restated net loss									(157,705,000)	(157,705,000)
RESTATED BALANCE, JANUARY 31, 2002	1,111,861	$ 1,000	47,411,355	$ 47,000	$ 449,829,000	$ (1,099,000)	$ (14,183,000)	$ (1,568,000)	$ (462,971,000)	$ (29,944,000)

The accompanying notes are an integral part of these statements.

37

Table of Contents

TIVO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Restated			
	Year Ended January 31, 2002	**One-Month Ended January 31, 2001**	**Year Ended December 31, 2000**	**Year Ended December 31, 1999**
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$ (157,705,000)	$ (18,590,000)	$ (204,840,000)	$ (66,565,000)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	7,040,000	506,000	3,476,000	661,000
Issuance of preferred stock warrants for services				374,000
Issuance of common stock warrants for services	85,000	76,000	246,000	498,000
Common stock exchanged for services				605,000
Amortization of prepaid marketing expenses	5,351,000	627,000	7,160,000	12,668,000
Amortization of prepaid advertising related parties	8,100,000			
Amortization of discount related to warrants on debt	2,095,000			
Amortization of discount related to beneficial conversion	2,131,000			
Amortization of deferred financing expenses	283,000			
Amortization of deferred financing expenses warrants	44,000			
Amortization of warrants issued for services	7,198,000	453,000	1,571,000	110,000
Recognition of prepaid marketing expense	21,726,000	1,388,000	3,888,000	
Stock-based compensation expense	1,247,000	175,000	3,115,000	1,530,000
Amortization of note receivable	941,000	78,000	235,000	
Changes in assets and liabilities:				
Accounts receivable	(351,000)	264,000	(1,909,000)	(337,000)
Accounts receivable related parties	(1,871,000)	(623,000)	(4,045,000)	
Prepaid expenses and other	3,479,000	(17,800,000)	(6,504,000)	(2,335,000)
Prepaid expenses and other related parties	(5,843,000)			
Prepaid expenses and other related parties, long-term	(4,882,000)			
Accounts payable	(14,968,000)	1,953,000	11,586,000	8,127,000
Accrued liabilities	(7,245,000)	(127,000)	15,212,000	4,103,000
Accrued liabilities related parties	(23,199,000)	5,992,000	41,498,000	2,349,000
Notes payable related parties, short-term	2,262,000			
Deferred revenue	6,576,000	850,000	3,089,000	2,271,000
Deferred revenue related parties	11,427,000			
Long-term deferred revenue	11,439,000	1,100,000	11,013,000	
Other long-term liabilities	3,804,000	30,000	1,187,000	
Net cash used in operating activities	(120,836,000)	(23,648,000)	(114,022,000)	(35,941,000)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property and equipment, net	(3,262,000)	(758,000)	(21,087,000)	(3,930,000)
Sale (purchase) of short-term investments, net			6,168,000	(6,004,000)
Net cash provided by (used in) investing activities	(3,262,000)	(758,000)	(14,919,000)	(9,934,000)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of common stock	14,000,000		100,000,000	
Payment of issuance costs for common stock	(175,000)			
Cash proceeds from issuance of convertible notes payable with warrants	36,750,000			
Cash proceeds from issuance of convertible notes payable-related party with warrants	6,900,000			
Payment of issuance costs for convertible notes payable	(3,563,000)			
Proceeds from issuance of convertible preferred stock, net of issuance costs				90,572,000
Proceeds from issuance of common stock through initial public offering, net of issuance costs				90,255,000
		(250,000)	(6,606,000)	

Payment of issuance costs for redeemable convertible preferred stock, redeemable common stock and common stock			
Proceeds from release of restricted cash		43,500,000	
Proceeds from issuance of common stock employee stock purchase plan	1,206,000		2,185,000

38

Table of Contents

	Restated Year Ended January 31, 2002	One-Month Ended January 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Proceeds from exercise of common stock options	503,000	21,000	1,110,000	1,192,000
Series A redeemable convertible preferred stock dividend	(3,018,000)	(423,000)	(1,514,000)	
Repurchase of common stock	(61,000)		(4,000)	(28,000)
Reduction of financing expenses from prior year	205,000			
Net (payments) borrowings under capital lease	(796,000)	(64,000)	(367,000)	1,765,000
Decrease in bank overdraft				(442,000)
Net cash provided by financing activities	51,951,000	42,784,000	95,350,000	183,314,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(72,147,000)	18,378,000	(33,591,000)	137,439,000
CASH AND CASH EQUIVALENTS:				
Balance at beginning of period	124,474,000	106,096,000	139,687,000	2,248,000
Balance at end of period	$ 52,327,000	$ 124,474,000	$ 106,096,000	$ 139,687,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW AND NON-CASH OPERATING INFORMATION				
Cash paid for interest	$ (1,075,000)	$ (11,000)	$ (117,000)	$ (41,000)
Cash paid for interest related parties	(1,643,000)			
(Recognition) reversal of deferred stock-based compensation	440,000	10,000	83,000	(7,700,000)
SUPPLEMENTAL DISCLOSURE OF RESTRICTED CASH AND OTHER NON-CASH FINANCING INFORMATION				
Restricted cash received from issuance of Series A redeemable convertible preferred stock			81,356,000	
Restricted cash received from issuance of redeemable common stock			18,644,000	
Restricted cash used for prepaid marketing expenses			(8,500,000)	
Restricted cash released to cash in connection with Second Amendment to AOL Investment Agreement		(43,500,000)		
Deferred interest income on restricted cash	(1,631,000)	438,000	1,666,000	
Prepaid advertising received in exchange for convertible notes payable	8,100,000			
Discount on issuance of convertible notes payable	(9,608,000)			
Beneficial conversion related to convertible notes payable	(11,127,000)			
Issuance of warrants non-cash financing expenses	(552,000)			
Issuance of common stock for conversion of notes payable	7,500,000			
Conversion of financing expenses related to convertible notes payable	(571,000)			
Issuance of common stock warrants for prepaid marketing expenses			(15,364,000)	
Issuance of Series A convertible preferred stock for Series A redeemable preferred stock and release of restricted cash		33,356,000		
Issuance of common stock for redeemable common stock and release of restricted cash		18,644,000		
Incremental value of re-priced common stock warrants		4,874,000		
Stock issued for a note receivable				2,822,000
Equipment acquired under capital lease			367,000	1,978,000

Table of Contents

TIVO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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) Ltd., a wholly owned subsidiary of TiVo Inc., was incorporated in the United Kingdom. On October 9, 2001 the Company formed a new subsidiary TiVo International, Inc., also a Delaware corporation. The Company has developed a subscription-based personal television service (the TiVo Service) that provides viewers with the ability to pause, rewind and play back live or recorded television broadcasts, as well as to search for, watch and record programs. The TiVo Service also provides television listings, daily suggestions and special viewing packages. The TiVo Service relies on three key components: the personal video recorder, the TiVo remote control and the TiVo Broadcast Center. The Company conducts its operations through one reportable segment.

The Company continues to be subject to certain risks, including the uncertainty of availability of additional financing; dependence on third parties for manufacturing, marketing and sales support; the uncertainty of the market for personal television; dependence on key management; limited manufacturing, marketing and sales experience; and the uncertainty of future profitability and positive cash flow. TiVo has incurred significant losses and has had substantial negative cash flow. As of January 31, 2002, TiVo had an accumulated deficit of $463.0 million. The Company believes that its cash and cash equivalents, will be sufficient to fund its operations for at least the next 12 months.

2. RESTATEMENT

In May 2002, TiVo terminated Arthur Andersen LLP and engaged KPMG LLP as its independent auditor. TiVo asked KPMG LLP to re-audit TiVo s financial statements for its fiscal year ended January 31, 2002. During the course of the re-audit, TiVo concluded that, in preparation of its fiscal year 2002 financial statements, certain errors were made in calculating certain non-operating, non-cash items related to convertible notes which were issued in August 2001 (see Note 11). After consultation with KPMG LLP, TiVo concluded that it should adjust certain non-cash items on its balance sheet and non-cash interest expense on its income statement for the quarter ended January 31, 2002.

The restated consolidated financial statements reflect the following adjustments for the fiscal year ended January 31, 2002:

- An increase of $2.8 million to the value of the beneficial conversion feature from $8.3 million to $11.1 million at November 4, 2001.
- A reclassification of the value of the beneficial conversion feature from a prepaid expense to a discount on the convertible notes payable.
- An increase of $3.1 million to interest expense and other representing amortization of the unamortized discount on the convertible notes converted into common stock during November 2001. This unamortized discount was previously recorded as additional paid-in capital upon conversion.

At January 31, 2002 as a result of these adjustments, stockholders deficit decreased by $2.3 million. Impacted financial statement line items were interest expense and other; prepaid expenses and other short-term and long-term; convertible notes payable short-term and long-term; convertible notes payable-related parties short-term and long-term; additional paid in capital and accumulated deficit. For updates to the disclosures, refer to the Company s amended Quarterly Reports on Form 10-Q for the quarterly period ended April 30, 2002 and Quarterly Report on Form 10-Q for the quarter ended July

Table of Contents

31, 2002. Both reports were filed on September 13, 2002 with the Securities and Exchange Commission. The consolidated financial statements as of and for the fiscal year ended January 31, 2002 and notes thereto included in this amended Annual Report on Form 10-K have been restated to include the effects of the corrections, as follows:

	Restated	As Previously Reported
	Year Ended January 31, 2002	Year Ended January 31, 2002:
	(in thousands, except per share data):	
Consolidated Statement of Operations:		
Interest expense and other	(5,731)	(2,681)
Loss before taxes	(156,705)	(153,655)
Net loss	(157,705)	(154,655)
Net loss attributable to common stockholders	$ (160,723)	$ (157,673)
Net loss per share		
Basic and diluted	$ (3.74)	$ (3.67)

	Restated	As Previously Reported
	As of January 31, 2002	
	(in thousands)	
Consolidated Balance Sheet:		
Prepaid expenses and other	$ 3,916	$ 5,384
Total current assets	124,391	125,859
Prepaid expenses and other, long-term	2,515	7,762
Total long-term assets	25,543	30,790
Total assets	149,934	156,649
Convertible notes payable, long-term	18,315	24,280
Convertible notes payable-related parties, long-term	9,426	12,453
Total long-term liabilities	56,316	65,308
Total liabilities and current redeemable convertible preferred stock	179,878	188,870
Additional paid-in capital	449,829	444,502
Accumulated deficit	(462,971)	(459,921)
Total stockholders deficit	(29,944)	(32,221)
Total liabilities, current redeemable convertible preferred stock and stockholders deficit	149,934	156,649

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Change of Year End

On February 1, 2001, the Company announced a fiscal year end change from December 31 to January 31. The consolidated financial statements display data as of and for the fiscal year ended January 31, 2002, the one-month transition periods ended January 31, 2001 and 2000, and calendar years ended December 31, 2000 and 1999, respectively.

Use of Estimates

Table of Contents

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

Reclassifications

Certain reclassifications have been made to prior years financial information to conform with the current period presentation.

Cash and Cash equivalents

The Company classifies financial instruments as cash equivalents if the original maturity of such instruments in three months or less.

Restricted Cash

Restricted cash represents funds restricted under the terms of the Investment Agreement between America Online, Inc. (AOL) and TiVo, dated June 9, 2000 and the First Amendment to the Investment Agreement dated September 11, 2000 (the Investment Agreement) (see Note 10).

Accounts Receivable Related Parties

Accounts Receivable related parties consist of amounts owed to the Company from the Company s strategic partners such as DIRECTV, Inc. (DIRECTV), Philips Business Electronics B.V. (Philips), Quantum Corporation (Quantum) and Sony Corporation of America (Sony). These receivables are comprised of subscription revenue collected from subscribers on the Company s behalf, volume discounts and amounts owed for reimbursement of a portion of the Company s development costs.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Furniture and fixtures	3-5 years
Computer and office equipment	3-5 years
Lab equipment	3 years
Leasehold improvements	The shorter of 7 years or the life of the lease
Capitalized software	1-5 years

Maintenance and repair expenditures are expensed as incurred.

Other Long-Term Liabilities

Other long-term liabilities at January 31, 2002 consist primarily of rent of $4.1 million resulting from the recognition of a rent liability and related expense for the Company s vacant facility. The Company estimated given the current real estate market conditions that it would take approximately 12 months to sublease the vacant facility in Alviso, California and that the sublease income would be significantly lower than the current monthly rent payment.

Revenue and Deferred Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, collectibility is reasonably assured, and the Company has completed its service obligations and received customer acceptance, or are otherwise released from its service obligation or customer acceptance obligations.

Monthly and annual subscription fees are recognized over the period benefited. Subscription revenues from lifetime subscriptions are recognized ratably over a four-year period, the Company s best estimate of the useful life

of the personal video recorder. If the estimated useful life of the recorder was shorter or longer than the four-year period, revenues would be recognized earlier or later, respectively, than the Company s current policy. The deferred revenue balance consists of subscription fees collected, for which service has not yet been provided.

Non-subscription revenue and engineering professional services revenue are generally recognized upon performance of the services.

The Company recognizes revenue under its technology license and engineering professional services agreement with Sony Corporation in accordance with the American Institute of Certified Public Accountant s Statement of Position, 97-2, Software Revenue Recognition (SOP-97-2). This agreement constitutes a multiple-element arrangement in which vendor specific objective evidence (VSOE) is required for all undelivered elements in order to recognize license revenue. The Company has not established VSOE on undelivered elements of the arrangement and must defer revenue related to this arrangement until all elements have been delivered. The Company intends to enter into additional technology licensing transactions in the future, and the timing of revenue recognition related to these transactions will depend, in part, on whether the Company can establish VSOE and on how these deals are structured. As such, revenue recognition may not correspond to the timing of related cash flows or TiVo s work effort.

Research and Development

Research and development expenses consist primarily of employee salaries and related expenses and consulting fees relating to the development of the TiVo Service platform development and products that enable the TiVo Service. Research and development costs are expensed as incurred.

Sales and Marketing Related Parties Expense

Sales and marketing related parties expense consists of cash and non-cash charges related to the Company s agreements with DIRECTV, Philips, Quantum, Sony, AOL and Creative Artists Agency, LLC (CAA), all of which hold stock in the Company.

Advertising Costs

The Company expenses advertising costs as the services are provided. Advertising expenses were $41.9 million for the year ended January 31, 2002 including expenses related to a portion of the AOL, NBC and Discovery media insertion orders which are classified as sales and marketing related parties expense. Advertising expenses were $3.2 million for the one-month transition period ended January 31, 2001, $58.4 million for the year ended December 31, 2000 and $30,000 for the year ended December 31, 1999.

Stock-Based Compensation and Stock Exchanged for Services

The Company has elected to follow Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, and related interpretations in accounting for its employee stock options. Under APB 25, when the exercise price of employee stock options is less than the market price of the underlying stock on the date of grant, compensation expense is recorded for the difference between fair value and the exercise price. Expense associated with stock-based compensation is being amortized on an accelerated basis over the vesting period of the individual award, generally four years. The method of amortization is in accordance with Financial Accounting Standards Board Interpretation No. 28, under which value assigned to options vesting in future periods is ratably amortized beginning upon issuance of the option rather than at the vesting date. The Company has recorded stock-based compensation expenses of $1.2 million for the year ended January 31, 2002. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation.

The value of warrants, options or stock exchanged for services is expensed over the period benefited. The warrants and options are valued using the Black-Scholes option-pricing model.

Other Operating Expense, Net

Prior to the transition of manufacturing and distribution responsibility to Philips in the fourth quarter of 1999, the Company sold personal video recorders directly to consumers. The Company s direct sales of personal video recorders of $13.5 million, less the cost of the personal video recorders sold of $20.7 million for the year

Table of Contents

ended December 31, 1999 were classified as other operating expense, net. Other operating expense, net is considered incidental to the Company s business and was recognized upon shipment to the customer. The Company records a provision for estimated warranty costs and returns at the time of sale.

Interest Expense and Other

Interest expense and other consists of cash and non-cash charges related to interest expense paid to related parties and non-related parties. Included in interest expense are cash charges for coupon interest expense and the amortization of cash financing expenses related to the convertible notes for non-related parties and cash charges for interest expense payable to Comdisco. Also included in interest expense and other are non-cash charges for amortization of beneficial conversion, amortization of warrants to bankers related to the convertible notes and amortization of warrants issued to Comdisco. Included in interest expense and other related parties are cash charges for coupon interest expense related to the convertible notes and cash charges for interest expense payable to our strategic partners according to negotiated deferred payment schedules. The following table summarizes the components of interest expense and other:

	Restated
	Year ended January 31, 2002
Cash interest expense and other	$ 1,079,000
Cash interest expense and other related parties	1,643,000
Total cash interest expense and other	2,722,000
Total non-cash interest expense and other	4,652,000
Total interest expense and other	$ 7,374,000

Income Taxes

The Company accounts for income taxes under SFAS No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets or liabilities of a change in tax rates is recognized in the period in which the rate change occurs. Valuation allowances have been established when necessary to reduce deferred tax assets to the amounts expected to be recovered.

Net Loss Per Common Share

Net loss per share is calculated in accordance with SFAS No. 128, Earnings Per Share, and SEC Staff Accounting Bulletin No. 98 (SAB No. 98). Under the provisions of SFAS No. 128 and SAB No. 98, Basic net loss per common share is computed by dividing net loss attributable to common stock by the weighted average number of common shares outstanding. Shares used in the computation of the fiscal year ended January 31, 2002, net loss per share amount exclude options and warrants to purchase common stock, Series A convertible preferred stock and Series A redeemable convertible preferred stock (see Note 8), common shares issuable upon conversion of Convertible Notes Payable (see Note 11), and any unvested, repurchasable common stock issued under the employee stock option plans (see Note 9).

Diluted net loss per common share is calculated by dividing net loss attributable to common stock by the weighted average number of common shares and dilutive common share equivalents outstanding. The net loss attributable to common stock is calculated by deducting the Series A redeemable convertible preferred stock dividend from the net loss.

Table of Contents

Diluted net loss per share does not include the effect of the following antidilutive common share equivalents:

	January 31, 2002	January 31, 2001	December 31, 2000	December 31, 1999
Series A redeemable convertible preferred stock	1,600,000	1,600,000	2,711,861	
Series A convertible preferred stock	1,111,861	1,111,861		
Redeemable common stock			806,889	
Repurchasable common stock, related parties		1,128,867	1,128,867	1,128,867
Repurchasable common stock	627,880	1,060,849	1,103,736	1,364,366
Number of common shares issuable for convertible notes payable	8,119,266			
Options to purchase common stock	10,634,966	7,397,307	7,425,698	4,346,522
Warrants to purchase common stock	8,539,812	2,694,861	2,649,380	
Total	30,633,785	14,993,745	15,826,431	6,839,755

Comprehensive Income

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.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable approximate fair value due to the short-term maturity of these instruments.

Business Concentrations and Credit Risk

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash. The Company maintains cash with various financial institutions. The Company performs periodic evaluations of the relative credit standing of these institutions. The majority of the Company s customers are concentrated in the United States. The Company is subject to a minim al amount of credit risk related to these customers as subscription revenue is primarily obtained through credit card sales. The reserves for doubtful accounts at January 31, 2002 were $23,000 and zero for accounts receivable and accounts receivable related parties, respectively. The Company does not consider credit risk associated with accounts receivable related parties (DIRECTV, Philips, Sony, AOL and Quantum) to be significant.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	January 31, 2002	January 31, 2001
Furniture and fixtures	$ 3,462,000	$ 3,397,000
Computer and office equipment	12,584,000	11,049,000
Lab equipment	1,140,000	1,125,000
Leasehold improvements	5,669,000	6,060,000
Capitalized software	7,144,000	5,106,000
Total property and equipment	29,999,000	26,737,000
Accumulated depreciation	(11,853,000)	(4,813,000)
Property and equipment, net	$ 18,146,000	$ 21,924,000

Equipment under capital leases was $2.3 million at January 31, 2002 and 2001. Depreciation and amortization expense was $7.0 million, $501,000, $3.6 million and $661,000 for the fiscal year ended January 31, 2002, the one-month transition period ended January 31, 2001 and for the calendar years ended December 31, 2000 and December 31, 1999, respectively.

Table of Contents

5. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	January 31, 2002	January 31, 2001
Marketing and promotions	$ 5,393,000	$ 14,843,000
Compensation and vacation	2,771,000	1,506,000
Legal and accounting	1,038,000	713,000
Accrued facilities expenses	1,019,000	
Convertible debt interest expense	887,000	
Prepaid rent from tenant	671,000	669,000
Employee stock purchase plan	332,000	629,000
Consulting and outside services	507,000	575,000
Telecommunications and utilities		691,000
Other		237,000
	$ 12,618,000	$ 19,863,000

6. LEGAL MATTERS

In September 1999, TiVo received letters from Time Warner, Inc. and Fox Television stating that TiVo s personal television service exploits these companies copyrights without the necessary licenses. The Company believes that the TiVo Service does not infringe on these copyrights and believes that there will not be an adverse impact as a result of these letters.

On January 18, 2000, StarSight Telecast Inc., a subsidiary of Gemstar International Group Limited filed a lawsuit against us in the U.S. District Court for the Northern District of California alleging willful and deliberate violation of U.S. Patent Number 4,706,121, entitled TV Schedule System and Process, held by StarSight. The complaint alleged that we infringed the patent by, among other things, making, using, selling, offering to sell and/or importing our TV schedule systems and processes without a license from StarSight. StarSight seeks unspecified monetary damages and an injunction against our operations. The suit also seeks attorneys fees and costs. On February 25, 2000, we counterclaimed against StarSight, Gemstar Development Corporation and Gemstar International Group Limited seeking damages for federal antitrust violations and state unfair business practices claims, as well as declaratory relief of non-infringement, invalidity and unenforceability with respect to the patent.

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. In addition to the Company defendants, 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 is brought on behalf of a purported class of purchasers of the Company s common stock from September 30, 1999, the time of its initial public offering, through December 6, 2000. The central allegation in this action is that the underwriters in the Company s initial public offering solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased the Company s common stock in the initial public offering and the after-market. The complaint also alleges that the Company defendants violated the federal securities laws by failing to disclose in the initial public offering prospectus that the underwriters had engaged in these allegedly undisclosed arrangements. More than 300 issuers have been named in similar lawsuits. The Company defendants time to respond to the complaint has not yet expired, and it is likely that this response will not be due for several months, after certain procedural issues are resolved. At the appropriate time, the Company defendants intend to move to dismiss the consolidated complaint for failure to state a claim.

On August 13, 2001, Alan Federbush, an individual resident in the state of New York, and Mitchell Brink, an individual resident in the state of Illinois, filed, on behalf of themselves and all similarly situated purchasers of Sony or Philips digital television recorders and the TiVo Service, a class action complaint against us in the Superior Court of the State of California, Santa Clara County, alleging violation of California s Consumers Legal Remedies Act, California s Unfair Practices Act, and fraudulent concealment. The complaint states that Mr. Federbush and Mr. Brink each experienced problems with the modem contained in the digital television recorders. The complaint alleges, among other things, that the Company knew or had reason to know of these malfunctions and therefore

misrepresented or failed to disclose material information about the digital television recorders to consumers. The complaint seeks an award of actual damages, as well as unspecified punitive damages, interest, attorneys fees and other costs. The complaint additionally seeks broad equitable relief, requesting that the Company be enjoined from continuing the practices described in the complaint and engaging in false and misleading advertising regarding the digital television recorders. The Company filed its answer to the complaint on October 19, 2001. Discovery, through which the Company would seek to investigate the plaintiff s claims, has not commenced. Based on the information available, the Company is unable to form a conclusion regarding the amount, materiality or range of potential loss, if any, which might result if the outcome of this matter were unfavorable.

On September 25, 2001, Pause Technology filed a complaint against TiVo in the US District Court for the District of Massachusetts alleging willful and deliberate infringement of US Reissue Patent No. 36,801, entitled Time Delayed Digital Video System Using Concurrent Recording and Playback. Pause Technology seeks unspecified monetary damages as well as an injunction against our operations. It also seeks attorneys fees and costs. TiVo s answer was filed on December 26, 2001.

On December 12, 2001, SONICblue Incorporated filed a lawsuit against TiVo in the U.S. District Court for the Northern District of California, alleging infringement of US Patent No. 6,324,338 entitled Video Data Recorder with Integrated Channel Guides. SONICblue seeks unspecified monetary damages as well as an injunction against our operations. TiVo s answer was filed on January 23, 2002.

On January 23, 2002, we filed a separate lawsuit against SONICblue Incorporated and its wholly owned subsidiary, ReplayTV, Inc., in the U.S. District Court for the Northern District of California, alleging that we are the owner of United States Patent No. 6,233,389, entitled Multimedia Time Warping System, and alleging further that SONICblue and ReplayTV have willfully and deliberately infringed the patent by making, using, offering to sell and/or selling within the United States digital video recording devices, software and/or personal television services falling within the scope of the patent. We have requested that the court enjoin SONICblue and ReplayTV from further infringement of the patent and award us compensatory damages, treble damages and attorneys fees and costs.

On February 5, 2002, Sony Corporation notified us that Command Audio Corporation had filed a complaint against Sony Electronics, Inc. on February 2, 2002 in the United States District Court for the Northern District of California. The complaint alleges that, in connection with its sale of personal video recorders, Sony infringes upon two patents owned by Command Audio (United States Patent Nos. 5,590,195 (Information Dissemination Using Various Transmission Modes) and 6,330,334 (Method and System for Information Dissemination Using Television Signals)). The complaint seeks injunctive relief, compensatory and treble damages and Command Audio s costs and expenses, including reasonable attorneys fees. Under the terms of our agreement with Sony governing the distribution of certain personal video recorders that enable the TiVo Service, we are required to indemnify Sony against any and all claims, damages, liabilities, costs and expenses relating to claims that our technology infringes upon intellectual property rights owned by third parties.

The Company believes it has meritorious defenses and intend to defend all of the above actions vigorously; however, the Company could be forced to incur material expenses in the litigation, and in the event there is an adverse outcome, the Company s business could be harmed.

7. INCOME TAXES

Under the Sony license agreements, the Company incurred $1.0 million in withholding taxes to the government of Japan. This payment of this withholding tax generates a deferred tax asset. However, as the Company s ability to realize the benefits of this deferred tax asset is uncertain, a full valuation allowance has been provided. The $1.0 million has been accounted for as a provision for income tax. There was no provision or benefit for income taxes for the one-month transition period ended January 31, 2001, or for the calendar years ended December 31, 2000 and 1999.

Table of Contents

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 35% to pretax loss as a result of the following:

	Restated
	Year ended January 31, 2002
Expected tax benefit at U.S. federal statutory rate of 35%.	$ (54,847,000)
Foreign withholding tax	1,000,000
Net operating loss and temporary differences for which no tax benefit was realized	54,838,000
Non-deductible expenses	9,000
Total tax expense	$ 1,000,000

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of January 31, 2002 are presented below:

	Restated
	Year ended January 31, 2002
Deferred tax assets:	
Net operating loss and tax credit carryforwards	$ 152,713,000
Deferred revenue and rent	20,898,000
Prepaid marketing expense	11,998,000
Other	1,738,000
Gross deferred tax assets before valuation allowance	187,347,000
Less: valuation allowance	(184,310,000)
Deferred tax liabilities:	
Convertible notes payable	(3,037,000)
Total deferred tax liabilities	(3,037,000)
Net deferred tax assets (liabilities)	$

Management has established a valuation allowance for the portion of deferred tax assets for which realization is uncertain. The valuation allowance for deferred tax assets as of January 31, 2002 was $184.3 million. The net change in the total valuation allowance for the year ended January 31, 2002 was an increase of $60.5 million.

As of January 31, 2002 the Company has net operating loss (NOL) carryforwards for federal state income tax purposes of approximately $375.7 million and $290.6 million, respectively, available to reduce future income subject to income taxes. The federal net operating loss carryforwards expire beginning in 2017 through 2021. State net operating loss carryforwards expire beginning in 2005 through 2011. A significant change in ownership of the Company may limit the Company s ability to utilize these NOL carryforwards.

As of January 31, 2002, unused research and development tax credits of approximately $2.7 million and $2.7 million are available to reduce future federal and California income taxes, respectively. The federal research credit carryforwards will begin to expire, if not utilized in 2021. California research and experimental tax credits carryforward indefinitely until utilized.

8. REDEEMABLE CONVERTIBLE PREFERRED STOCK, COMMON STOCK AND STOCKHOLDERS EQUITY

Common Stock

During the year ended January 31, 2002, the Company issued 2,147,239 shares of common stock as a result of the sale of common stock to Acqua Wellington North American Equities Fund, Ltd. Additionally, the Company issued 202,073 shares of common stock as a result of the exercise of stock options.

Convertible Preferred Stock

At the Annual Meeting of Stockholders held on July 26, 2000, the proposal to amend and restate the Company s Amended and Restated Certificate of Incorporation to increase the number of authorized shares of preferred stock from 2 million shares to 10 million shares was approved.

Table of Contents

On January 30, 2001, pursuant to the terms of the Second Amendment to the Investment Agreement, the redemption feature was removed from 1,111,861 shares of convertible preferred stock subject to redemption. These shares are now classified as convertible preferred stock.

Redeemable Convertible Preferred Stock

In September 2000, the Company issued 2,711,861 shares of Series A redeemable convertible preferred stock for $30.00 per share to AOL in exchange for $81.4 million, before issuance costs of $2.4 million. See Note10 for a description of Series A redeemable convertible preferred stock issued to AOL.

On January 30, 2001, pursuant to the terms of the Second Amendment to the Investment Agreement, the redemption feature was removed from 1,111,861 shares of convertible preferred stock subject to redemption. These shares are now classified as convertible preferred stock. As of January 31, 2002 there were 1,600,000 shares of current redeemable convertible preferred stock outstanding. The carrying value of the Series A Redeemable convertible preferred stock is $46.5 million, net of financing expenses of $1.5 million. The carrying value of the Series A convertible preferred stock is $32.4 million, net of financing expenses of $1.0 million.

The following table summarizes the activity related to redeemable convertible preferred stock and common stock subject to redemption for fiscal year ended January 31, 2002, the one-month transition period ended January 31, 2001 and the calendar year ended December 31, 2000:

	Redeemable Convertible Preferred Stock		Redeemable Common Stock			
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Total
Balance, December 31, 1999		$		$	$	$
Issuance of Series A redeemable convertible preferred stock	2,711,861	3,000			81,353,000	81,356,000
Issuance of common stock subject to redemption			806,889	1,000	18,643,000	18,644,000
Issuance costs					(3,010,000)	(3,010,000)
Balance, December 31, 2000	2,711,861	3,000	806,889	1,000	96,986,000	96,990,000
Removal of redemption feature-Series A convertible preferred stock	(1,111,861)	(1,000)			(33,355,000)	(33,356,000)
Removal of redemption feature-common stock			(806,889)	(1,000)	(18,643,000)	(18,644,000)
Issuance costs					1,565,000	1,565,000
Balance, January 31, 2001	1,600,000	2,000			46,553,000	46,555,000
Series A redeemable convertible preferred stock						
Issuance costs						
Balance, January 31, 2002	1,600,000	$ 2,000		$	$ 46,553,000	$ 46,555,000

Warrants

See Note 10 for a description of AOL Initial Common Stock Warrants A and B and Performance Warrants A and B.

See Note 11 for a description of the Convertible Notes Payable.

See Note 14 for a description of common stock warrants issued to DIRECTV under the Warrant and Registration Rights Agreement.

Table of Contents

See Note 14 for a description of Series C and Series D preferred stock warrants issued to Quantum under a hard disk drive supply agreement.

9. 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 vest 25 percent after the first year of service, and the remaining 75 percent vest ratably over the next 36 months. Options expire 10 years after the grant date. The terms of the 1997 Plan allowed individuals to exercise their options prior to full vesting. In the event that the individual terminates their employment or 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 January 31, 2002, options to purchase 564,485 shares of common stock remain outstanding and exercisable.

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 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 vest 25 percent after the first year of service, and the remaining 75 percent vest ratably over the next 36 months. Options expire 10 years after the grant date. The terms of the 1999 Plan allow individuals to exercise options granted prior to August 8, 2001 prior to full vesting and options granted subsequent to August 8, 2001 as the options vest. In the event that the individual terminates their employment or service to the Company before becoming fully vested, the Company has the right to repurchase any exercised, unvested shares at the original option price. The number of shares authorized for option grants under the 1999 Plan is 16,200,000 subject 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 January 31, 2002, options to purchase 9,860,481 shares of common stock remain outstanding of which 7,895,412 are exercisable.

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. The options vest monthly over two years from the date of grant. The option term is ten years after the grant date but terminates three months after a director s service terminates. The number of shares authorized for option grants under the Directors Plan is 800,000, subject to an annual increase of 100,000 shares. Options to purchase 210,000 shares of common stock are outstanding and exercisable as of January 31, 2002.

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 percent 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 period or on the common stock purchase date. Under the purchase plan, the board may specify offerings up to 27 months. The number of shares reserved for issuance under this plan is 800,000 subject to an annual increase by the lesser 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. During the fiscal year ended January 31, 2002, the board approved a 200,000 share increase to the Employee Stock Purchase Plan reserve. There were 313,482 shares of common stock issued as a result of purchases under this plan during the year ended January 31, 2002. There were zero shares issued as a result of purchases under this plan during the one-month transition period ended January 31, 2001. There were 177,907 and zero shares

Table of Contents

issued as a result of purchases under this plan during the calendar years ended December 31, 2000 and December 31, 1999 respectively. As of January 31, 2002, there were 308,611 shares available for future purchases.

The Company accounts for stock options under APB Opinion No. 25, under which, for the period from August 4, 1997 (Inception) to December 31, 1997 and for the year ended December 31, 1998, no compensation cost was recognized when the awards were granted to employees or directors. The Company has recorded adjustments reducing deferred compensation of approximately ($440,000), ($10,000), ($83,000) and deferred compensation of $7.7 million as a contra-equity account for the fiscal year ended January 31, 2002, the one-month transition period ended January 31, 2001, the calendar year ended December 31, 2000 and December 31, 1999, respectively. The Company has recorded stock-based compensation expense of $1.2 million, $175,000, $3.1 million and $1.5 million for the fiscal year ended January 31, 2002, the one-month transition period ended January 31, 2001 and calendar years ended December 31, 2000 and December 31, 1999, respectively. Had compensation expense for the stock options been determined consistently with SFAS No. 123, the effect on the Company s net loss and basic and diluted loss per share would have been changed to the following pro forma amounts:

	Restated			
	Year Ended January 31,	One-Month ended January 31,	Year Ended December 31,	Year Ended December 31,
	2002	2001	2000	1999
Net loss, as reported	$ (160,723,000)	$ (19,013,000)	$ (206,354,000)	$ (66,565,000)
Pro forma effect of SFAS No. 123	(13,118,000)	(1,065,000)	(6,983,000)	(4,100,000)
Net loss, pro forma	$ (173,841,000)	$ (20,078,000)	$ (213,337,000)	$ (70,665,000)
Basic and diluted loss per share, as reported	$ (3.74)	$ (0.47)	$ (5.55)	$ (5.49)
Basic and diluted loss per share, pro forma	$ (4.05)	$ (0.49)	$ (5.74)	$ (5.83)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants: weighted average risk-free interest rates of between 3.48% and 6.54%; expected dividend yield of zero percent; expected lives of four years for the options; and expected volatility of 50%-70%.

A summary of the status of the 1997 Equity Incentive Plan, the 1999 Equity Incentive Plan and the 1999 Non-Employee Directors Plan is presented in the table and narrative below:

	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 1998	1,235,000		$ .27
Granted	4,307,087	$1.00 $39.94	8.46
Exercised	(525,064)		2.29
Canceled	(670,502)		5.25
Outstanding at December 31, 1999	4,346,521		$ 7.37
Granted	3,949,850	$5.50 $35.31	19.11
Exercised	(395,466)		2.78
Canceled	(475,207)		12.48
Outstanding at December 31, 2000	7,425,698		$ 13.48

Granted	42,500	$6.38	$7.13		6.60
Exercised	(25,604)				.81
Canceled	(45,287)				10.02
Outstanding at January 31, 2001	7,397,307			$	13.51
Granted	4,726,000	$3.00	$8.61	$	5.06
Exercised	(202,073)			$	2.49
Canceled	(1,286,268)			$	14.44
Outstanding at January 31, 2002	10,634,966			$	9.86

Table of Contents

The weighted average fair market values of options granted during the fiscal year ended January 31, 2002, the one-month transition period ended January 31, 2001 and calendar years ended December 31, 2000 and December 31, 1999 are $5.08, $6.60, $19.28 and $10.15, respectively. Of the options outstanding at January 31, 2002, January 31, 2001, December 31, 2000 and December 31,1999, 6,534,516, 3,769,222, 3,607,194 and 1,270,888 are vested, respectively. The Company repurchased 57,608, zero, 50,066 and 226,342 unvested shares issued upon early exercise of options during the fiscal year ended January 31, 2002, the one-month transition period ended January 31, 2001 and calendar years ended December 31, 2000 and 1999, respectively, upon the optionees terminating employment with the Company.

The following table contains information concerning outstanding stock options as of January 31, 2002:

Number of Options Outstanding	Range of Exercise Prices	Weighted Average Remaining Contractual Life
320,723	$0.04 $0.75	6.60 years
2,815,531	$1.00 $5.50	9.20 years
3,311,871	$5.60 $7.13	8.93 years
1,009,908	$8.50 $9.50	7.89 years
474,376	$10.50 $15.88	8.11 years
577,727	$16.00 $19.88	8.51 years
1,723,497	$20.00 $27.56	8.32 years
401,333	$30.00 $39.94	7.96 years
10,634,966		

10. AOL RELATIONSHIP

On September 13, 2000, the Company closed an Investment Agreement with AOL for $200 million. Under the terms of the Investment Agreement, the Company issued 2,711,861 shares of Series A redeemable convertible preferred stock at $30.00 per share, 5,134,722 shares of common stock at $23.11 per share (of which 806,889 common shares were subject to redemption as of December 31, 2000), two initial warrants to purchase an aggregate of 2,603,903 shares of the Company s common stock and two performance warrants to purchase an aggregate of up to 5,207,806 shares of common stock. As of January 31, 2002 and January 31, 2001, 1,600,000 shares of current Series A Preferred stock that are subject to redemption under the terms of the Investment Agreement are shown as current redeemable preferred stock on the Company s consolidated financial statements. The two performance warrants are contingent upon future performance and have not been issued. The AOL investment was part of a three-year Commercial Agreement, which contemplated that TiVo would become an AOL TV programming partner, offering AOL TV subscribers access to features of TiVo s Personal TV Service.

On January 30, 2001, the Company entered into the Second Amendment to the Investment Agreement with AOL, dated as of June 9, 2000, as amended by the First Amendment to the Investment Agreement, dated as of September 11, 2000. The Second Amendment provided for, among other things, an amendment to the Escrow Agreement, dated as of September 11, 2000, by and between the Company and AOL.

At this point, the Company believes that AOL does not plan to deploy the AOL TV/TiVo set-top box product as originally envisioned. The Company and AOL are currently in discussions concerning options for bringing the combined technology to market. There can be no assurances about the outcome of these discussions.

Table of Contents

Restricted Cash

The First Amendment to the Escrow Agreement, dated as of January 30, 2001, authorized the release to the Company of $43.5 million in restricted funds previously held in escrow pursuant to the Escrow Agreement leaving a remaining balance plus interest in restricted cash of $51.5 million. Of this amount, $48.0 was earmarked to be used to subsidize the production of the jointly developed AOL TV/TiVo set-top box. TiVo has since changed its business model and intends to sharply reduce subsidy payments. As a result, the commitment of capital for subsidies no longer fits the Company s business model. AOL and the Company are engaged in discussions regarding the modification of the terms of the agreements. As of January 31, 2002 the restricted cash balance consists of $48.0 million restricted funds with interest earned on restricted cash of $3.7 million.

Under the terms of the current AOL arrangement, if the AOL TV/TiVo set-top box launch does not occur by December 31, 2001 or a later date agreed to by both parties, and AOL has not committed a material breach of the Commercial Agreement or if the Company has breached its obligations with respect to the financial covenants, then AOL has a put option pursuant to which AOL could require the Company to repurchase up to 1.6 million shares of the current Series A redeemable convertible preferred stock at a liquidation value of up to $48.0 million. The Company currently records the $48.0 million on the consolidated balance sheets as restricted cash of $48.0 million plus the interest income earned on restricted cash. The set-top box was not launched by December 31, 2001 and the Company recently modified its agreements with AOL so that AOL has 100 days from the agreed upon launch date to exercise its put option (see Note 18). At this point, the Company has not agreed with AOL on this agreed upon launch date and the Company believes that AOL does not plan to deploy that AOL TV/TiVo set-top box as originally envisioned. The Company is in discussions with AOL regarding modification of the terms of the current agreements, including product definition, development funding, deployment, launch date, and other commercial terms. There can be no assurances about the outcome of these discussions. If the outcome includes exercise of the put option, the Company s cash and cash equivalents would increase by $3.7 million, reflecting the deferred interest on the restricted cash, and the restricted cash balance would be reduced to zero. The Company does not include restricted cash in its calculation of working capital available for operations. As a result, the Company does not expect that the preferred stock repurchase would have a material effect on its business operations.

Current Series A Redeemable Convertible Preferred Stock

In September 2000, the Company issued 2,711,861 shares of Series A redeemable convertible preferred stock at $30.00 per share to AOL in exchange for $81.4 million, before issuance costs of $2.4 million. In January 2001, under the terms of the Second Amendment, 1,111,861 shares of Series A redeemable convertible preferred had their redemption feature removed. As of January 31, 2001 and October 31, 2001, each of the 1,600,000 shares of the current Series A redeemable convertible preferred stock is initially convertible into one share of common stock, subject to adjustment for stock splits, dividends, combinations, reclassifications or similar transactions, as provided in the Company s Amended and Restated Certificate of Incorporation. The current Series A redeemable convertible preferred stock is convertible upon AOL s option or is mandatorily convertible if the price of the Company s common stock exceeds $30.00 per share for 18 trading days in any 20 consecutive trading day period.

Put Option

Under the terms of the First Amendment to the Investment Agreement, if the set-top box launch of the Integrated Product does not occur by December 31, 2001 or a later date agreed upon by both parties, and AOL has not committed a material breach of the Commercial Agreement or the Company has breached its obligations with respect to the financial covenants, then AOL would have a put option pursuant to which AOL could require the Company to repurchase from AOL the number of shares of Series A redeemable convertible preferred stock which have an initial liquidation value of $91.5 million. If all the shares of Series A redeemable convertible preferred stock have an aggregate initial liquidation value of less than $91.5 million, then AOL could require the Company to repurchase the number of shares of common stock having a value equal to the difference between that aggregate initial liquidation value and $91.5 million. In the event that the set-top box launch occurred after December 31, 2001 or the agreed upon launch date, but prior to the exercise of the put option, the put option would immediately expire.

The Second Amendment to the Investment Agreement modified the terms of AOL s put option with respect to the current Series A redeemable convertible preferred stock held by AOL. Under the Second Amendment, the Company could be required to repurchase up to 1.6 million shares of current Series A redeemable convertible preferred stock at a liquidation value of up to $48.0 million, which was equal to the amount of the funds remaining in the restricted cash account, following AOL s release of $43.5 million of restricted cash in January 2001,

Table of Contents

excluding any interest earned on such funds. The set-top box was not launched by December 31, 2001 and the Company recently modified its agreements with AOL so that AOL has 100 days from the agreed upon launch date to provide written notice to the Company if it intends exercise its put option (see Note 18). At this point, the Company has not agreed with AOL on this agreed upon launch date and the Company believes that AOL does not plan to deploy the AOL TV/TiVo set-top box as originally envisioned. The Company is in discussion with AOL regarding modification of the terms of the current agreements, including product definition, development funding, deployment, launch date, and other commercial terms. There can be no assurances about the outcome of these discussions

Series A Redeemable Convertible Preferred Stock Dividend

Under the terms of the Investment Agreement between AOL and the Company, the Company issued Series A redeemable convertible preferred stock, with certain dividend and voting rights. Dividends on the Series A convertible preferred stock are calculated by multiplying the Non-Government Institutional Funds Simple Average Rate by $30.00 per share times the number of shares of Series A convertible preferred stock outstanding. Dividends are payable quarterly as declared by the Company s Board of Directors. Dividends for the year ended January 31, 2002 were $3.0 million and for the one-month transition period ended January 31, 2001 were $423,000. Dividends were $1.5 million and zero for the calendar years ended December 31, 2000 and December 31, 1999, respectively. As of January 31, 2002, dividends payable were $620,000.

Initial Common Stock Warrants A and B

In January 2001, the Second Amendment to the AOL Investment Agreement provided for the reduction in the exercise price of the two initial warrants. The Company issued amended warrants to AOL, which reduced the per share exercise price of AOL s warrant to purchase 2,308,475 shares of common stock from $23.11 to $7.29, and reduced the per share exercise price of AOL s warrant to purchase 295,428 shares of common stock from $30.00 to $7.29. The initial warrants are vested immediately and exercisable as follows:

Initial Warrant A AOL was issued warrants to purchase 2,308,475 shares of common stock at $7.29 per share. The Company is expensing the estimated incremental fair value of the repriced warrants of $4.2 million over the remaining term of the Commercial Agreement (original term of 3 years). The estimated fair value of the warrants was determined using the Black-Scholes option-pricing model. The principal assumptions used in the computation are: 9-month remaining life of the warrant; fair market value at the date of issuance of $7.13 per share; a risk-free rate of return of 6.05%; dividend yield of zero percent; and a volatility of 70%.

Initial Warrant B AOL was issued warrants to purchase 295,428 shares of common stock at $7.29 per share. The Company is expensing the estimated incremental fair value of the repriced warrants of $720,000 over the remaining term of the Commercial Agreement (original term of 3 years). The estimated fair value of the warrants was determined using the Black-Scholes option-pricing model. The principal assumptions used in the computation are: 33-month remaining life of the warrant; fair market value at the date of issuance of $7.13 per share; a risk-free rate of return of 6.05%; dividend yield of zero percent; and a volatility of 70%.

The Initial Warrant A expired on December 31, 2001. Initial Warrant B expires December 31, 2003. The estimated incremental fair value of the warrants of $4.9 million was recorded as prepaid marketing expense (contra-equity) of which $1.9 million has been amortized as of January 31, 2002.

Performance Warrants

In conjunction with AOL s investment in September 2000, the Company issued two performance warrants to AOL to purchase common stock. If AOL meets certain performance criteria, it may exercise these two performance warrants to purchase common stock. The warrants are exercisable as follows:

Performance Warrant A AOL was issued warrants to purchase up to 2,603,903 shares of common stock at the exercise price described below. Performance Warrant A may be exercised within six months following the execution of the Launch Commitment. The Launch Commitment is a binding contractual commitment to market the Integrated Service to 1,500,000 activated users on Time Warner cable systems.

Performance Warrant B AOL was issued warrants to purchase up to 2,603,903 shares of common stock at the exercise price described below. Performance Warrant B may be exercised within the six-month period following the date on which AOL notifies the Company that 1,500,000 activated users of the Integrated Service exist at one time.

Table of Contents

Performance Warrants A and B shall be valued at the date that AOL meets the performance criteria. The exercise price for each performance warrant is equal to 90% of the average of the last reported trading prices of the Common Stock on the Nasdaq for the ten consecutive trading days preceding the date of AOL s Notice of Exercise.

Performance Warrant A shall be valued at the date that TiVo receives a written binding contractual commitment from AOL for the set-top box launch to occur on cable television systems owned or controlled by Time Warner or its affiliates in markets where TiVo has the potential to acquire at least 1.5 million activated users in the aggregate on such cable systems. Performance Warrant B shall be valued at the date that it is probable that AOL will meet the performance criteria of notifying the Company that 1,500,000 activated users of the Integrated Service exist at one time.

If the Company were to value the performance warrants as of January 31, 2002, it would record the estimated value of the performance warrants of $3.8 million as prepaid marketing expense (contra-equity). If market conditions at the time that AOL earns the performance warrants are different than those at January 31, 2002 than the valuation of the warrants could significantly increase or decrease from the following calculated valuation:

> Performance Warrant A AOL would be issued warrants to purchase up to 2,603,903 shares of common stock at $6.45 per share. Performance Warrant A would be valued when it is earned by AOL. The Company would expense the estimated fair value of the warrants of $1.9 million over 3 years, the term of the Commercial Agreement. The estimated fair value of the warrants would be determined using the Black-Scholes option-pricing model. The principal assumptions that would be used in the computation are: 6-month term; fair market value at the date of issuance of $6.07 per share; a risk-free rate of return of 1.83%; dividend yield of zero percent; and a volatility of 50%.
>
> Performance Warrant B AOL would be issued warrants to purchase up to 2,603,903 shares of common stock at $6.45 per share. Performance Warrant B would be valued when it is probable of being earned by AOL. The Company would expense the estimated fair value of the warrants of $1.9 million over 3 years, the term of the Commercial Agreement. The estimated fair value of the warrants would be determined using the Black-Scholes option-pricing model. The principal assumptions that would be used in the computation are: 6-month term; fair market value at the date of issuance of $6.07 per share; a risk-free rate of return of 1.83%; dividend yield of zero percent; and a volatility of 50%.

Additionally, Performance Warrants A and B would also become exercisable immediately upon the occurrence of either a material breach of the Commercial Agreement by the Company or if the Company enters into a definitive agreement for a change of control of the Company. The performance warrants would expire on the earlier of September 13, 2003 or in the event that AOL commits a material breach of the Commercial Agreement.

Since these warrants are contingent on AOL s performance or probable performance and the criteria have not been met at this time, the Company has not recorded nor valued the performance warrants at this time in the financial statements. If market conditions at the time that AOL earns the performance warrants are different than those at January 31, 2002 than the valuation of the warrants could significantly increase or decrease from the above amount.

Financial Covenants

Under the terms of the AOL Investment Agreement, the Company must maintain a positive net cash position in excess of $25.0 million, measured at the end of each fiscal quarter. Net cash is defined as consolidated current assets (excluding deferred tax assets and escrowed funds) minus consolidated current liabilities (excluding deferred revenue, deferred interest income on escrowed funds, sublessee prepaid rent and leasing obligations). The Company advises AOL monthly, on an informational basis, of the Company s net cash position. Per the agreement, if the Company falls below the $25.0 million net cash position at the end of the Company s fiscal quarter, AOL has the right to exercise its put option. The Company was in compliance with the net cash position requirement as of January 31, 2002.

The financial covenants shall terminate upon the earlier of the date of the set-top box launch, so long as such set-top box launch occurs before the agreed upon launch date, the expiration of the put option or the day following the first anniversary of the agreed upon launch date.

Table of Contents

11. CONVERTIBLE NOTES PAYABLE

On August 28, 2001, the Company closed a private placement of $51.8 million of convertible notes payable and received cash proceeds, net of issuance costs of approximately $40.1 million from accredited investors. TiVo received cash proceeds of approximately $36.8 million from non-related party noteholders and $6.9 million from existing stockholders for a total of $43.7 million. In addition, the Company received non-cash proceeds of $8.1 million in the form of advertising and promotional services from Discovery Communications, Inc. (Discovery) and the National Broadcasting Company, Inc. (NBC), who are existing stockholders. Cash issuance costs were approximately $3.6 million, resulting in net cash proceeds of approximately $40.1 million. Of the total proceeds of $51.8 million, $8.1 million was designated for advertising and promotional services. As part of the transaction, the Company also paid $5.0 million in October 2001 to NBC for prepaid advertising.

The Company issued the notes under an indenture, dated August 28, 2001, with the Bank of New York, as trustee. The Company filed a registration statement with the Securities and Exchange Commission relating to the issuance of the notes, warrants and underlying common stock, which the Commission declared effective on November 2, 2001. On November 4, 2001, pursuant to the terms of the indenture, the conversion price of the notes was adjusted to $5.45 per share.

In November 2001, two noteholders converted their notes payable, with a face value of $7.5 million to 1,376,146 shares of the Company s common stock.

The private placement consisted of the following securities:

$51,750,000 of 7% Convertible Senior Notes due 2006. The notes are convertible at any time, unless earlier redeemed pursuant to their terms, into TiVo common stock at a conversion price of $5.45 per share, the average of the per share closing prices of the Company s common stock for the ten consecutive trading days preceding November 4, 2001. A beneficial conversion amount of $11.1 million was recorded as a discount on convertible notes payable and will be amortized as interest expense over the life of the debt or until the notes are converted to stock. The total value of the beneficial conversion of $11.1 million has been recorded as a discount on the convertible notes payable. This discount will be amortized to interest expense and accreted to the carrying value of the convertible notes payable over the five year life of the convertible notes payable or upon conversion, if earlier.

Warrants to purchase TiVo common stock. Warrants were issued to noteholders to purchase a total of 2,536,766 shares of TiVo common stock, at an exercise price of $7.85 per share. The warrants expire in 2006. The estimated fair value of the warrants of $5.6 million was determined using the Black-Scholes option-pricing model. The principal assumptions used in the Black-Scholes computation were: 5-year term; fair market value at the date of issuance of $5.61 per share; a risk-free rate of return of 4.42%; dividend yield of zero percent; and a volatility of 50%. The value of these warrants was recorded as a discount on convertible notes payable and will be amortized as interest expense over the life of the debt or until the notes are converted to common stock.

Additional Warrants. As part of the private placement, TiVo issued two additional sets of warrants. The first set of warrants, which expire after one year from date of issuance, unless earlier terminated, gives warrantholders the right to purchase a total of 3,843,582 shares of TiVo common stock at an exercise price of $6.73 per share. The second set of warrants, which expire after five years from date of issuance, unless earlier terminated, gives warrantholders the right to purchase a total of 1,268,384 shares of TiVo common stock at an exercise price of $7.85 per share. These five-year terminable warrants may only be exercised if the one-year warrants have been exercised. The estimated fair value of the warrants of $4.0 million was determined using the Black-Scholes option-pricing model. The principal assumptions for the one-year warrants were: 1-year term; fair market value at the date of issuance of $5.61 per share; a risk-free rate of return of 3.23%; dividend yield of zero percent; and a volatility of 50%. The principal assumptions used in the Black-Scholes computation for the five-year terminable warrants were: 5-year term; fair market value at the date of issuance of $5.61 per share; a risk-free rate of return of 4.42%; dividend yield of zero percent; and a volatility of 50%. The value of these warrants was recorded as a discount on convertible notes payable and will be amortized as interest expense over the life of the debt or until the notes are converted to common stock.

Table of Contents

The total value of the warrants issued to convertible noteholders in the private placement was $9.6 million and has been recorded as a discount on the convertible notes payable. This discount will be amortized to interest expense and accreted to the carrying value of the convertible notes payable over the five-year life of the notes payable or upon conversion, if earlier.

The convertible notes carry a coupon interest rate of 7%. The effective interest rate of the convertible notes, including coupon interest and amortization of discount, amortization of the beneficial conversion amount and amortization of prepaid cash issuance costs is approximately 24%. The discount, the beneficial conversion amount and prepaid issuance costs are amortized using the straight-line method, which approximates the effective interest rate method.

As of January 31, 2002 the carrying value of the convertible notes payable is as follows:

	Restated	Restated	
	Convertible notes payable	Convertible notes payable-related parties	Total
Face value of convertible notes payable	$ 29,250,000	$ 15,000,000	$ 44,250,000
Unamortized discount resulting from warrants issued to noteholders	(4,989,000)	(2,524,000)	(7,513,000)
Unamortized discount resulting from beneficial conversion feature	(5,946,000)	(3,050,000)	(8,996,000)
Carrying value of convertible notes payable	$ 18,315,000	$ 9,426,000	$ 27,741,000

The effects of recording the transactions resulting from convertible notes payable in the Company s consolidated financial statements were as follows:

Cash and cash equivalents increased by $40.1 million for the net cash proceeds from the offering. The $40.1 million is the gross proceeds from issuance of the securities offered of $51.8 million, less the cash debt issuance costs of $3.6 million and less the non-cash advertising and promotional services consideration of $8.1 million.

Prepaid expenses and other increased by $4.2 million for cash and non-cash debt issuance costs of $3.6 million and $552,000, respectively.

Prepaid expenses and other related parties increased by $13.1 million as a result of prepaid advertising. The non-cash proceeds from issuance of convertible debt of $8.1 million was recorded as prepaid advertising and promotional services. In addition, the Company paid $5.0 million in October 2001, to NBC for prepaid advertising. During the year ended January 31, 2002, $8.1 million of this prepaid advertising was expensed and as of January 31, 2002, $5.0 million remained in prepaid expenses.

Convertible notes payable, long-term increased by $36.8 million as a result of the face value of the convertible notes payable and decreased by the discount on convertible notes of $6.8 million (the value of warrants issued to noteholders) and $7.9 million (the value of beneficial conversion feature). Of the long-term convertible notes payable, $7.5 million of face value notes were converted to 1,376,146 shares of the Company s common stock during the year.

Interest expense includes coupon interest of $1.0 million, amortization of the discount on convertible notes payable of $1.8 million and amortization of the value of the beneficial conversion feature of $2.0 million for the year ended January 31, 2002. The net carrying value of the convertible notes payable was $18.3 million at January 31, 2002.

Convertible notes payable related parties, long-term increased by $15.0 million face value and decreased by the discount on convertible notes payable related parties of $2.8 million (the value of the warrants issued to noteholders) and $3.2 million (the value of the beneficial conversion feature).

Interest expense related parties includes coupon interest of $455,000, amortization of the discount on convertible notes payable related parties of $262,000 and amortization of the value of the beneficial conversion feature of $176,000 for the year ended January 31, 2002. The net carrying value of the convertible notes payable related parties was $9.4 million at January 31, 2002.