PROVECTUS PHARMACEUTICALS INC
Form 10KSB
March 31, 2005

United States Securities And Exchange Commission
Washington, DC 20549

FORM 10-KSB

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004; OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____
Commission file number: 0-9410

Provectus Pharmaceuticals, Inc.
(Name of Small Business Issuer in Its Charter)

Nevada	90-0031917
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
7327 Oak Ridge Highway, Suite A, Knoxville, Tennessee	37931
(Address of Principal Executive Offices)	(Zip Code)

865/769-4011
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:
None

(Title of Class)

Securities registered under Section 12(g) of the Exchange Act:
Common shares, par value $.001 per share

(Title of Class)

Check whether the issuer: (1) 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 [_]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [X]

The issuer's revenues for the most recent fiscal year were $21,072. The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of March 17, 2005, was $15,947,003 (computed

on the basis of $0.97 per share).

The number of shares outstanding of the issuer's stock, $0.001 par value per share, as of March 17, 2005 was 16,440,209.

Documents incorporated by reference in Part III hereof: Proxy Statement for 2005 Annual Meeting of Stockholders

Transitional Small Business Disclosure Format (check one): Yes [_] No [X]

Provectus Pharmaceuticals, Inc.
Annual Report on Form 10-KSB

Table of Contents

PART I

Item 1. Description of Business.

History

Provectus Pharmaceuticals, Inc., formerly known as "Provectus

Pharmaceutical, Inc." and "SPM Group, Inc.," was incorporated under Colorado law on May 1, 1978. SPM Group ceased operations in 1991, and became a development-stage company effective January 1, 1992, with the new corporate purpose of seeking out acquisitions of properties, businesses, or merger candidates, without limitation as to the nature of the business operations or geographic location of the acquisition candidate.

On April 1, 2002, SPM Group changed its name to "Provectus Pharmaceutical, Inc." and reincorporated in Nevada in preparation for a transaction with Provectus Pharmaceuticals, Inc., a privately-held Tennessee corporation, which we refer to as "PPI." On April 23, 2002, an Agreement and Plan of Reorganization between Provectus Pharmaceutical and PPI was approved by the written consent of a majority of the outstanding shares of Provectus Pharmaceutical. As a result, holders of 6,680,000 shares of common stock of Provectus Pharmaceutical exchanged their shares for all of the issued and outstanding shares of PPI. As part of the acquisition, Provectus Pharmaceutical changed its name to "Provectus Pharmaceuticals, Inc." and PPI became a wholly owned subsidiary of Provectus. For accounting purposes, we treat this transaction as a recapitalization of PPI.

On November 19, 2002, we acquired Valley Pharmaceuticals, Inc., a privately-held Tennessee corporation formerly known as Photogen, Inc., by merging our subsidiary PPI with and into Valley and naming the surviving corporation "Xantech Pharmaceuticals, Inc." Valley had minimal operations and had no revenues prior to the transaction with the Company. By acquiring Valley, we acquired our most important intellectual property, including issued U.S. patents and patentable inventions, with which we intend to develop:

- prescription drugs, medical and other devices (including laser devices) and over-the-counter pharmaceutical products in the fields of dermatology and oncology; and

- technologies for the preparation of human and animal vaccines, diagnosis of infectious diseases and enhanced production of genetically engineered drugs.

Prior to the acquisition of Valley, we were considered to be, and continue to be, in the development stage and had not generated any revenues from the assets we acquired.

On December 5, 2002, we acquired the assets of Pure-ific L.L.C., a Utah limited liability company, and created a wholly owned subsidiary, Pure-ific Corporation, to operate that business. We acquired the product formulations for Pure-ific personal sanitizing sprays, along with the "Pure-ific" trademarks. We intend to continue product development and begin to market a line of personal sanitizing sprays and related products to be sold over the counter under the "Pure-ific" brand name.

Description Of Business

Overview

Provectus, and its five wholly owned subsidiaries:

- Xantech Pharmaceuticals, Inc.

- Pure-ific Corporation

- Provectus Biotech, Inc.

- Provectus Devicetech, Inc.

- Provectus Pharmatech, Inc.

(which we refer to as our subsidiaries) develop, license and market and plan to sell products in three sectors of the healthcare industry:

- Over-the-counter products, which we refer to in this report as "OTC products;"

- Prescription drugs; and

- Medical device systems

We manage Provectus and our subsidiaries on an integrated basis and when we refer to "we" or "us" or "the Company" in this Annual Report on Form 10-KSB, we refer to all six corporations considered as a single unit. Our principal executive offices are located at 7327 Oak Ridge Highway, Suite A, Knoxville, Tennessee 37931, telephone 865/769-4011.

Through discovery and use of state-of-the-art scientific and medical technologies, the founders of our pharmaceutical business have developed a portfolio of patented, patentable, and proprietary technologies that support multiple products in the prescription drug, medical device and OTC products categories (including patented technologies for: (a) treatment of cancer; (b) novel therapeutic medical devices; (c) enhancing contrast in medical imaging; (d) improving signal processing during biomedical imaging; and (e) enhancing production of biotechnology products). Our prescription drug products encompass the areas of dermatology and oncology and involve several types of small molecule-based drugs. Our medical device systems include therapeutic and cosmetic lasers, while our OTC products address markets primarily involving skincare applications. Because our prescription drug candidates and medical device systems are in the early stages of development, they are not yet on the market and there is no assurance that they will advance to the point of commercialization.

Our first commercially available products are directed into the OTC market, as these products pose minimal or no regulatory compliance barriers to market introduction. For example, the active pharmaceutical ingredient (API) in our ethical products is already approved for other medical uses by the FDA and has a long history of safety for use in humans. This use of known APIs for novel uses and in novel formulations minimizes potential adverse concerns from the FDA, since considerable safety data on the API is available (either in the public domain or via license or other agreements with third parties holding such information). In similar fashion, our OTC products are based on established APIs and, when possible, utilize formulations (such as aerosol or cream formulations) that have an established precedent. (For more information on compliance issues, see "Federal Regulation of Therapeutic Products" below.) In this fashion, we believe that we can diminish the risk of regulatory bars to the introduction of safe, consumer-friendly products and minimize the time required to begin generating revenues from product sales. At the same time, we continue to develop higher-margin prescription pharmaceuticals and medical devices, which have longer development and regulatory approval cycles.

Over-the-Counter Pharmaceuticals

Our OTC products are designed to be safer and more specific than competing products. Our technologies offer practical solutions for a number of intractable maladies, using ingredients that have limited or no side effects compared with existing products. To develop our OTC products, we typically use compounds with potent antibacterial and antifungal activity as building blocks and combine these building blocks with anti-inflammatory and moisture-absorbing agents. Products with these properties can be used for treatment of a large number of

skin afflictions, including:

- hand irritation associated with use of disposable gloves
- eczema
- mild to moderate acne

Where appropriate, we have filed or will file patent applications and will seek other intellectual property protection to protect our unique formulations for relevant applications.

GloveAid

Personnel in many occupations and industries now use disposable gloves daily in the performance of their jobs, including:

- Airport security personnel;
- Food handling and preparation personnel;

- Sanitation workers;
- Postal and package delivery handlers and sorters;
- Laboratory researchers;
- Health care workers such as hospital and blood bank personnel; and
- Police, fire and emergency response personnel.

Accompanying the increased use of disposable gloves is a mounting incidence of chronic skin irritation. To address this market, we have developed GloveAid, a hand cream with both antiperspirant and antibacterial properties, to increase the comfort of users' hands during and after the wearing of disposable gloves. During 2003, we ran a pilot scale run at the manufacturer of GloveAid.

The chronic skin irritation that accompanies the long-term use of disposable gloves has been characterized as an allergic-like reaction to the glove materials. Currently, physicians treat the condition using steroids and other immunosuppressive therapies. To avoid possible regulatory bars, we are marketing GloveAid as a means to increase users' comfort, not as a long-term therapy for treatment of chronic skin irritation. However, as we obtain data regarding people who have existing chronic skin irritation, we may seek regulatory approval of GloveAid to permit us to market it as a therapy for chronic skin problems associated with wearing of disposable gloves. If we decide to obtain this regulatory approval, we anticipate that our projected sales of GloveAid would increase significantly. Obtaining this approval would require the completion of glove viability tests required by the United States Food and Drug Administration, which we refer to as the "FDA," and responding to the FDA's comments relating to these tests. We estimate regulatory approval would cost approximately $300,000 and would take from two to three years to obtain.

Pure-ific

Our Pure-ific line of products includes two quick-drying sprays, Pure-ific and Pure-ific Kids, that immediately kill up to 99.9% of germs on skin and prevent regrowth for 6 hours. We have determined the effectiveness of Pure-ific based on our internal testing and testing performed by Paratus Laboratories H.B., an independent research lab. Pure-ific products help prevent the spread of germs and thus complement our other OTC products designed to treat irritated skin or skin conditions such as acne, eczema, dandruff and fungal infections. Our Pure-ific sprays have been designed with convenience in mind and are targeted towards mothers, travelers, and anyone concerned about the spread of sickness-causing germs. During 2003 and 2004, we identified and engaged sales and brokerage forces for Pure-ific. We emphasized getting sales in independent

pharmacies and mass (chain store) markets. The supply chain for Pure-ific was established with the ability to support large-scale sales and a starting inventory was manufactured and stored in a contract warehouse/fulfillment center. In addition, a website for Pure-ific was developed with the ability for supporting on-line sales of the antibacterial hand spray. We intend to continue developing our distribution network for these products and expect to expand the Pure-ific product line to include additional applications.

Dermatology

A number of dermatological conditions, including psoriasis, eczema, and acne, result from a superficial infection which triggers an overwhelming immune response. We anticipate developing OTC products similar to the GloveAid line for the treatment of mild to moderate cases of psoriasis, eczema, and acne. Wherever possible, we intend to formulate these products to minimize or avoid significant regulatory bars that might adversely impact time to market.

Prescription Drugs

We are developing a number of prescription drugs which we expect will provide minimally invasive treatment of chronic severe skin afflictions such as psoriasis, eczema, and acne; and several life-threatening cancers such as those of the liver, breast and prostate. We believe that our products will be safer and more specific than currently existing products. Use of topical or other direct delivery formulations allows these potent products to be conveniently and effectively delivered only to diseased tissues, thereby enhancing both safety and effectiveness. The ease of use and superior performance of these products may eventually lead to extension into OTC applications currently serviced by

less safe, more expensive alternatives. All of these products are in the pre-clinical or clinical trial stage.

Dermatology

Our most advanced prescription drug candidate for treatment of topical diseases on the skin is Xantryl, a topical gel. PV-10, the active ingredient in Xantryl, is "photoactive": it reacts to light of certain wavelengths, increasing its therapeutic effects. PV-10 also concentrates in diseased or damaged tissue but quickly dissipates from healthy tissue. By developing a "photodynamic" treatment regimen (one which combines a photoactive substance with activation by a source emitting a particular wavelength of light) around these two properties of PV-10, we can deliver a higher therapeutic effect at lower dosages of active ingredient, thus minimizing potential side effects including damage to nearby healthy tissues. PV-10 is especially responsive to green light, which is strongly absorbed by the skin and thus only penetrates the body to a depth of about three to five millimeters. For this reason, we have developed Xantryl combined with green-light activation for topical use in surface applications where serious damage could result if medicinal effects were to occur in deeper tissues.

Acute psoriasis. Psoriasis is a common chronic disorder of the skin characterized by dry scaling patches, called "plaques," for which current treatments are few and those that are available have potentially serious side effects. According to Roenigk and Maibach (Psoriasis, Third Edition, 1998), there are approximately five million people in the United States who suffer from psoriasis, with an estimated 160,000 to 250,000 new psoriasis cases each year. There is no known cure for the disease at this time. According to the National Psoriasis Foundation, the majority of psoriasis sufferers, those with mild to moderate cases, are treated with topical steroids that can have unpleasant side

effects; none of the other treatments for moderate cases of psoriasis have proven completely effective. The 25-30% of psoriasis patients who suffer from more severe cases generally are treated with more intensive drug therapies or PUVA, a light-based therapy that combines the drug Psoralen with exposure to ultraviolet A light. While PUVA is one of the more effective treatments, it increases a patient's risk of skin cancer.

We believe that Xantryl activated with green light offers a superior treatment for acute psoriasis because it selectively treats diseased tissue with negligible potential for side effects in healthy tissue; moreover, the therapy has shown promise in comprehensive Phase 1 clinical trials. The objective of a Phase 1 clinical trial is to determine if there are safety concerns with the therapy. In these studies, involving more than 50 test subjects, Xantryl was applied topically to psoriatic plaques and then illuminated with green light. In our first study, a single-dose treatment yielded an average reduction in plaque thickness of 59% after 30 days, with further response noted at the final follow-up examination 90 days later. Further, no pain, significant side effects, or evidence of "rebound" (increased severity of a psoriatic plaque after the initial reduction in thickness) were observed in any treated areas. This degree of positive therapeutic response is comparable to that achieved with potent steroids and other anti-inflammatory agents, but without the serious side effects associated with such agents. We are continuing the required Food and Drug Administration reporting to support the active Investigational New Drug application for Xantryl's Phase 2 clinical trials on psoriasis. The required reporting includes the publication of results regarding the multiple treatment scenario of the active ingredient in Xantryl. We expect to conduct Phase 2 studies in the near future, in which we expect to assess the potential for remission of the disease using a regimen of weekly treatments similar to those used for PUVA.

Actinic Keratosis. According to Schwartz and Stoll (Fitzpatrick's Dermatology in General Medicine, 1999), actinic keratosis, or "AK" (also called solar keratosis or senile keratosis), is the most common pre-cancerous skin lesion among fair-skinned people and is estimated to occur in over 50% of elderly fair-skinned persons living in sunny climates. These experts note that nearly half of the approximately five million cases of skin cancer in the U.S. may have begun as AK. The standard treatments for AK (primarily comprising excision, cryotherapy, and ablation with topical 5-fluorouracil) are often painful and frequently yield unacceptable cosmetic outcomes due to scarring. Building on our experience with psoriasis, we are assessing use of Xantryl with

green-light activation as a possible improvement in treatment of early and more advanced stages of AK. We completed an initial Phase 1 clinical trial of the therapy for this indication in 2001 with the predecessor company that was acquired in 2002. This study, involving 24 subjects, examined the safety profile of a single treatment using topical Xantryl with green light photoactivation; no significant safety concerns were identified. We are assessing the data from the study as a possible basis for further clinical development of Xantryl for AK.

Severe Acne. According to Berson et al. (Cutis. 72 (2003) 5-13), acne vulgaris affects approximately 17 million individuals in the U.S., causing pain, disfigurement, and social isolation. Moderate to severe forms of the disease have proven responsive to several photodynamic regimens, and we anticipate that Xantryl can be used as an advanced treatment for this disease. Pre-clinical studies show that the active ingredient in Xantryl readily kills bacteria associated with acne. This finding, coupled with our clinical experience in psoriasis and actinic keratosis, suggests that therapy with Xantryl will exhibit no significant side effects and will afford improved performance relative to other therapeutic alternatives. If correct, this would be a major advance over

currently available products for severe acne.

As noted above, we are researching multiple uses for Xantryl with green-light activation. Multiple-indication use by a common pool of physicians - dermatologists, in this case - should reduce market resistance to this new therapy.

Oncology

Oncology is another major market where our planned products may afford competitive advantage compared to currently available options. We are developing Provecta, a sterile injectible form of PV-10, for direct injection into tumors. Because PV-10 is retained in diseased or damaged tissue but quickly dissipates from healthy tissue, we believe we can develop therapies that confine treatment to cancerous tissue and reduce collateral impact on healthy tissue. During 2003 and 2004, we have been working toward completion of the extensive scientific and medical materials necessary for filing an Investigational New Drug (IND) application for Provecta in anticipation of beginning Phase 1 clinical trials for breast and liver cancer. This IND was filed and cleared by the RDA in 2004 and sets the stage for Phase 1 clinical trials.

Liver Cancer. The current standard of care for liver cancer is ablative therapy (which seeks to reduce a tumor by poisoning, freezing, heating, or irradiating it) using either a localized injection of ethanol (alcohol), cryosurgery, radiofrequency ablation, or ionizing radiation such as X-rays. Where effective, these therapies have many side effects; selecting therapies with fewer side effects tends to reduce overall effectiveness. Combined, ablative therapies have a five-year survival rate of 33% - meaning that only 33% of those liver cancer patients whose cancers are treated using these therapies survive for five years after their initial diagnoses. In pre-clinical studies we have found that direct injection of Provecta into liver tumors quickly ablates treated tumors, and can trigger an anti-tumor immune response leading to eradication of residual tumor tissue and distant tumors. Because of the natural regenerative properties of the liver and the highly localized nature of the treatment, this approach appears to produce no significant side effects. Based on these encouraging preclinical results, we are assessing strategies for initiation of clinical trials of Provecta for treatment of liver cancer.

Breast Cancer. Breast cancer afflicts over 200,000 U.S. citizens annually, leading to over 40,000 deaths. Surgical resection, chemotherapy, radiation therapy, and immunotherapy comprise the standard treatments for the majority of cases, resulting in serious side effects that in many cases are permanent. Moreover, current treatments are relatively ineffective against metastases, which in many cases are the eventual cause of patient mortality. Pre-clinical studies using human breast tumors implanted in mice have shown that direct injection of Provecta into these tumors ablates the tumors, and, as in the case of liver tumors, may elicit an anti-tumor immune response that eradicates distant metastases. Since fine-needle biopsy is a routine procedure for diagnosis of breast cancer, and since the needle used to conduct the biopsy also could be used to direct an injection of Provecta into the tumor, localized destruction of suspected tumors through direct injection of Provecta clearly has the potential of becoming a primary treatment. We are evaluating options for initiating clinical studies of direct injection of Provecta into breast tumors, and expect to formulate final plans based on results from clinical studies of

our indication for Provecta in liver cancer.

Prostate Cancer. Cancer of the prostate afflicts approximately 190,000 U.S. men annually, leading to over 30,000 deaths. As with breast cancer, surgical resection, chemotherapy, radiation therapy, and immunotherapy comprise the

standard treatments for the majority of cases, and can result in serious, permanent side effects. We believe that direct injection of Provecta into prostate tumors may selectively ablate such tumors, and, as in the case of liver and breast tumors, may also elicit an anti-tumor immune response capable of eradicating distant metastases. Since trans-urethral ultrasound, guided fine-needle biopsy and immunotherapy, along with brachytherapy implantation, are becoming routine procedures for diagnosis and treatment of these cancers, we believe that localized destruction of suspected tumors through direct injection of Provecta can become a primary treatment. We are evaluating options for initiating clinical studies of direct injection of Provecta into prostate tumors, and expect to formulate final plans based on results from clinical studies of our indications for Provecta in the treatment of liver and breast cancer.

Medical Devices

We are developing medical devices to address two major markets:

- cosmetic treatments, such as reduction of wrinkles and elimination of spider veins and other cosmetic blemishes; and
- therapeutic uses, including photoactivation of Xantryl other prescription drugs and non-surgical destruction of certain skin cancers.

We expect to develop medical devices through partnerships with third-party device manufacturers or, if appropriate opportunities arise, through acquisition of one or more device manufacturers.

Photoactivation. Our clinical tests of Xantryl for dermatology have, up to the present, utilized a number of commercially available lasers for activation of the drug. This approach has several advantages, including the leveraging of an extensive base of installed devices present throughout the pool of potential physician-adopters for Xantryl; access to such a base could play an integral role in early market capture. However, since the use of such lasers, which were designed for occasional use in other types of dermatologic treatment, is potentially too cumbersome and costly for routine treatment of the large population of patients with psoriasis, we have begun investigating potential use of other types of photoactivation hardware, such as light booths. The use of such booths is consistent with current care standards in the dermatology field, and may provide a cost-effective means for addressing the needs of patients and physicians alike. We anticipate that such photoactivation hardware would be developed, manufactured, and supported in conjunction with one or more third-party device manufacturer.

Melanoma. A high priority in our medical devices field is the development of a laser-based product for treatment of melanoma. We continue to conduct extensive research on ocular melanoma at the Massachusetts Eye and Ear Infirmary (a teaching affiliate of Harvard Medical School) using a new laser treatment that may offer significant advantage over current treatment options. A single quick non-invasive treatment of ocular melanoma tumors in a rabbit model resulted in elimination of over 90% of tumors, and may afford significant advantage over invasive alternatives, such as surgical excision, enucleation, or radiotherapy implantation. Ocular melanoma is rare, with approximately 2,000 new cases annually in the U.S. However, we believed that our extremely successful results could be extrapolated to treatment of primary melanomas of the skin, which have an incidence of over 52,000 new cases annually in the U.S. and a 13% five-year survival rate after metastasis of the tumor. We have performed similar laser treatments on large (averaging approximately 3 millimeters thick) cutaneous melanoma tumors implanted in mice, and have been able to eradicate over 90% of these pigmented skin tumors with a single treatment. Moreover, we have shown that this treatment stimulates an anti-tumor immune response that may lead to improved outcome at both the treatment site and at sites of distant metastasis. From these results, we believe that a device for laser treatment of

primary melanomas of the skin and eye is nearly ready for human studies. We anticipate partnering with a medical device manufacturer to bring it to market

in reliance on a 510(k) notification. For more information about the 510(k) notification process, see "Federal Regulation of Therapeutic Products" below.

Research and Development

We continue to actively develop projects that are product directed and are attempting to conserve available capital and achieve full capitalization of our company through equity and convertible debt offerings, generation of product revenues, and other means. All ongoing research and development activities are directed toward supporting our OTC product launches, our current product development and maintaining our intellectual property portfolio.

Production

We have determined that the most efficient use of our capital in producing OTC products is to contract production with experienced entities having previous success in economically producing such products. We have ongoing relationships with two OTC product manufacturers, EXAL, Inc. and 220 Laboratories, Inc., and several other OTC service vendors that will manufacture, package, warehouse and ship our OTC products. We do not have written agreements with any of our manufacturers or vendors.

Sales

Our first commercially available products are directed into the OTC market, as these products pose minimal or no regulatory compliance barriers to market introduction. In this fashion, we believe that we can diminish the risk of regulatory bars to the introduction of products and minimize the time required to begin generating revenues from product sales. At the same time, we continue to develop higher-margin prescription pharmaceuticals and medical devices, which have longer development and regulatory approval cycles.

We are commencing limited sales of Pure-ific, our antibacterial hand spray. We sold small amounts of this product during 2004. We will continue to seek additional markets for our products through existing distributorships that market and distribute medical products, ethical pharmaceuticals, and OTC products for the professional and consumer marketplaces.

In addition to developing and selling products ourselves, we are negotiating actively with a number of potential licensees for several of our intellectual properties, including patents and related technologies. To date, we have not yet entered into any licensing agreements; however, we anticipate consummating one or more such licenses in the future.

Intellectual Property

Patents

We hold a number of U.S. patents covering the technologies we have developed and are continuing to develop for the production of prescription drugs, medical devices and OTC pharmaceuticals, including those identified in the following table:

U.S. Patent No.	Title	Issue Date	E
5,829,448	Method for improved selectivity in photo-activation of molecular agents	November 3, 1998	Oc
5,832,931	Method for improved selectivity in photo-activation and detection of molecular diagnostic agents	November 10, 1998	Oc
5,998,597	Method for improved selectivity in photo-activation of molecular agents	December 7, 1999	Oc

U.S. Patent No.	Title	Issue Date	Ex
6,042,603	Method for improved selectivity in photo-activation of molecular agents	March 28, 2000	Oc
6,331,286	Methods for high energy phototherapeutics	December 18, 2001	De
6,451,597	Method for enhanced protein stabilization and for production of cell lines useful for production of such stabilized proteins	September 17, 2002	Ap
6,468,777	Method for enhanced protein stabilization and for production of cell lines useful for production of such stabilized proteins	October 22, 2002	Ap
6,493,570	Method for improved imaging and photodynamic therapy	December 10, 2002	De
6,495,360	Method for enhanced protein stabilization and for production of cell lines useful for production of such stabilized proteins	December 17, 2002	Ap
6,519,076	Methods and apparatus for optical imaging	February 11, 2003	Oc
6,525,862	Methods and apparatus for optical imaging	February 25, 2003	Oc
6,541,223	Method for enhanced protein stabilization and for production of cell lines useful for production of such stabilized proteins	April 1, 2003	Ap

We continue to pursue patent applications on numerous other developments we believe to be patentable. We consider our issued patents, our pending patent applications and any patentable inventions which we may develop to be extremely valuable assets of our business.

Trademarks

We own the following trademarks used in this document: Xantryl(TM), Provecta(TM), GloveAid(TM), and Pure-ific(TM) (including Pure-ific(TM) and

Pure-ific(TM) Kids). We also own the registered trademark PulseView(R). Trademark rights are perpetual provided that we continue to keep the mark in use. We consider these marks, and the associated name recognition, to be valuable to our business.

Material Transfer Agreement

We have entered into a Material Transfer Agreement dated as of July 31, 2003 with Schering-Plough Animal Health Corporation, which we refer to as "SPAH", the animal-health subsidiary of Schering-Plough Corporation, a major international pharmaceutical company. We refer to this agreement in this report as the "Material Transfer Agreement." Under the Material Transfer Agreement, we will provide SPAH with access to some of our patented technologies to permit SPAH to evaluate those technologies for use in animal-health applications. If SPAH determines that it can commercialize our technologies, then the Material Transfer Agreement obligates us and SPAH to enter into a license agreement providing for us to license those technologies to SPAH in exchange for progress payments upon the achievement of goals. The Material Transfer Agreement covers four U.S. patents that cover biological material manufacturing technologies (i.e., biotech related). The Material Transfer Agreement continues indefinitely, unless SPAH terminates it by giving us notice or determines that it does not wish to secure from us a license for our technologies. The Material Transfer Agreement can also be terminated by either of us in the event the other party breaches the agreement and does not cure the breach within 30 days of notice from the other party. We can give you no assurance that SPAH will determine that it can commercialize our technologies or that the goals required for us to obtain progress payments from SPAH will be achieved.

Competition

In general, the pharmaceutical industry is intensely competitive, characterized by rapid advances in products and technology. A number of companies have developed and continue to develop products that address the areas we have targeted. Some of these companies are major pharmaceutical companies that are international in scope and very large in size, while others are niche players that may be less familiar but have been successful in one or more areas we are targeting. Existing or future pharmaceutical, device, or other competitors may develop products that accomplish similar functions to our technologies in ways that are less expensive, receive faster regulatory approval, or receive greater market acceptance than our products. Many of our competitors have been in existence for considerably longer than we have, have greater capital resources, broader internal structure for research, development, manufacturing and marketing, and are in many ways further along in their respective product cycles.

At present, our most direct competitors are smaller companies that are exploiting niches similar to ours. In the field of photodynamic therapy, one competitor, QLT, Inc., has received FDA approval for use of its agent Photofrin(R) for treatment of several niche cancer indications, and has a second product, Visudyne(R), approved for treatment of certain forms of macular degeneration. Another competitor in this field, Dusa Pharmaceuticals, Inc. recently received FDA approval of its photodynamic product Levulan(R) Kerastik(R) for treatment of actinic keratosis. We believe that QLT and Dusa, among other competitors, have established a working commercial model in dermatology and oncology, and that we can benefit from this model by offering products that, when compared to our competitors' products, afford superior safety and performance, greatly reduced side effects, improved ease of use, and lower cost, compared to those of our competitors.

While it is possible that eventually we may compete directly with major pharmaceutical companies, we believe it is more likely that we will enter into joint development, marketing, or other licensure arrangements with such competitors.

We also have a number of market areas in common with traditional skincare cosmetics companies, but in contrast to these companies, our products are based on unique, proprietary formulations and approaches. For example, we are unaware of any products in our targeted OTC skincare markets that our similar to our GloveAid and Pure-ific products. Further, proprietary protection of our products may help limit or prevent market erosion until our patents expire. Federal Regulation of Therapeutic Products

All of the prescription drugs and medical devices we currently contemplate developing will require approval by the FDA prior to sales within the United States and by comparable foreign agencies prior to sales outside the United States. The FDA and comparable regulatory agencies impose substantial requirements on the manufacturing and marketing of pharmaceutical products and medical devices. These agencies and other entities extensively regulate, among other things, research and development activities and the testing, manufacturing, quality control, safety, effectiveness, labeling, storage, record keeping, approval, advertising and promotion of our proposed products. While we attempt to minimize and avoid significant regulatory bars when formulating our products, some degree of regulation from these regulatory agencies is unavoidable. Some of the things we do to attempt to minimize and avoid significant regulatory bars include the following:

- Using chemicals and combinations already allowed by the FDA;
- Carefully making product performance claims to avoid the need for regulatory approval;
- Using drugs that have been previously approved by the FDA and that have a long history of safe use;
- Using chemical compounds with known safety profiles; and

- In many cases, developing OTC products which face less regulation than prescription pharmaceutical products.

The regulatory process required by the FDA, through which our drug or device products must pass successfully before they may be marketed in the U.S., generally involves the following:

- Preclinical laboratory and animal testing;
- Submission of an application that must become effective before clinical trials may begin;
- Adequate and well-controlled human clinical trials to establish the safety and efficacy of the product for its intended indication; and
- FDA approval of the application to market a given product for a given indication.

For pharmaceutical products, preclinical tests include laboratory evaluation of the product, its chemistry, formulation and stability, as well as animal studies to assess the potential safety and efficacy of the product. Where

appropriate (for example, for human disease indications for which there exist inadequate animal models), we will attempt to obtain preliminary data concerning safety and efficacy of proposed products using carefully designed human pilot studies. We will require sponsored work to be conducted in compliance with pertinent local and international regulatory requirements, including those providing for Institutional Review Board approval, national governing agency approval and patient informed consent, using protocols consistent with ethical principles stated in the Declaration of Helsinki and other internationally recognized standards. We expect any pilot studies to be conducted outside the United States; but if any are conducted in the United States, they will comply with applicable FDA regulations. Data obtained through pilot studies will allow us to make more informed decisions concerning possible expansion into traditional FDA-regulated clinical trials.

If the FDA is satisfied with the results and data from preclinical tests, it will authorize human clinical trials. Human clinical trials typically are conducted in three sequential phases which may overlap. Each of the three phases involves testing and study of specific aspects of the effects of the pharmaceutical on human subjects, including testing for safety, dosage tolerance, side effects, absorption, metabolism, distribution, excretion and clinical efficacy.

Phase 1 clinical trials include the initial introduction of an investigational new drug into humans. These studies are closely monitored and may be conducted in patients, but are usually conducted in healthy volunteer subjects. These studies are designed to determine the metabolic and pharmacologic actions of the drug in humans, the side effects associated with increasing doses, and, if possible, to gain early evidence on effectiveness. While the FDA can cause us to end clinical trials at any phase due to safety concerns, Phase 1 clinical trials are primarily concerned with safety issues. We also attempt to obtain sufficient information about the drug's pharmacokinetics and pharmacological effects during Phase 1 clinical trial to permit the design of well-controlled, scientifically valid, Phase 2 studies.

Phase 1 studies also evaluate drug metabolism, structure-activity relationships, and the mechanism of action in humans. These studies also determine which investigational drugs are used as research tools to explore biological phenomena or disease processes. The total number of subjects included in Phase 1 studies varies with the drug, but is generally in the range of twenty to eighty.

Phase 2 clinical trials include the early controlled clinical studies conducted to obtain some preliminary data on the effectiveness of the drug for a particular indication or indications in patients with the disease or condition. This phase of testing also helps determine the common short-term side effects and risks associated with the drug. Phase 2 studies are typically well-controlled, closely monitored, and conducted in a relatively small number of patients, usually involving several hundred people.

Phase 3 studies are expanded controlled and uncontrolled trials. They are

performed after preliminary evidence suggesting effectiveness of the drug has been obtained in Phase 2, and are intended to gather the additional information about effectiveness and safety that is needed to evaluate the overall benefit-risk relationship of the drug. Phase 3 studies also provide an adequate basis for extrapolating the results to the general population and transmitting that information in the physician labeling. Phase 3 studies usually include several hundred to several thousand people.

Applicable medical devices can be cleared for commercial distribution through a notification to the FDA under Section 510(k) of the applicable statute. The 510(k) notification must demonstrate to the FDA that the device is as safe and effective and substantially equivalent to a legally marketed or classified device that is currently in interstate commerce. Such devices may not require detailed testing. Certain high-risk devices that sustain human life, are of substantial importance in preventing impairment of human health, or that present a potential unreasonable risk of illness or injury, are subject to a more comprehensive FDA approval process initiated by filing a premarket approval, also known as a "PMA," application (for devices) or accelerated approval (for drugs).

We have established a core clinical development team and have been working with outside FDA consultants to assist us in developing product-specific development and approval strategies, preparing the required submittals, guiding us through the regulatory process, and providing input to the design and site selection of human clinical studies. Historically, obtaining FDA approval for photodynamic therapies has been a challenge. Wherever possible, we intend to utilize lasers or other activating systems that have been previously approved by the FDA to mitigate the risk that our therapies will not be approved by the FDA. The FDA has considerable experience with lasers by virtue of having reviewed and acted upon many 510(k) and premarket approval filings submitted to it for various photodynamic and non-photodynamic therapy laser applications, including a large number of cosmetic laser treatment systems used by dermatologists.

The testing and approval process requires substantial time, effort, and financial resources, and we may not obtain FDA approval on a timely basis, if at all. Success in preclinical or early-stage clinical trials does not assure success in later stage clinical trials. The FDA or the research institution sponsoring the trials may suspend clinical trials or may not permit trials to advance from one phase to another at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Once issued, the FDA may withdraw a product approval if we do not comply with pertinent regulatory requirements and standards or if problems occur after the product reaches the market. If the FDA grants approval of a product, the approval may impose limitations, including limits on the indicated uses for which we may market a product. In addition, the FDA may require additional testing and surveillance programs to monitor the safety and/or effectiveness of approved products that have been commercialized, and the agency has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs. Further, later discovery of previously unknown problems with a product may result in restrictions on the product, including its withdrawal from the market.

Marketing our products abroad will require similar regulatory approvals by equivalent national authorities and is subject to similar risks. To expedite development, we may pursue some or all of our initial clinical testing and approval activities outside the United States, and in particular in those nations where our products may have substantial medical and commercial relevance. In some such cases any resulting products may be brought to the U.S. after substantial offshore experience is gained. Accordingly, we intend to pursue any such development in a manner consistent with U.S. standards so that the resultant development data is maximally applicable for potential FDA approval.

OTC products are subject to regulation by the FDA and similar regulatory agencies but the regulations relating to these products are much less stringent than those relating to prescription drugs and medical devices. The types of OTC products developed and sold by us only require that we follow cosmetic rules relating to labeling and the claims that we make about our product. The process for obtaining approval of prescription drugs with the FDA does not apply to the OTC products which we sell. The FDA can, however, require us to stop selling our

product if we fail to comply with the rules applicable to our OTC products.

11

Personnel

Executive Officers

As of March 17, 2005, our executive officers are:

H. Craig Dees, Ph.D., 53, Chief Executive Officer. Dr. Dees has served as our Chief Executive Officer and as a member of our Board of Directors since we acquired PPI on April 23, 2002. Before joining us, from 1997 to 2002 he served as senior member of the management team of Photogen Technologies, Inc., including serving as a member of the Board of Directors of Photogen from 1997 to 2000. Prior to joining Photogen, Dr. Dees served as a Group Leader at the Oak Ridge National Laboratory (ORNL), and as a senior member of the management teams of LipoGen Inc., a medical diagnostic company which used genetic engineering technologies to manufacture and distribute diagnostic assay kits for auto-immune diseases, and TechAmerica Group Inc., now a part of Boehringer Ingelheim Vetmedica, Inc., the U.S. animal health subsidiary of Boehringer Ingelhem GmbH, an international chemical and pharmaceutical company headquartered in Germany. He has developed numerous products in a broad range of areas, including ethical vaccines, human diagnostics, cosmetics and OTC pharmaceuticals, and has set several regulatory precedents in licensing and developing biotechnology-derived products. For example, Dr. Dees developed and commercialized the world's first live viral vaccine produced by recombinant DNA technologies and licensed the first recombinant antigen human diagnostic assay using a FDA Class II licensure. While at TechAmerica he developed and obtained USDA approval for the first in vitro assay for releasing "killed" viral vaccines. Dr. Dees also has licensed successfully a number of proprietary cosmetic products and formulated strategic planning for developing cosmetic companies. He earned a Ph.D. in Molecular Virology from the University of Wisconsin - Madison in 1984.

Timothy C. Scott, Ph.D., 47, President. Dr. Scott has served as our President and as a member of our Board of Directors since we acquired PPI on April 23, 2002. Prior to joining us, Dr. Scott was as a senior member of the Photogen management team from 1997 to 2002, including serving as Photogen's Chief Operating Officer from 1999 to 2002, as a director of Photogen from 1997 to 2000, and as interim CEO for a period in 2000. Before joining Photogen, he served as senior management of Genase LLC, a developer of enzymes for fabric treatment, and held senior research and management positions at ORNL. Dr. Scott has been involved in developing numerous high-tech innovations in a broad range of areas, including separations science, biotechnology, biomedical, and advanced materials. He has licensed several of his innovations to the oil and gas and biotechnology industries. As Director of the Bioprocessing R&D Center at ORNL, Dr. Scott achieved a national presence in the area of use of advanced biotechnology for the production of energy, fuels, and chemicals. He earned a Ph.D. in Chemical Engineering from the University of Wisconsin - Madison in 1985.

Eric A. Wachter, Ph.D., 42, Vice President - Pharmaceuticals. Dr. Wachter has served as our Vice President - Pharmaceuticals and as a member of our Board of Directors since we acquired PPI on April 23, 2002. Prior to joining us, from 1997 to 2002 he was a senior member of the management team of Photogen, including serving as Secretary and a director of Photogen since 1997 and as Vice President and Secretary and a director of Photogen since 1999. Prior to joining Photogen, Dr. Wachter served as a senior research staff member with ORNL. Starting during his affiliation with Photogen, Dr. Wachter has been extensively involved in pre-clinical development and clinical testing of pharmaceuticals and medical device systems, as well as with coordination and filing of patents. He earned a Ph.D. in Chemistry from the University of Wisconsin - Madison in 1988.

Peter R. Culpepper, CPA, MBA, 45, Chief Financial Officer. Mr. Culpepper was appointed to serve as our Chief Financial Officer in February 2004. Previously, Mr. Culpepper served as Chief Financial Officer for Felix Culpepper International, Inc. from 2001 to 2004; was a Registered Representative with AXA Advisors, LLC from 2002 to 2003; has served as Chief Accounting Officer and Corporate Controller for Neptec, Inc. from 2000 to 2001; has served in various Senior Director positions with Metromedia Affiliated Companies from 1998 to 2000; has served in various Senior Director and other financial positions with Paging Network, Inc. from 1993 to 1998; and has served in a variety of financial roles in public accounting and industry from 1982 to 1993. He earned an MBA in Finance from the University of Maryland - College Park in 1992. He earned an

undergraduate degree from the College of William and Mary - Williamsburg, Virginia in 1982. He is a licensed Certified Public Accountant in both Tennessee and Maryland and is a faculty member with the University of Phoenix.

Employees

We currently employ four persons, all of whom are full-time employees.

Available Information

Provectus Pharmaceuticals, Inc. is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, which we refer to as the "Exchange Act." To comply with those requirements, we file annual reports, quarterly reports, periodic reports and other reports and statements with the Securities and Exchange Commission, which we refer to as the "SEC." You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room, at 450 Fifth Street, N.W., Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov, from which you can access electronic copies of materials we file with the SEC.

Our Internet address is http://www.pvct.com. We have made available, through a link to the SEC's Web site, electronic copies of the materials we file with the SEC (including our annual reports on Form 10-KSB, our quarterly reports on Form 10-QSB, our current reports on Form 8-K, the Section 16 reports filed by our executive officers, directors and 10% shareholders and amendments to those reports). To receive paper copies of our SEC materials, please contact us by U.S. mail, telephone, facsimile or electronic mail at the following address:

Provectus Pharmaceuticals, Inc.
Attention: President
7327 Oak Ridge Highway, Suite A
Knoxville, TN 37931
Telephone: 865/769-4011
Facsimile: 865/769-4013
Electronic mail: info@pvct.com

Item 2. Description of Property.

We currently lease approximately 4,000 square feet of space outside of Knoxville, Tennessee for our corporate office and operations. Our monthly rental charge for these offices is approximately $2,800 per month, and the lease is renewed on a month-to-month basis. We believe that these offices generally are adequate for our needs currently and in the immediate future.

Item 3. Legal Proceedings.

From time to time, we are party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. At present, we are not involved in any legal proceedings nor are we party to any pending claims that we believe could reasonably be expected to have a material adverse effect on our business, financial condition, or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

During the three months ended December 31, 2004, we did not submit any matters to a vote of our stockholders.

Part II

Item 5. Market for Common Equity and Related Stockholder Matters.

Market Information and Holders

Quotations for our common stock are reported on the OTC Bulletin Board under the symbol "PVCT." The following table sets forth the range of high and low bid information for the periods indicated since January 1, 2002:

	High	Low
2003		
First Quarter (January 1 to March 31)	$0.60	$0.26
Second Quarter (April 1 to June 30)	$1.01	$0.21
Third Quarter (July 1 to September 30)	$0.60	$0.20
Fourth Quarter (October 1 to December 31)	$2.00	$0.22
2004		
First Quarter (January 1 to March 31)	$1.70	$0.80
Second Quarter (April 1 to June 30)	$1.51	$0.85
Third Quarter (July 1 to September 30)	$1.68	$0.52
Fourth Quarter (October 1 to December 31)	$0.82	$0.47

The closing price for our common stock on March 17, 2005 was $0.97. High and low quotation information was obtained from data provided by Yahoo! Inc. Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not reflect actual transactions.

As of March 17, 2005, we had 1,822 shareholders of record of our common stock.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently plan to retain future earnings, if any, to finance the growth and development of our business and do not anticipate paying any cash dividends in the foreseeable future. We may incur indebtedness in the future which may prohibit or effectively restrict the payment of dividends, although we have no

current plans to do so. Any future determination to pay cash dividends will be at the discretion of our board of directors.

Recent Sales of Unregistered Securities

During the year ended December 31, 2004, we did not sell any securities which were not registered under the Securities Act of 1933, as amended, which we refer to as the "Securities Act," except on November 16, 2004, the Company completed a private placement transaction with 14 accredited investors, pursuant to which we sold 530,166 shares of our common stock at a purchase price of $0.75 per share, for an aggregate purchase price of $397,625 pursuant to Securities Purchase Agreements with each investor. In connection with the sale of the common stock, we also issued warrants (the "Warrants") to the investors to purchase up to 795,249 shares of our common stock at an exercise price of $1.00 per share. We paid $39764 to Venture Catalyst, LLC as placement agent for this transaction. We believe that this offering was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") by reason of Rule 506

of Regulation D and Section 4(2) of the Securities Act, based upon the fact that the offer and issuance of the common stock and warrants satisfied all the terms and conditions of Rules 501 and 502 of the Securities Act, the investors are financially sophisticated and had access to complete information concerning us and acquired the securities for investment and not with a view to the distribution thereof. Proceeds will be used for general corporate purposes.

Pursuant to an agreement dated November 26, 2004 between us and Gryffindor, we issued Gryffindor a Second Amended and Restated Senior Secured Convertible Note dated November 26, 2004 in the amended principal amount of $1,185,959. The amended note bears interest at 8% per annum, payable quarterly in arrears, is due and payable in full on November 26, 2005, and amends and restated the amended note in its entirety. As with the prior notes, our obligations under the amended note are secured by a first priority security interest in all of our assets, including the assets held by our Xantech and Pure-ific subsidiaries. Subject to certain exceptions, the amended note is convertible into shares of our common stock beginning on the November 26, 2004; the principal amount of the note is convertible at the rate of one share of common stock for each $0.73655655 of principal converted, while accrued but unpaid interest on the note is convertible at the rate of one share of common stock for each $0.55 of accrued but unpaid interest converted. We relied on an exemption from registration pursuant to Section 4(2) of the Securities Act, based on the issuance of the amended note, and the issuance of the shares of common stock issuable upon conversion of the amended note, to a limited number of purchasers in a transaction not involving any general solicitation or general advertising.

Item 6. Management's Discussion and Analysis or Plan of Operation.

The following discussion is intended to assist in the understanding and assessment of significant changes and trends related to our results of operations and our financial condition together with our consolidated subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-KSB. Historical results and percentage relationships set forth in the statement of operations, including trends which might appear, are not necessarily indicative of future operations.

CAPITAL STRUCTURE

Our ability to continue as a going concern has become reasonably assured due to our financing in June, July, and November 2004, as well as March 2005. However, our ongoing operations continue to be dependent upon our ability to raise capital.

We plan to implement our integrated business plan, including execution of the next phases in clinical development of our pharmaceutical products and full resumption of research programs for new research initiatives.

We intend to proceed as rapidly as possible with the development of OTC products that can be sold with a minimum of regulatory compliance and with the further development of revenue sources through licensing of our existing intellectual property portfolio. Although we believe that there is a reasonable basis for our expectation that we will become profitable due to revenues from OTC product sales, we cannot assure you that we will be able to achieve, or maintain, a level of profitability sufficient to meet our operating expenses.

Our current plans include continuing to operate with our four employees during the immediate future, but we anticipate adding some part-time employees during the next year. Our current plans also include minimal purchases of new property, plant and equipment, and significantly increased research and development.

PLAN OF OPERATION

With the reorganization of Provectus and PPI and the acquisition and integration into the company of Valley and Pure-ific, we believe we have obtained a unique combination of OTC products and core intellectual properties. This combination represents the foundation for an operating company that we believe will provide both profitability and long-term growth. In 2005, through careful control of expenditures, increasing sales of OTC products, and issuance of debt and equity, we plan to build on that foundation to increase shareholder value.

In the short term, we intend to develop our business by marketing, manufacturing, and distributing our existing OTC products, principally GloveAid and Pure-ific. In the longer term, we expect to continue the process of developing, testing and obtaining the approval of the U. S. Food and Drug Administration of prescription drugs and medical devices. Additionally, we intend to restart our research programs that will identify additional conditions that our intellectual properties may be used to treat and additional treatments for those and other conditions.

We are in the planning phase for the major research and development projects, and therefore do not have estimated completion dates, completion costs and capital requirements for these projects. The reason we do not have this information available is because we have not completed our planning process. Since there is no defined schedule for completing these development projects, there are no defined consequences if they are not completed timely. Research and development costs comprising the total of $1,291,817 for 2004 included depreciation expense of $121,811, consulting of $493,305, lab expense of $10,958, insurance of $74,059, legal expense of $127,775, office and other expense of $3,751, payroll of $431,068, rent and utilities of $20,533, and taxes and fees of $8,557. The research and development costs comprising a total of $724,924 for 2003 included depreciation expense of $218,082 ($10,233 of depreciation expense is recorded in general and administrative), consulting of $49,198, lab expense of $12,800, insurance of $10,153, legal expense of $130,271, office and other expense of $2,008, payroll of $252,042, rent and utilities of $38,057, and taxes and fees of $12,313.

CASH FLOW

As of March 30, 2005, we held approximately $1,600,000 in cash in escrow for our benefit. We anticipate these funds will be released from the escrow shortly. At our current cash expenditure rate, this amount will be sufficient to meet our needs for the forseeable future. We already have begun to increase our expenditure rate by accelerating some of our research programs for new research initiatives; in addition, we are seeking to improve our cash flow by increasing sales of OTC products. However, we cannot assure you that we will be successful in increasing sales of OTC products. Moreover, even if we are successful in improving our current cash flow position, we nonetheless will require additional funds to meet our long-term needs. We anticipate these funds will come from the proceeds of private placements or public offerings of debt or equity securities.

CAPITAL RESOURCES

As noted above, our present cash flow is currently sufficient to meet our short-term operating needs for initial production and distribution of OTC products in order to achieve meaningful sales volumes. Excess cash will be used to finance the next phases in clinical development of our pharmaceutical products and resumption of our currently suspended research programs. We anticipate that the majority of the funds for our operating and development needs in 2005 will come from the proceeds of private placements or public offerings of debt or equity securities. While we believe that we have a reasonable basis for our expectation that we will be able to raise additional funds, we cannot assure you that we will be able to complete additional financing in a timely manner. In addition, any such financing may result in significant dilution to shareholders. For further information on funding sources, please see the notes to our financial statements included in this report.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), "Shared-Based Payment," which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. This revised standard will be effective for us beginning with the third quarter in 2005.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB 25 intrinsic value method and, as such, generally recognizes no compensation cost for Employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have an impact on the result of operations, although it will have no impact on the overall financial position. The impact of the modified prospective adoption of SFAS No. 123(R) cannot be estimated at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs: an amendment of ARB No. 43, Chapter 4," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151

is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe the provisions of SFAS No. 151, when applied, will have a material impact on the finanical position or results of operations.

Item 7. Financial Statements.

Our consolidated financial statements, together with the report thereon of BDO Seidman LLP, independent accountants, are set forth on the pages of this Annual Report on Form 10-KSB indicated below.

Forward-Looking Statements

This Annual Report on Form 10-KSB contains forward-looking statements regarding, among other things, our anticipated financial and operating results. Forward-looking statements reflect our management's current assumptions, beliefs, and expectations. Words such as "anticipate," "believe, "estimate," "expect," "intend," "plan," and similar expressions are intended to identify forward-looking statements. While we believe that the expectations reflected in our forward-looking statements are reasonable, we can give no assurance that such expectations will prove correct. Forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from the future results, performance, or achievements expressed in or implied by any forward-looking statement we make. Some of the relevant risks and uncertainties that could cause our actual performance to differ materially from the forward-looking statements contained in this report are discussed below under the heading "Risk Factors" and elsewhere in this Annual Report on Form 10-KSB. We caution investors that these discussions of important risks and uncertainties are not exclusive, and our business may be subject to other risks and uncertainties which are not detailed there.

Investors are cautioned not to place undue reliance on our forward-looking statements. We make forward-looking statements as of the date on which this Annual Report on Form 10-KSB is filed with the SEC, and we assume no obligation to update the forward-looking statements after the date hereof whether as a result of new information or events, changed circumstances, or otherwise, except as required by law.

Risk Factors

Our business is subject to various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this Annual Report on Form 10-KSB. Any of these risks could materially adversely affect our business, operating results and financial condition:

Our technologies are in early stages of development. We have generated minimal initial revenues from sales and operations in 2004, but we do not expect to generate sufficient revenues to enable us to be profitable for several calendar quarters. We require additional funding to continue initial production and distribution of OTC products in order to achieve meaningful sales volumes. In addition, we must raise substantial additional funds in order to fully

implement our integrated business plan, including execution of the next phases in clinical development of our pharmaceutical products and resumption of research programs currently suspended. We estimate that our existing capital resources will be sufficient to fund our current and planned operations.

Ultimately, we must achieve profitable operations if we are to be a viable entity. We intend to proceed as rapidly as possible with the development of OTC products that can be sold with a minimum of regulatory compliance and with the development of revenue sources through licensing of our existing intellectual property portfolio. We cannot assure you that we will be able to raise sufficient capital to sustain operations before we can commence revenue generation or that we will be able to achieve, or maintain, a level of profitability sufficient to meet our operating expenses.

Because of our limited operations and the fact that we are currently generating limited revenue, we may be unable to pay our debts when they become due.

As of December 31, 2004, we had $2,084,959 in debt, net of a debt discount of $411,210 and $43,671 of accrued interest on our balance sheet, consisting of $1,185,959 in principal and $9,224 in accrued but unpaid interest owed to Gryffindor pursuant to the Note; $750,000 in principal and $19,011 in accrued interest owed to the holders of our debentures which has been authorized to be paid on March 30, 2005 and $149,000 in principal and $15,436 in accrued interest owed to Dr. Wachter. The amounts due to Gryffindor are due in November 2005, the amounts due in equal installments to the holders of our debentures are due in July and October 2007, and the amounts due to Dr. Wachter are due in 2009. Because of the convertible nature of the debt owed to Gryffindor and to the holders of the convertible debentures, we may not have to repay this debt if the debt is converted into shares of our common stock. However, we can not assure you that this debt will be converted into common stock and we may have to repay this indebtedness. Our ability to satisfy our current debt service obligations and any additional obligations we might incur will depend upon our future financial and operating performance, which, in turn, is subject to prevailing economic conditions and financial, business, competitive, legislative and regulatory factors, many of which are beyond our control. We cannot assure you that our operating results, cash flow and capital resources will be sufficient for payment of our debt service and other obligations in the future.

We will need additional capital to conduct our operations and develop our products, and our ability to obtain the necessary funding is uncertain.

We estimate that our existing capital resources will be sufficient to fund our current and planned operations; however, we may need additional capital. We have based this estimate on assumptions that may prove to be wrong, and we cannot assure that estimates and assumptions will remain unchanged. For example, we are currently assuming that we will continue to operate without any significant staff or other resources expansion. We intend to acquire additional funding through public or private equity financings or other financing sources that may be available. Additional financing may not be available on acceptable terms, or at all. As discussed in more detail below, additional equity financing could result in significant dilution to shareholders. Further, in the event that

additional funds are obtained through licensing or other arrangements, these arrangements may require us to relinquish rights to some of our technologies, product candidates or products that we would otherwise seek to develop and commercialize ourselves. If sufficient capital is not available, we may be required to delay, reduce the scope of or eliminate one or more of our programs, any of which could have a material adverse effect on our business, and may impair the value of our patents and other intangible assets.

Existing shareholders may face dilution from our financing efforts.

We must raise additional capital from external sources to execute our business plan. We plan to issue debt securities, capital stock, or a combination of these securities. We may not be able to sell these securities, particularly under current market conditions. Even if we are successful in finding buyers for our securities, the buyers could demand high interest rates or require us to agree to onerous operating covenants, which could in turn harm our ability to operate our business by reducing our cash flow and restricting our operating activities. If we were to sell our capital stock, we might be forced to sell shares at a depressed market price, which could result in substantial dilution to our existing shareholders. In addition, any shares of capital stock we may issue may have rights, privileges, and preferences superior to those of our common shareholders.

The prescription drug and medical device products in our internal pipeline are at an early stage of development, and they may fail in subsequent development or commercialization.

We are continuing to pursue clinical development of our most advanced pharmaceutical drug products, Xantryl and Provecta, for use as treatments for specific conditions. These products and other pharmaceutical drug and medical device products that we are currently developing will require significant additional research, formulation and manufacture development, and pre-clinical and extensive clinical testing prior to regulatory licensure and commercialization. Pre-clinical and clinical studies of our pharmaceutical drug and medical device products under development may not demonstrate the safety and efficacy necessary to obtain regulatory approvals. Pharmaceutical and biotechnology companies have suffered significant setbacks in advanced clinical trials, even after experiencing promising results in earlier trials. Pharmaceutical drug and medical device products that appear to be promising at early stages of development may not reach the market or be marketed successfully for a number of reasons, including the following:

- a product may be found to be ineffective or have harmful side effects during subsequent pre-clinical testing or clinical trials;
- a product may fail to receive necessary regulatory clearance;
- a product may be too difficult to manufacture on a large scale;
- a product may be too expensive to manufacture or market;
- a product may not achieve broad market acceptance;
- others may hold proprietary rights that will prevent a product from being marketed; or
- others may market equivalent or superior products.

We do not expect any pharmaceutical drug products or medical device products we are developing to be commercially available for at least several years, if at all. Our research and product development efforts may not be successfully completed and may not result in any successfully commercialized products. Further, after commercial introduction of a new product, discovery of problems through adverse event reporting could result in restrictions on the

product, including withdrawal from the market and, in certain cases, civil or criminal penalties.

Our OTC products are at an early stage of introduction, and we cannot be sure that they will be widely accepted in the marketplace or that we will have adequate capital to market and distribute these products which are an important factor in the future success of our business.

We recently have begun marketing GloveAid and Pure-ific, our first two OTC products, on a limited basis. We have recognized minimal revenue from these products, as the sales of these products have not been material. In order for these products to become commercially successful, we must increase significantly our distribution of them. Increasing distribution of these products requires, in turn, that we or distributors representing us increase marketing of these products. In view of our limited financial resources, we may be unable to afford

increases in our marketing of our OTC products sufficient to improve our distribution of our products. Even if we can and do increase our marketing of our OTC products, we cannot give you any assurances that we can successfully increase our distribution of our products.

If we do begin increasing our distribution of our OTC products, we must increase our production of these products in order to fill our distribution channels. Increased production will require additional financial resources that we do not have at present. Additionally, we may succeed in increasing production without succeeding in increasing sales, which could leave us with excess, possibly unsaleable, inventory.

If we are unable to successfully introduce, market and distribute these products, our business, financial condition, results of operations and cash flows could be materially adversely affected.

Competition in the prescription drug, medical device and OTC pharmaceuticals markets is intense, and we may be unable to succeed if our competitors have more funding or better marketing.

The pharmaceutical and biotechnology industries are intensely competitive. Other pharmaceutical and biotechnology companies and research organizations currently engage in or have in the past engaged in research efforts related to treatment of dermatological conditions or cancers of the skin, liver and breast, which could lead to the development of products or therapies that could compete directly with the prescription drug, medical device and OTC products that we are seeking to develop and market.

Many companies are also developing alternative therapies to treat cancer and dermatological conditions and, in this regard, are out competitors. Many of the pharmaceutical companies developing and marketing these competing products have significantly greater financial resources and expertise than we do in:

- research and development;
- manufacturing;
- preclinical and clinical testing;
- obtaining regulatory approvals; and
- marketing.

Smaller companies may also prove to be significant competitors,

particularly through collaborative arrangements with large and established companies. Academic institutions, government agencies and other public and private research organizations also may conduct research, seek patent protection and establish collaborative arrangements for research, clinical development and marketing of products similar to ours. These companies and institutions compete with us in recruiting and retaining qualified scientific and management personnel as well as in acquiring technologies complementary to our programs.

In addition to the above factors, we expect to face competition in the following areas:

- product efficacy and safety;
- the timing and scope of regulatory consents;
- availability of resources;
- reimbursement coverage;
- price; and
- patent position, including potentially dominant patent positions of others.

As a result of the foregoing, our competitors may develop more effective or more affordable products or achieve earlier product commercialization than we do.

Product Competition. Additionally, since our currently marketed products are generally established and commonly sold, they are subject to competition from products with similar qualities.

Our OTC product Pure-ific competes in the market with other hand sanitizing products, including in particular, the following hand sanitizers:

- Purell (manufactured by GOJO Industries),
- Avagard D (manufactured by 3M) and
- a large number of generic and private-label equivalents to these market leaders.

Our OTC product GloveAid represents a new product category that has no direct competitors; however, other types of products, such as AloeTouch(R) disposable gloves (manufactured by Medline Industries) target the same market niche.

Since our prescription products Provecta and Xantryl have not yet been approved by the FDA or introduced to the marketplace, we cannot estimate what competition these products might face when they are finally introduced, if at all. We cannot assure you that these products will not face significant competition for other prescription drugs and generic equivalents.

If we are unable to secure or enforce patent rights, trademarks, trade secrets or other intellectual property our business could be harmed.

We may not be successful in securing or maintaining proprietary patent protection for our products or products and technologies we develop or license.

In addition, our competitors may develop products similar to ours using methods and technologies that are beyond the scope of our intellectual property protection, which could reduce our anticipated sales. While some of our products have proprietary patent protection, a challenge to these patents can be subject to expensive litigation. Litigation concerning patents, other forms of intellectual property and proprietary technology is becoming more widespread and can be protracted and expensive and can distract management and other personnel from performing their duties for us.

We also rely upon trade secrets, unpatented proprietary know-how and continuing technological innovation in order to develop a competitive position. We cannot assure you that others will not independently develop substantially equivalent proprietary technology and techniques or otherwise gain access to our trade secrets and technology, or that we can adequately protect our trade secrets and technology.

If we are unable to secure or enforce patent rights, trademarks, trade secrets or other intellectual property, our business, financial condition, results of operations and cash flows could be materially adversely affected. If we infringe on the intellectual property of others, our business could be harmed.

We could be sued for infringing patents or other intellectual property that purportedly cover products and/or methods of using such products held by persons other than us. Litigation arising from an alleged infringement could result in removal from the market, or a substantial delay in, or prevention of, the introduction of our products, any of which could have a material adverse effect on our business, financial condition, or results of operations and cash flows.

If we do not update and enhance our technologies, they will become obsolete.

The pharmaceutical market is characterized by rapid technological change, and our future success will depend on our ability to conduct successful research in our fields of expertise, to discover new technologies as a result of that research, to develop products based on our technologies, and to commercialize those products. While we believe that are current technology is adequate for our

present needs, if we fail to stay at the forefront of technological development, we will be unable to compete effectively. Our competitors are using substantial resources to develop new pharmaceutical technologies and to commercialize products based on those technologies. Accordingly, our technologies may be rendered obsolete by advances in existing technologies or the development of different technologies by one or more of our current or future competitors.

If we lose any of our key personnel, we may be unable to successfully execute our business plan.

Our business is presently managed by four key employees:

- H. Craig Dees, Ph.D., our Chief Executive Officer;
- Timothy C. Scott, Ph.D., our President;
- Eric A. Wachter, Ph.D. our Vice President - Pharmaceuticals; and
- Peter R. Culpepper, CPA, our Chief Financial Officer.

In addition to their responsibilities for management of our overall business strategy, Drs. Dees, Scott and Wachter are our chief researchers in the fields in which we are developing and planning to develop prescription drug,

medical device and OTC products. Also, as of December 31, 2004, we owe $156,377 in accrued but unpaid compensation to our employees. The loss of any of these key employees could have a material adverse effect on our operations, and our ability to execute our business plan might be negatively impacted. Any of these key employees may leave their employment with us if they choose to do so, and we cannot assure you that we would be able to hire similarly qualified executives if any of our key employees should choose to leave.

Because we have only four employees, our management may be unable to successfully manage our business.

In order to successfully execute our business plan, our management must succeed in all of the following critical areas:

- Researching diseases and possible therapies in the areas of dermatology and skin care, oncology, and biotechnology;
- Developing prescription drug, medical device and OTC products based on our research;
- Marketing and selling developed products;
- Obtaining additional capital to finance research, development, production and marketing of our products; and
- Managing our business as it grows.

As discussed above, we currently have only four employees, all of whom are full-time employees. The greatest burden of succeeding in the above areas therefore falls on Drs. Dees, Scott, Wachter, and Mr. Culpepper. Focusing on any one of these areas may divert their attention from our other areas of concern and could affect our ability to manage other aspects of our business. We cannot assure you that our management will be able to succeed in all of these areas or, even if we do so succeed, that our business will be successful as a result. We anticipate adding a part-time regulatory affairs officer, a part-time lab technician and a part-time office manager within the next year. While we have not historically had difficulty in attracting employees, our small size and limited operating history may make it difficult for us to attract and retain employees in the future which could further divert management's attention from the operation of our business.

Our common stock price can be volatile because of several factors, including a limited public float.

During the twelve-month period ended December 31, 2004, the sale price of our common stock fluctuated from $1.70 to $0.47 per share. We believe that our

common stock is subject to wide price fluctuations because of several factors, including:

- absence meaningful earnings and external financing,
- a relatively thin trading market for our common stock, which causes trades of small blocks of stock to have a significant impact on our stock price,
- general volatility of the stock markets and the market prices of other publicly traded companies, and
- investor sentiment regarding equity markets generally, including public perception of corporate ethics and governance and the accuracy and transparency of financial reporting.

Financings that may be available to us under current market conditions frequently involve sales at prices below the prices at which our common stock trades on the Over the Counter Electronic Bulletin Board, as well as the

issuance of warrants or convertible debt that require exercise or conversion prices that are calculated in the future at a discount to the then market price of our common stock.

Any agreement to sell, or convert debt or equity securities into, common stock at a future date and at a price based on the then current market price will provide an incentive to the investor or third parties to sell the common stock short to decrease the price and increase the number of shares they may receive in a future purchase, whether directly from us or in the market. For example, the initial conversion rate of the debentures issued during the third and fourth quarters of 2004 is equal to the lower of (i) 80% of the average market price of our common stock for the five (5) trading days ending on the effective date of the exercise to convert or (ii) $1.88 per share. If the average market price of our common stock is so low that it causes the conversion rate on the debentures to fall below approximately $0.73, and if the debenture holders enforce this provision of our agreement with them, we will have to issue more shares to the debenture holders upon conversion of the debentures and the anti-dilutive provisions contained in our agreements with Gryffindor will become operative. If these anti-dilutive provisions become operative, we may be required to issue a significant number of shares of common stock to Gryffindor. We will not receive any additional proceeds from Gryffindor for the issuance of these shares of common stock. Other financings that we may obtain may contain similar provisions, and the existence of anti-dilutive provisions in some of our existing financings may make it more difficult for us to obtain financing in the future. These types of transactions which cause the issuance of our common stock in connection with the exercise or conversion of securities may result in substantial dilution to the remaining holders of our common stock.

Financings that may be available to us frequently involve high selling costs.

Because of our limited operating history, low market capitalization, thin trading volume and other factors, we have historically had to pay high costs to

obtain financing and expect to continue to be required to pay high costs for any future financings in which we may participate. For example, our past sales of shares and our sale of the debentures have involved the payment of finder's fees or placement agent's fees. These types of fees are typically higher for small companies like us. Payment of fees of this type reduces the amount of cash that we receive from a financing transaction and makes it more difficult for us to obtain the amount of financing that need to maintain and expand our operations.

It is our general policy to retain any earnings for use in our operation.

We have never declared or paid cash dividends on our common stock. We currently intend to retain all of our future earnings, if any, for use in our business and therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Our stock price is below $5.00 per share and is treated as a "Penny Stock" which places restrictions on broker-dealers recommending the stock for purchase.

Our common stock is defined as "penny stock" under the Exchange Act and its rules. The SEC has adopted regulations that define "penny stock" to include common stock that has a market price of less than $5.00 per share, subject to certain exceptions. These rules include the following requirements:

- broker-dealers must deliver, prior to the transaction a

disclosure schedule prepared by the SEC relating to the penny stock market;

- broker-dealers must disclose the commissions payable to the broker-dealer and its registered representative;
- broker-dealers must disclose current quotations for the securities;
- if a broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealers presumed control over the market; and
- a broker-dealer must furnish its customers with monthly statements disclosing recent price information for all penny stocks held in the customer's account and information on the limited market in penny stocks.

Additional sales practice requirements are imposed on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and must have received the purchaser's written consent to the transaction prior to sale. If our common stock remains subject to these penny stock rules these disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for our common stock. As a result, fewer broker-dealers may be willing to make a market in our stock, which could affect a shareholder's ability to sell their shares.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 8A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Our chief executive officer and chief financial officer have evaluated the effectiveness

of the design and operation of our "disclosure controls and procedures" (as that term is defined in Rule 13a-14(c) under the Exchange Act) as of the last day of the period covered by this Annual Report on Form 10-KSB. Based on that evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective.

(b) Changes in Internal Controls. There was no change in our internal control over financial reporting identified in connection with the evaluation during our fourth fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

Except as set forth below, the information called for by this item with respect to our executive officers as of March 30, 2005 is furnished in Part I of this report under the heading "Personnel--Executive Officers." The information called for by this item, to the extent it relates to our directors or to certain filing obligations of our directors and executive officers under the federal securities laws, is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Stockholders to be held on May 19, 2005, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

Audit Committee Financial Expert

We do not currently have an "audit committee financial expert," as defined under the rules of the SEC. Because the board of directors consists of only four members and our operations remain amenable to oversight by a limited number of directors, the board has not delegated any of its functions to committees. The entire board of directors acts as our audit committee as permitted under Section 3(a)(58)(B) of the Exchange Act. We believe that all of the members of our board are qualified to serve as the committee and have the experience and knowledge to perform the duties required of the committee. We do not have any independent directors who would qualify as an audit committee financial expert, as defined. We believe that it has been, and may continue to be, impractical to recruit such a director unless and until we are significantly larger.

Code of Ethics

We have not adopted a formal Code of Ethics. Since our company only has four employees, we expect those employees to adhere to high standards of ethics without the need for a formal policy.

Item 10. Executive Compensation.

The information called for by this item is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Stockholders to be held on May 19, 2005, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information called for by this item is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Stockholders to be held on May 19, 2005, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

Item 12. Certain Relationships and Related Transactions.

The information called for by this item is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Stockholders to be held on May 19, 2005, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

Item 13. Exhibits

Exhibits required by Item 601 of Regulation S-B are incorporated herein by reference and are listed on the attached Exhibit Index, which begins on page X-1 of this Annual Report on Form 10-KSB.

Item 14. Principal Accountant Fees and Services.

The information called for by this item is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Stockholders to be held on May 19, 2005, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this annual report on From 10-KSB for the year ended December 31, 2004 to be signed on its behalf by the undersigned, thereunto duly authorized.

Provectus Pharmaceuticals, Inc.

By: /s/ H. Craig Dees

H. Craig Dees, Ph.D. Chief Executive Officer

Date: March 30, 2005

Signature	Title	
/s/ H. Craig Dees H. Craig Dees, Ph.D.	Chief Executive Officer (principal executive officer) and Chairman of the Board	Ma
/s/ Peter R. Culpepper Peter R. Culpepper, CPA	Chief Financial Officer (principal financial officer and principal accounting officer)	Ma
/s/ Timothy C. Scott Timothy C. Scott, Ph.D.	President and Director	Ma
/s/ Eric A. Wachter Eric A. Wachter, Ph.D.	Vice President - Pharmaceuticals and Director	Ma
/s/ Stuart Fuchs Stuart Fuchs	Director	Ma

Report of Independent Registered Public Accounting Firm

Board of Directors
Provectus Pharmaceuticals, Inc.
Knoxville, Tennessee

We have audited the accompanying consolidated balance sheets of Provectus Pharmaceuticals, Inc., a development stage company as of December 31, 2004 and 2003 and the related consolidated statements of operations, stockholders' equity, and cash flows for the period from January 17, 2002 (inception) to December 31, 2004 and for each of the two years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over finanical reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Provectus Pharmaceuticals, Inc. at December 31, 2004 and 2003, and the results of its operations and its cash flows for the period from January 17, 2002 (inception) to December 31, 2004 and for each of the two years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/BDO Seidman, LLP

Chicago, Illinois
February 11, 2005

F-1

Provectus Pharmaceuticals, Inc.
(A Development-Stage Company)

CONSOLIDATED BALANCE SHEETS

	December 31, 2004	
Assets		
Current Assets		
Cash	$ 10,774	$
Stock subscription receivable	-	
Inventory	94,142	
Prepaid expenses and other current assets	20,582	
Prepaid consulting expense	205,427	
Prepaid commitment fee, net of amortization of $38,326	272,540	
Total Current Assets	603,465	
Equipment and Furnishings, less accumulated depreciation of $366,571 and $244,760	-	
Patents, net of amortization of $1,420,537 and $749,417	10,294,908	
Deferred loan costs, net of amortization of $35,922 and $19,569	270,578	
Other Assets	27,000	
	$ 11,195,951	$
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable - trade	$ 154,214	$
Accrued compensation	156,377	
Accrued expenses	6,240	
Accrued interest	43,670	
Short-term convertible debt, net of debt discount of $-0- and $442,623	-	
Gryffindor convertible debt, net of debt discount of $95,157 and $57,052	1,090,802	
Total Current Liabilities	1,451,303	
Loan From Stockholder	149,000	
Cornell convertible debt, net of debt discount of $316,053 and $-0-	433,947	
Stockholders' Equity		
Common stock; par value $.001 per share; 100,000,000 shares authorized; 16,133,876 and 10,867,509 shares issued and outstanding, respectively	16,134	
Paid-in capital	23,711,540	
Deficit accumulated during the development stage	(14,565,973)	

Total Stockholders' Equity	9,161,701	
	$ 11,195,951	$

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2004	Year Ended December 31 2003
Revenues		
OTC Product Revenue	$ 18,728	$ -
Medical Device Revenue	13,125	-
Total revenues	31,853	-
Cost of Sales	10,781	-
Gross Profit	21,072	-
Operating Expenses		
Research and development	1,291,817	724,924
General and administrative	1,690,841	1,582,250
Amortization	671,120	671,120
Total operating loss	(3,632,706)	(2,978,294
Gain on sale of equipment	-	55,000
Net loss on extinguishment of debt	(101,412)	-
Interest expense	(610,407)	(232,019
Net Loss Applicable to Common Stockholders	$ (4,344,525)	$(3,155,313
Basic and Diluted Loss Per Common Share	(0.31)	(0.33
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	14,122,559	9,706,064

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		
	Number of Shares	Par Value	Paid-in Capital
solid #000			

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of short-term investments

(45,775
)

(99,936
)

Sales or maturities of short-term investments

31,999

79,927

Acquisition of property and equipment

(1,181
)

(2,022
)

Acquisition of capitalized software and intangibles

0

(1,532
)

Net cash used in investing activities

$
(14,957
)

$
(23,563
)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of common stock related to exercise of common stock options	28,651	7,957
Treasury Stock - repurchase of stock for tax withholding	(3,792)	(2,007)
Payment under capital lease obligation	0	(19)
Net cash provided by financing activities	$ 24,859	$ 5,931

NET DECREASE IN CASH AND CASH EQUIVALENTS

$
(2,770
)

$
(12,170
)

CASH AND CASH EQUIVALENTS:

Balance at beginning of period

70,891

162,337

Balance at end of period

$
68,121

$
150,167

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

Table of Contents

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

TiVo Inc. (together with its subsidiaries the Company or TiVo) was incorporated in August 1997 as a Delaware corporation and is located in Alviso, California. The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. The Company conducts its operations through one reportable segment.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with: generally accepted accounting principles (GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited interim condensed consolidated financial statements do not contain all of the information and footnotes required by generally accepted accounting principles for complete audited annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments necessary for the fair presentation of the Company s financial position as of April 30, 2010 and January 31, 2010 and the results of operations for the three month periods ended April 30, 2010 and 2009 and condensed consolidated statements of cash flows for the three month periods ended April 30, 2010 and 2009 consisting of normal recurring adjustments. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements, including the notes thereto, included in the Company s annual report on Form 10-K for the fiscal year ended January 31, 2010. Operating results for the three month period ended April 30, 2010 are not necessarily indicative of results that may be expected for this fiscal year ending January 31, 2011.

In connection with the preparation of its Quarterly Report on Form 10-Q for the quarter ended April 30, 2010, the Company determined that it had been overpaying revenue share to its partners in fiscal years 2009 and 2010 as a result of an error identified in reports used to calculate the revenue share amounts. The impact of the adjustment in the previous periods has resulted in an increase in hardware revenue with a corresponding increase in prepaid expenses for estimated amounts that the Company ultimately expects to be able to recover from its partners. As future events and their effects cannot be determined with precision, actual recoveries could differ from this estimate.

The Company has also corrected an immaterial error in its statement of cash flows for the quarter ended April 30, 2009 whereby the change in accounts payable related to acquisition of property and equipment was incorrectly classified in the cash flows from operating activities and investing activities for each of the quarters in the year ended January 31, 2010.

Management concluded that these errors were immaterial to the fiscal years 2009 and 2010 consolidated financial statements, but that its correction in the current year would be significant. Accordingly, pursuant to Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, the consolidated balance sheet as of January 31, 2010 has been revised to reflect the increase of $1.4 million in prepaid expenses with a corresponding decrease in accumulated deficit.

Correction of statements of operations and statements of cash flows for fiscal years 2009 and 2010 will be made the next time the Company files comparative financial statement information. The impact on individual quarters in years ended January 31, 2010 and 2009 is as follows (in thousands):

	Three Months Ended				Year ended
	Jan 31, 2010	Oct 31, 2009	July 31, 2009	April 30, 2009	Jan 31, 2010
Net income (loss), as previously reported	$ (10,181)	$ (6,669)	$ (2,937)	$ (4,129)	$ (23,916)
Adjustment	$ 199	$ 222	$ 229	$ 230	$ 880
Net income (loss), as adjusted	$ (9,982)	$ (6,447)	$ (2,708)	$ (3,899)	$ (23,036)

	Three Months Ended				Year ended
	Jan 31, 2009	Oct 31, 2008	July 31, 2008	April 30, 2008	Jan 31, 2009
Net income (loss), as previously reported	$ (3,567)	$ 100,626	$ 2,917	$ 3,616	$ 103,592
Adjustment	$ 169	$ 199	$ 151	$ 0	$ 519
Net income (loss), as adjusted	$ (3,398)	$ 100,825	$ 3,068	$ 3,616	$ 104,111

	Three months ended April 30, 2009	Six months ended July 31, 2009	Nine months ended Oct 31, 2009	Year ended Jan 31, 2010
Net cash provided by (used in) operating activities, as previously reported	$ 4,240	$ 8,742	$ 10,994	$ 8,408
Adjustment	$ 1,222	$ 1,132	$ 1,282	$ 1,172
Net cash provided by (used in) operating activities, as adjusted	$ 5,462	$ 9,874	$ 12,276	$ 9,580

	Three months ended April 30, 2009	Six months ended July 31, 2009	Nine months ended Oct 31, 2009	Year ended Jan 31, 2010
Net cash provided by (used in) investing activities, as previously reported	$ (22,341)	$ (53,721)	$ (125,200)	$ (139,214)
Adjustment	$ (1,222)	$ (1,132)	$ (1,282)	$ (1,172)
Net cash provided by (used in) investing activities, as adjusted	$ (23,563)	$ (54,853)	$ (126,482)	$ (140,386)

There have been no material changes in the Company s significant accounting policies as compared to the significant accounting policies described in the Company s Annual Report on Form 10-K for the year ended January 31, 2010.

Table of Contents

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended April 30, 2010, as compared to the recent accounting pronouncements described in the Company s Annual Report on Form 10-K, that are of significance, or potential significance to the Company. The Company is still evaluating the impact of the adoption of new accounting standards which provide guidance for arrangements with multiple deliverables and revenue recognition for tangible products containing software and hardware elements on its consolidated financial statements. Both standards will be effective for TiVo in the first quarter of fiscal year 2012.

2. CASH AND INVESTMENTS

Cash, cash equivalents, short-term investments, and long-term investments consisted of the following:

	As of April 30, 2010	As of January 31, 2010
	(in thousands)	
Cash and cash equivalents:		
Cash	$ 4,621	$ 4,111
Cash equivalents:		
Commercial paper	21,493	14,994
Money market funds	42,007	51,786
Total cash and cash equivalents	68,121	70,891
Marketable securities:		
Certificate of deposit	11,400	16,401
Commercial paper	32,946	39,559
Corporate debt securities	63,400	49,833
US agency securities	33,976	26,998
US Treasury securities	20,100	15,113
Foreign government securities	25,533	25,787
Current marketable securities	187,355	173,691
Auction rate securities (1)	4,148	4,112
Non-current marketable securities	4,148	4,112
Total marketable securities	191,503	177,803
Other investment securities:		
Other investment securities - cost method	3,400	3,400
Total other investment securities (1)	3,400	3,400

Total cash, cash equivalents, marketable securities and other investment securities	$ 263,024	$ 252,094

(1) Auction rate securities and other investment securities are included in Long-term investments on the Company s condensed consolidated balance sheets.

Marketable Securities

The Company s investment securities portfolio consists of various debt instruments, including corporate and government bonds, and foreign corporate and government securities, all of which are classified as available-for-sale.

Approximately $4.0 million of the corporate bonds are guaranteed by the full faith and credit of the United States government under the Federal Deposit Insurance Corporation s Temporary Liquidity Guarantee program (TLGP).

Other Investment Securities

TiVo has an investment in a private company where the Company s ownership is less than 20% and TiVo does not have significant influence. The investment is accounted for under the cost method.

Table of Contents

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Contractual Maturity Date

The following table summarized the estimated fair value of the Company s debt investments, designated as available-for-sale classified by the contractual maturity date of the security:

	April 30, 2010 (in thousands)	January 31, 2010 (in thousands)
Due within 1 year	$ 153,404	$ 141,857
Due within 1 year through 5 years	33,951	31,834
Due within 5 years through 10 years	0	0
Due after 10 years	4,148	4,112
Total	$ 191,503	$ 177,803

Unrealized Gains (Losses) on Marketable Investment Securities

The following table summarizes unrealized gains and losses related to the Company s investments in marketable securities designated as available-for-sale:

	As of April 30, 2010			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Certificate of deposit	$ 11,404	$ 0	$ (4)	$ 11,400
Commercial paper	32,942	4	0	32,946
Corporate debt securities	63,339	85	(24)	63,400
US agency securities	33,959	17	0	33,976
US Treasury securities	20,065	35	0	20,100
Foreign government securities	25,496	38	(1)	25,533
Auction rate securities	5,000	0	(852)	4,148
Total	$ 192,205	$ 179	$ (881)	$ 191,503

	As of January 31, 2010			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Certificate of deposit	$ 16,408	$ 0	$ (7)	$ 16,401
Commercial paper	39,547	12	0	39,559
Corporate debt securities	49,743	134	(44)	49,833

US agency securities	26,958	40	0	26,998
US Treasury securities	15,065	48	0	15,113
Foreign government securities	25,708	79	0	25,787
Auction rate securities	5,000	0	(888)	4,112
Total	$ 178,429	$ 313	$ (939)	$ 177,803

Table of Contents

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The available-for-sale investments that were in an unrealized loss position as of April 30, 2010 and January 31, 2010, aggregated by length of time that individual securities have been in a continuous loss position, were as follows:

	As of April 30, 2010					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
Certificate of deposit	$ 11,400	$ (4)	$ 0	$ 0	$ 11,400	$ (4)
Commercial paper	32,946	0	0	0	32,946	0
Corporate debt securities	63,400	(24)	0	0	63,400	(24)
US agency securities	33,976	0	0	0	33,976	0
US Treasury securities	20,100	0	0	0	20,100	0
Foreign government securities	25,533	(1)	0	0	25,533	(1)
Auction rate securities	0	0	4,148	(852)	4,148	(852)
	$ 187,355	$ (29)	$ 4,148	$ (852)	$ 191,503	$ (881)

	As of January 31, 2010					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
Certificate of deposit	$ 16,401	$ (7)	$ 0	$ 0	$ 16,401	$ (7)
Commercial paper	39,559	0	0	0	39,559	0
Corporate debt securities	49,833	(44)	0	0	49,833	(44)
US agency securities	26,998	0	0	0	26,998	0
US Treasury securities	15,113	0	0	0	15,113	0
Foreign government securities	25,787	0	0	0	25,787	0
Auction rate securities	0	0	4,112	(888)	4,112	(888)
	$ 173,691	$ (51)	$ 4,112	$ (888)	$ 177,803	$ (939)

As of April 30, 2010, the unrealized losses on the Company s available-for-sale investments were insignificant in relation to its total available-for-sale portfolio. Substantially all of its unrealized losses on our available-for-sale marketable debt instruments can be attributed to fair value fluctuations in an unstable credit environment that resulted in a decrease in the market liquidity for these debt instruments. The Company is not aware of any specific factors indicating that the underlying issuers of these investments would not be able to pay interest as it becomes due or repay the principal at maturity. Therefore, the Company believes that these changes in the estimated fair values of these marketable investments securities are related to temporary market fluctuations. As of April 30, 2010, the estimated fair value of the Company s ARS was $852,000 lower than their cost. The Company has no intent to sell and it is more-likely-than not that the Company will not be required to sell these ARS prior to recovery. Further, the total unrealized loss is primarily due to a liquidity discount resulting from the failed auctions. Therefore, the Company will continue to treat the decline in fair values as temporary and recorded the unrealized loss to accumulated other comprehensive income on the accompanying condensed consolidated balance sheet as of April 30, 2010.

3. FAIR VALUE

Fair value is defined as the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The Company s financial instruments are measured and recorded at fair value, except for its cost method investment.

The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value is:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company s cash equivalents and marketable securities are classified

Table of Contents

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

within Level 1 or Level 2, with the exception of the investments in auction rate securities. Some of the Company s cash equivalents and marketable securities are classified as Level 2 because these securities are valued using a standard pricing methodology that utilizes observable market data for all inputs. The Company s investments in auction rate securities are classified within Level 3 because they are valued using a discounted cash flow model. Some of the inputs to this model are unobservable in the market and are significant.

	Assets and Liabilities Measured at Fair Value on a Recurring Basis			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Cash equivalents:				
Commercial paper	$ 21,493	$ 0	$ 21,493	$ 0
Money market funds	42,007	42,007	0	0
Short-term investments:				
Certificate of deposit	11,400	11,400	0	0
Commercial paper	32,946	0	32,946	0
Corporate debt securities	63,400	0	63,400	0
US agency securities	33,976	0	33,976	0
US Treasury securities	20,100	20,100	0	0
Foreign government securities	25,533	0	25,533	0
Long-term investments:				
Auction rate securities	4,148	0	0	4,148
	$ 255,003	$ 73,507	$ 177,348	$ 4,148

The following table is a reconciliation of financial assets measured at fair value using significant unobservable inputs (Level 3) during the three months ended April 30, 2010 (in thousands):

	Auction Rate Securities (Three Months April 30, 2010)
Balance, January 31, 2010	$ 4,112
Transfer into Level 3	0
Total unrealized gains included in accumulated other comprehensive loss	36
Balance, April 30, 2010	$ 4,148

Marketable securities measured at fair value using Level 3 inputs are comprised of auction rate securities. Although auction rate securities would typically be measured using Level 2 inputs, the failure of auctions and the lack of market activity and liquidity required that these securities be measured using Level 3 inputs. The underlying assets of the Company s auction rate securities are collateralized primarily by student loans guaranteed by the U.S. government. The fair value of its auction rate securities was determined using a pricing model that market participants

would use that considered projected cash flows for the issuing trusts, underlying collateral and expected yields. Projected cash flows were estimated based on the underlying loan principal, bonds outstanding, and payout formulas. The weighted-average life over which cash flows were projected considered the collateral composition of the securities and related historical and projected prepayments. The discount rates that were applied to the pricing model were based on market conditions and rates for comparable or similar term asset-backed securities as well as other fixed income securities.

TiVo also has a direct investment in a privately-held company accounted for under the cost method, which is periodically assessed for other-than-temporary impairment. If the Company determines that an other-than-temporary impairment has occurred, TiVo will write-down the investment to its fair value. The fair value of a cost method investment is not evaluated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. However, if such significant adverse events were identified, the Company would estimate the fair value of its cost method investment considering available information at the time of the event, such as pricing in recent rounds of financing, current cash position, earnings and cash flow forecasts, recent operational performance and any other readily available data. The carrying amount of the Company s cost method investments was $3.4 million as of April 30, 2010 and January 31, 2010.

Table of Contents

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Cash equivalents and available-for-sale marketable securities (including auction rate securities) are reported at their fair value. Additionally, carrying amounts of certain of the Company s financial instruments including accounts receivable, accounts payable, and accrued expenses approximate their fair value because of their short maturities.

4. INDEMNIFICATION ARRANGEMENTS AND GUARANTEES

Product Warranties

The Company s standard manufacturer s warranty period to consumers for TiVo-enabled DVRs is 90 days for parts and labor from the date of consumer purchase, and from 91-365 days for parts only, also known as the Limited Warranty. Within the limited warranty period, consumers are offered a no-charge exchange for TiVo-enabled DVRs returned due to product defect, within 90 days from the date of consumer purchase. Thereafter, consumers may exchange a TiVo-enabled DVR with a product defect for a charge. As of April 30, 2010 and January 31, 2010, the accrued warranty reserve was $328,000 and $233,000, respectively. The Company s accrued warranty reserve is included in accrued liabilities in the accompanying condensed consolidated balance sheets.

The Company also offers customers separately priced optional 2-year and 3-year extended warranties. The Company defers and amortizes cost and revenue associated with the sales of the extended warranties over the warranty period or until a warranty is redeemed. As of April 30, 2010, the extended warranty deferred revenue and cost was $451,000 and $135,000, respectively. As of January 31, 2010, the extended warranty deferred revenue and cost was $234,000 and $70,000, respectively.

Indemnification Arrangements

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

The Company is unable to estimate with any reasonable accuracy the liability that may be incurred pursuant to its indemnification obligations, if any. A few of the variables affecting any such assessment include but are not limited to: the nature of the claim asserted; the relative merits of the claim; the financial ability of the party suing the indemnified party to engage in protracted litigation; the number of parties seeking indemnification; the nature and amount of damages claimed by the party suing the indemnified party; and the willingness of such party to engage in settlement negotiations. Due to the nature of the Company s potential indemnity liability, its indemnification obligations could range from immaterial to having a material adverse impact on its financial position and its ability to continue operation in the ordinary course of business.

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

5. NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding, excluding unvested restricted stock.

Table of Contents

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended April 30,	
	2010	2009
	(In thousands, except per share amounts)	
Numerator:		
Net income (loss)	$ (14,200)	$ (3,899)
Denominator:		
Weighted average shares outstanding, excluding unvested restricted stock	111,490	102,279
Weighted average effect of dilutive securities:		
Stock options and restricted stock	0	0
Denominator for diluted net income (loss) per common share	111,490	102,279
Basic net income (loss) per common share	$ (0.13)	$ (0.04)
Diluted net income (loss) per common share	$ (0.13)	$ (0.04)

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

	As of April 30,	
	2010	2009
Unvested restricted stock	4,900,518	4,327,653
Options to purchase common stock	10,978,706	19,627,872
Potential shares to be issued from ESPP	3,425,866	4,088,993
Total	19,305,090	28,044,518

6. COMMITMENT AND CONTINGENCIES

Legal Matters

Intellectual Property Litigation. On January 5, 2004, TiVo filed a complaint against EchoStar Communications Corporation and EchoStar DBS Corporation in the U.S. District Court for the Eastern District of Texas alleging willful and deliberate infringement of U.S. Patent No. 6,233,389, entitled Multimedia Time Warping System. The Company subsequently amended its complaint to add related entities (collectively EchoStar). The Company alleges that it is the owner of this patent, and further alleges that the defendants have willfully and deliberately infringed this patent by making, selling, offering to sell and/or selling digital video recording devices, digital video recording device software, and/or personal television services in the United States. On April 13, 2006, the jury rendered a verdict in favor of the Company in the amount of approximately $74.0 million dollars. The jury ruled that the Company s patent is valid and that all nine of the asserted claims in the

Company s patent are infringed by each of the accused EchoStar products. The jury also ruled that the defendants willfully infringed the patent. On September 8, 2006 the district court issued an Amended Final and Permanent injunction that prohibited the defendants from making, using, offering for sale or selling in the United States the following EchoStar DVRs: DP-501, DP-508, DP-510, DP-721, DP-921, DP-522, DP-625, DP-942, and all EchoStar Communications Corporation DVRs that are not more than colorably different from any of these products. On October 3, 2006, the United States Court of Appeals for Federal Circuit stayed the district court s injunction pending appeal. On January 31, 2008, the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. unanimously ruled in favor of the Company in connection with EchoStar s appeal of the district court judgment of patent infringement against EchoStar with respect to Claims 31 and 61 of the patent (the so called software claims) of the patent, upholding the full award of damages from the district court, and ordering that the stay of the district court s injunction against EchoStar s infringing digital video recorders that was issued pending appeal will dissolve when the appeal becomes final. The district court s judgment of infringement by EchoStar of certain other claims of the patent (the so called hardware claims) were reversed and remanded for further proceedings. On October 6, 2008, the Supreme Court denied EchoStar s writ of certiorari. On October 8, 2008, the Company received $104.6 million from EchoStar of which approximately $87.8 million represents damages through September 8, 2006 and was recorded as litigation proceeds within the operating expense section of TiVo s statement of operations. The remaining approximately $16.8 million was recorded as interest income and represented pre- and post-judgment interest through October 8, 2008. With respect to the district court s injunction and damages after September 8, 2006, the district court held a hearing on EchoStar s alleged work around of the Company s patent on February 17, 2009. On June 2, 2009, the district court found EchoStar in contempt of its permanent injunction regarding EchoStar s on-going infringement of TiVo s U.S. Patent No. 6,233,389. The Court also awarded TiVo an approximately $103 million plus interest for EchoStar s continued infringement for the period from September 8, 2006 to April 18, 2008. The Court deferred ruling on the issue of monetary sanctions for contempt of the permanent injunction as well as certain other damages.

Table of Contents

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

On July 1, 2009, the United States Court of Appeals for the Federal Circuit stayed the district court s ruling pending EchoStar s appeal of the district court s decision finding EchoStar in contempt of the permanent injunction. On September 4, 2009, the United States District Court for the Eastern District of Texas awarded TiVo contempt damages in connection with its permanent injunction regarding EchoStar s on-going infringement of TiVo s U.S. Patent No. 6,233,389 in the form of an on-going royalty of $2.25 per subscriber per month during the contempt period of April 18, 2008 to July 1, 2009, which amounts to almost $200 million. The Court also awarded TiVo its attorney s fees and costs incurred during the contempt proceedings. Additionally, on September 4, 2009, the Court awarded TiVo an additional $10.6 million in prejudgment interest in connection with the stay period damages from September 8, 2006 to April 18, 2008 which was previously awarded to TiVo. Enforcement of these awards is stayed pending resolution of EchoStar s appeal of the district court s decision finding EchoStar in contempt of the permanent injunction. On February 8, 2010, the Court entered an Order quantifying the attorney s fees and costs incurred during the contempt proceedings to be $5.8 million. On March 4, 2010, the United States Court of Appeals for the Federal Circuit in Washington, D.C. fully affirmed the United States District Court for the Eastern District of Texas s finding of contempt of its permanent injunction against EchoStar, including both the disablement and infringement provisions, regarding EchoStar s on-going infringement of TiVo s U.S. Patent No. 6,233,389. On March 9, 2010, EchoStar filed a motion with the District Court seeking pre-approval of a new alleged design-around for its Broadcom DVR receivers (rework2) as well as an emergency motion for expedited resolution of its pre-approval motion. On March 25, 2010, the United States District Court for the Eastern District of Texas entered an order staying the injunction until midnight April 30, 2010. On May 10, 2010, the district court extended the stay until June 4, 2010. On May 14, 2010, the United States Court of Appeals for the Federal Circuit in Washington, D.C. granted EchoStar s request for a rehearing en banc. This order vacated the March 4, 2010 decision by the Court of Appeals to affirm the District Court s finding of contempt against EchoStar.

On June 4, 2010, the United States Patent and Trademark Office (the PTO) issued a final office action in a second reexamination filed by EchoStar preliminarily rejecting Claims 31 and 61 of the Time Warp patent as obvious in light of two references previously considered by the PTO in the first reexamination. The Company intends to defend this action and the validity of the rejected claims in the PTO reexamination vigorously; in the event there is an adverse outcome, the Company s business could be harmed. At this time, the Company is unable to estimate the likelihood of an adverse outcome or the extent to which the Company s business would be harmed by an adverse outcome.

On May 30, 2008, Dish Network Corporation and its related entities filed a complaint against TiVo in the U.S. District Court for the District of Delaware for declaratory relief that Dish s unspecified digital video recorders do not infringe TiVo s 389 patent. On July 7, 2008, TiVo filed a motion to dismiss Dish s complaint against TiVo for declaratory relief that Dish s unspecified DVRs do not infringe TiVo s 389 patent. On March 31, 2009, the court denied TiVo s motion to dismiss. On May 28, 2009, the court ordered the action transferred to the Eastern District of Texas which stayed the action on June 19, 2009. The Company intends to defend this action vigorously; however, the Company may incur material expenses in connection with this lawsuit and in the event there is an adverse outcome, the Company s business could be harmed. No loss is considered probable or estimable at this time.

On April 29, 2005, EchoStar Technologies Corporation filed a complaint against TiVo and Humax USA, Inc. in the U.S. District Court for the Eastern District of Texas alleging infringement of U.S. Patent Nos. 5,774,186 (Interruption Tolerant Video Program Viewing), 6,529,685 B2 (Multimedia Direct Access Storage Device and Formatting Method), 6,208,804 B1 (Multimedia Direct Access Storage Device and Formatting Method) and 6,173,112 B1 (Method and System for Recording In-Progress Broadcast Programs). The complaint alleges that EchoStar Technologies Corporation is the owner by assignment of the patents allegedly infringed. The complaint further alleges that TiVo and Humax have infringed, contributorily infringed and/or actively induced infringement of the patents by making, using, selling or importing digital video recording devices, digital video recording device software and/or personal television services in the United States that allegedly infringe the patents, and that such infringement is willful and ongoing. Under the terms of the Company s agreement with Humax governing the distribution of certain DVRs that enable the TiVo service, the Company is required to indemnify Humax against any claims, damages, liabilities, costs, and expenses relating to claims that the Company s technology infringes upon intellectual property rights owned by third parties. On May 10, 2005, Humax formally notified TiVo of the claims against it in this lawsuit as required by Humax s agreement with TiVo. On July 1, 2005, the defendants filed their answer and counterclaims. On May 10, 2006, the district court dismissed with prejudice, EchoStar s claim of infringement against TiVo and Humax relating to patent 112 (Method and System for Recording In-Progress Broadcast Programs) and claims 21-30 and 32 relating to patent 186 (Interruption Tolerant Video Program Viewing). A claim construction hearing was held on May 11, 2006. On July 14, 2006, the magistrate judge for the U.S. District Court for the Eastern District of Texas, issued a stay of the case pending the USPTO completion of proceedings with respect to TiVo s request for reexamination of the 186, 685, and 804 patents. The Company intends to defend this action

vigorously; however, the Company is incurring expenses in connection with this lawsuit, which could become material in the future and in the event there is an adverse outcome, the Company s business could be harmed. No loss is considered probable or estimable at this time.

On August 26, 2009, TiVo Inc. filed separate complaints against AT&T Inc. and Verizon Communications, Inc. in the United States District Court for the Eastern District of Texas for infringement of the following three TiVo patents U.S. Patent Nos. 6,233,389 B1 (Multimedia Time Warping System), 7,529,465 B2 (System for Time Shifting Multimedia Content Streams), and 7,493,015 B1 (Automatic Playback Overshoot Correction System). The complaints seek, among other things, damages for past infringement and a permanent injunction, similar to that issued by the United States District Court, Eastern District of Texas against EchoStar. On January 15, 2010, Microsoft Corporation moved to intervene in the action filed against

Table of Contents

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

AT&T Inc., and on March 31, 2010 the district court granted Microsoft s motion. On March 28, 2010, AT&T Operations filed a motion to intervene in the action filed against AT&T; AT&T Operations and Microsoft filed a motion to transfer the proceedings to the United States District Court for the Northern District of California; and AT&T Inc., AT&T Operations, and Microsoft filed a motion to sever the claims involving Microsoft and AT&T Operations and stay the remaining proceeding involving AT&T. The Company is incurring material expenses in connection with this litigation.

On February 24, 2010, Verizon answered TiVo s August 26, 2009 complaint and Verizon asserted counterclaims. The counterclaims seek declaratory judgment of non-infringement and invalidity of the patents TiVo asserted against Verizon in the August 26th complaint. Additionally, Verizon alleged infringement of U.S. Patents: 5,410,344 (Apparatus and Method of Selecting Video Programs Based on Viewers Preferences), 5,635,979 (Dynamically Programmable Digital Entertainment Terminal Using Downloaded Software to Control Broadband Data Operations), 5,973,684 (Digital Entertainment Terminal Providing Dynamic Execution in Video Dial Tone Networks), 7,561,214 (Two-dimensional Navigation of Multiplexed Channels in a Digital Video Distribution System), 6,367,078 (Electronic Program-Guide System with Sideways-Surfing Capability). On March 15, 2010, Verizon filed an amended answer further alleging infringement of U.S. Patent No. 6,381,748 (Apparatus And Methods For Network Access Using A Set Top Box And Television). Verizon seeks, among other things, damages and a permanent injunction. On March 17, 2010, Verizon filed a motion to transfer the proceedings to the United States District Court for the District of New Jersey. The Company is incurring material expenses in connection with this litigation. No loss is considered probable or estimable at this time.

On January 19, 2010, Microsoft Corporation filed a complaint against TiVo in the United States District Court for the Northern District of California for alleged infringement of the following two patents: U.S. Patent Nos. 6,008,803 (System for Displaying Programming Information) and 6,055,314 (System and Method for Secure Purchase and Delivery of Video Content Programs). The complaint seeks, among other things, damages and a permanent injunction. On April 19, 2010, TiVo served its answer to the complaint, and counterclaimed seeking a declaration that TiVo does not infringe and the patents are invalid. The Company is incurring material expenses in connection with this litigation. No loss is considered probable or estimable at this time.

On March 12, 2010, AT&T Intellectual Property I, L.P., and AT&T Intellectual Property II, L.P. (AT&T) filed a complaint against TiVo Inc. in the United States District Court for the Northern District of California for infringement of the following four patents U.S. Pat Nos. 5,809,492 (Apparatus and Method for Defining Rules for Personal Agents), 5,922,045 (Method and Apparatus for Providing Bookmarks when Listening to Previously Recorded Audio Programs), 6,118,976 (Asymmetric Data Communications System), and 6,983,478 (Method and System for Tracking Network Use). The complaint seeks, among other things, damages for past infringement and a permanent injunction. On May 31, 2010, Microsoft filed an amended complaint alleging infringement of the following additional five patents: U.S. Patent Nos. 5,654,748 (Interactive Program Identification System), 5,677,708 (System for Displaying a List on a Display Screen), 5,896,444 (Method and Apparatus for Managing Communications Between a Client and a Server in a Network), 6,725,281 (Synchronization of Controlled Device State Using State Table and Eventing in Data-Driven Remote Device Control Model), and 5,648,824 (Video Control User Interface for Controlling Display of a Video). The amended complaint seeks, among other things, damages and a permanent injunction. The Company is incurring material expenses in connection with this litigation. No loss is considered probable or estimable at this time.

Securities Litigation. The Company and certain of its officers and directors (TiVo defendants) were originally named as defendants in a consolidated securities class action lawsuit filed in the United States District Court for the Southern District of New York. This action, which is captioned Wercberger v. TiVo et al., also names several of the underwriters involved in the Company s initial public offering (IPO) as defendants. This class action is brought on behalf of a purported class of purchasers of the Company s common stock from the time of the Company s IPO (October 31, 1999) through December 6, 2000. The central allegation in this action is that the underwriters in the Company s IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased the Company s stock in the IPO and the after-market, and that the TiVo defendants violated the federal securities laws by failing to disclose in the IPO prospectus that the underwriters had engaged in these allegedly undisclosed arrangements. More than 300 issuers have been named in similar lawsuits. In February 2003, after the issuer defendants (including the TiVo defendants) filed an omnibus motion to dismiss, the Court dismissed the Section 10(b) claim as to the Company, but denied the motion to dismiss the Section 11 claim as to the Company and virtually all of the other issuer-defendants. On October 8, 2002, the Company s executive officers who were named as defendants in this action were dismissed without prejudice.

On June 26, 2003, the plaintiffs in the suit announced a proposed settlement with the Company and the other issuer defendants. This proposed settlement was terminated on June 25, 2007, following the ruling by the United States Court of Appeals for the Second Circuit on December 5, 2006, reversing the District Court s granting of class certification in the six focus cases currently being litigated in this proceeding. The proposed settlement had provided that the insurers of all settling issuers would guarantee that the plaintiffs recover $1 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. The maximum amount that could be charged to the Company s insurance policy under the proposed settlement in the event that the plaintiffs recovered nothing from the investment banks would have been approximately $3.9 million.

On August 14, 2007, the plaintiffs filed Amended Master Allegations. On September 27, 2007, the Plaintiffs filed a Motion for Class Certification, which was subsequently withdrawn without prejudice by the plaintiffs. Defendants filed a Motion to Dismiss the focus cases on November 9, 2007. On March 26, 2008, the Court ruled on the Motion to Dismiss, holding that the plaintiffs had adequately pleaded their Section 10(b) claims against the Issuer Defendants and the Underwriter Defendants in the focus cases. As to the Section 11 claim, the Court dismissed the claims brought by those plaintiffs who sold their

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

securities for a price in excess of the initial offering price, on the grounds that they could not show cognizable damages, and by those who purchased outside the previously certified class period, on the grounds that those claims were time barred. This ruling, while not binding on the Company s case, provides guidance to all of the parties involved in this litigation. On April 2, 2009, the parties lodged with the Court a motion for preliminary approval of a proposed settlement between all parties to the consolidated action, including the Company and its former officers and directors, as well as numerous other companies and their officers and directors. The proposed settlement provides the plaintiffs with $586 million in recoveries from all defendants, with $100 million being paid on behalf of the Issuer Defendants and their officers and directors by the Issuers insurers. Accordingly, any direct financial impact of the proposed settlement is expected to be borne by the Company s insurers. The proposed settlement also provides for full releases for the defendants, including the Company and its former officers and directors. On June 12, 2009, the Federal District Court granted preliminary approval of the proposed settlement. On September 10, 2009, the Federal District Court held the fairness hearing for final approval of the settlement. On October 6, 2009, the District Court issued an order granting class certification and final approval of the settlement. Several individuals or groups of individuals have filed petitions to appeal and/or notices of appeal with the United States Court of Appeals for the Second Circuit. The Second Circuit Court of Appeals has not yet addressed any of the pending petitions to appeal or notices of appeal. Therefore, the District Court s order granting class certification and final approval of the settlement may still be subject to appellate review by the Second Circuit Court of Appeals. There can be no assurance that the District Court s approval will not be overturned by the Second Circuit Court of Appeals. The Company may incur expenses in connection with this litigation that may become material in the future. No loss is considered probable or estimable at this time.

On October 3, 2007, Vanessa Simmonds filed a complaint against the Company s former lead underwriters Credit Suisse Group and Bank of America (Lead Underwriters), with the Company named as a nominal defendant, in the U.S. District Court for the Western District of Washington alleging violations of Section 16(b) in connection with the Company s initial public offering and associated transactions in the Company s stock in the six month period following the Company s initial public offering by the Company s Lead Underwriters. On or about December 3, 2007, Ms. Simmonds delivered a copy of the complaint to the Company. The complaint itself is directed solely at the initial public offering underwriters, not at the Company itself, and does not seek any damages or recovery from the Company itself. On February 25, 2008, the plaintiff filed an amended complaint which is substantially similar to the initial complaint, but which also names Credit Suisse Securities (USA), Bank of America Corporation, and Robertson Stephens, Inc. as defendants in the amended complaint that continues to name the Company only as a nominal defendant. Ms. Simmonds filed similar actions in the same Court against various underwriters with respect to the initial public offerings of fifty-three other issuers. The fifty-four actions were coordinated by the Court. On July 25, 2008, thirty of the issuers, including the Company (collectively, the Moving Issuers), in the coordinated proceeding filed a Joint Motion to Dismiss. Also on July 25, 2008, all of the underwriter defendants in the coordinated proceeding filed an Omnibus Motion to Dismiss. The hearing on the motions to dismiss was held on January 16, 2009. On March 12, 2009, the Court granted both the Issuers Joint Motion to Dismiss and the Underwriters Omnibus Motion to Dismiss. The Court held that the plaintiff s demand letters to the Moving Issuers were legally insufficient and therefore the plaintiff lacked standing to maintain the thirty Section 16(b) suits relating to the Moving Issuers. Accordingly, the Court granted without prejudice the Moving Issuers Joint Motion to Dismiss, and further held that it would not permit the plaintiff to amend her demand letters. In regard to the Underwriters Omnibus Motion to Dismiss, the Court held that the remaining twenty-four Section 16(b) suits were barred by the statute of limitations, and accordingly granted with prejudice the Omnibus Motion to Dismiss as to those suits. On March 31, 2009, plaintiff filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit of the District Court s dismissal of these fifty-four actions. On April 14, 2009, the underwriter defendants filed a notice of cross-appeal of that portion of the District Court s order dismissing without prejudice the thirty Section 16(b) suits relating to the Moving Issuers, on the grounds that such dismissal should be with prejudice. The appeal and cross appeal remain pending. The Company may incur expenses in connection with this litigation that may become material in the future. No loss is considered probable or estimable at this time.

The Company is involved in numerous lawsuits and receives numerous threats of litigation in the ordinary course of its business. The Company assesses potential liabilities in connection with these lawsuits and threatened lawsuits and accrues an estimated loss for these loss contingencies if both of the following conditions are met: information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. As of January 31, 2010, the Company has not accrued any liability for any lawsuits filed against the Company, as the conditions for accrual have not been met. The Company expenses legal costs as they are incurred.

7. COMCAST AGREEMENT

On March 15, 2005, the Company entered into a non-exclusive licensing and marketing agreement with Comcast STB Software DVR, LLC (Comcast STB), a wholly-owned subsidiary of Comcast Corporation, and Comcast Corporation, as guarantor of Comcast STB s obligations under the agreement. The agreement was subsequently amended several times, most recently on March 27, 2008. The Company agreed to develop a TiVo service software solution for deployment on Comcast s DVR platforms. In addition, the Company agreed to develop a TiVo Interactive Advertising Management System for deployment on Comcast platforms to enable the provision of local and national advertising to Comcast subscribers.

Acceptance of the delivery of the TiVo service software solution by Comcast occurred on June 27, 2007 and the TiVo service has launched in its initial market. Comcast accepted the TiVo advertising management system on March 31, 2008. Our statements of work with Comcast provide for continued funding for engineering services for the development of additional releases of the TiVo-branded, TiVo-service enabling software for the Comcast DVR platforms and to enable such software on other Comcast DVR platforms. Revenue from this additional engineering work is recognized using the percentage-of-completion method.

Table of Contents

TIVO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

During the three months ended April 30, 2010 and 2009, the Company recognized $3.3 million and $4.8 million, respectively in technology revenues and $1.7 million and $3.3 million, respectively in cost of technology revenues.

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

On September 3, 2008, the Company extended its current agreement with DIRECTV for the development, marketing, and distribution of a new HD DIRECTV DVR featuring the TiVo ® service. Under the terms of this non-exclusive arrangement, TiVo is developing a version of the TiVo service for DIRECTV s broadband-enabled HD DVR. TiVo is working with DIRECTV with the intention to deploy this product to consumers later this year. DIRECTV also has certain additional annual obligations to market and promote the new HD DIRECTV DVR featuring the TiVo Service once it has launched. DIRECTV, upon the deployment of high definition DIRECTV DVRs with TiVo service, is entitled to recoup, over time, a portion of certain development fees through a reduction in certain subscription fees. The new agreement also extends the mutual covenant not to sue with respect to each company s products and services throughout the term of the new agreement.

Under this new agreement, DIRECTV will pay a substantially higher monthly fee for households using the new high definition DIRECTV DVRs with TiVo (when and if the new version of the TiVo service is deployed) than the fees for previously deployed DIRECTV DVRs with TiVo service. DIRECTV will continue to pay the current monthly fee for all households using only the previously deployed DIRECTV DVRs with TiVo service. The fees paid by DIRECTV are subject to monthly minimum payments that escalate during the term of the agreement starting in 2010 and those minimum payments are substantially higher than in the prior agreement.

Due to uncertainties over the ultimate profit margin on the development work, the Company recognizes revenues and costs for the development of the TiVo service for DIRECTV s broadband-enabled HD DVR based on a zero profit model, which results in the recognition of equal amounts of revenues and costs. During the three months ended April 30, 2010 and 2009, the Company recognized $2.5 million and $1.0 million in technology revenues and $2.5 million and $1.0 million in cost of technology revenues, respectively related to the development of the TiVo service for DIRECTV s broadband-enabled HD DVR.

9. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) are as follows:

	Three Months Ended April 30,	
	2010	2009
	(In thousands)	
Net income (loss)	$ (14,200)	$ (3,899)
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities	(76)	(250)
Comprehensive income (loss)	$ (14,276)	$ (4,149)

Table of Contents

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

You should read the following discussion and analysis in conjunction with the condensed consolidated financial statements and the accompanying notes included in this report and our most recent annual report on Form 10-K filed on March 31, 2010, the sections entitled Risk Factors in Item 1A of our most recent annual report on Form 10-K and Part II, Item 1A of this quarterly report, as well as other cautionary statements and risks described elsewhere in this report and our most recent annual report on Form 10-K filed on March 31, 2010, before deciding to purchase, sell, or hold our common stock.

Company Overview

We are a leading provider of technology and services for advanced television solutions, including digital video recorders. The subscription-based TiVo service redefines home entertainment by providing consumers with an easy intuitive way to record, watch, and control television and receive videos, pictures, and movies from cable, broadcast, and broadband sources. We offer features such as Season Pass recordings, integrated search (including content from both traditional linear television, VOD, and broadband sources in one user interface), WishList® searches, TiVoToGo transfers, access to broadband video content (including premium content delivered from Amazon s Video On Demand service, Netflix, and Blockbuster), TiVo KidZone, and TiVo Online Scheduling. As of April 30, 2010, there were approximately 2.5 million subscriptions to the TiVo service. We distribute the TiVo DVR through consumer electronics retailers and through our on-line store at TiVo.com. Additionally, we provide the TiVo service through agreements with leading satellite and cable television service providers such as DIRECTV, Comcast, RCN, Cablevision Mexico, and in the future Cox and Virgin Media (UK), as well as broadcasters such as Seven/Hybrid TV (Australia) and Television New Zealand (TVNZ) (New Zealand). We also provide innovative marketing solutions for the television industry, including a unique platform for advertising and audience research measurement services and recently announced the commencement of development of a broadband connected television incorporating TiVo user interface and non-DVR software with Best Buy s Insignia brand television sets.

Executive Overview

Fiscal year 2011

In the fiscal year ending January 31, 2011 we will continue to be focused on our efforts to build leading advanced television products, entering into new distribution agreements, engage in development work for existing distribution agreements, and commence and continue deployment activities for those distribution agreements. Additionally, we will continue to actively protect our intellectual property. In our efforts to accomplish these strategies, we expect to continue to have a net loss for the fiscal year ending January 31, 2011 as we focus on the following priorities:

We expect to continue our efforts to increase our subscription base by adding new subscriptions through our TiVo-Owned direct and retail sales with the rollout of our new products and through our expanded agreement with Best Buy, as well as our mass distribution partnerships both in the U.S. and globally. However, we still expect our overall subscription base to decrease from the prior year due to continued competition resulting in losses in our installed base of MSOs/Broadcasters subscriptions as DIRECTV will not deploy new TiVo boxes prior to the launch of the new HD DIRECTV DVRs with TiVo service in the future and our distribution deals such as Comcast, Virgin, and Cox are still in development and/or the early phases of deployment.

We believe that investments in research and development are critical to remaining competitive and being a leader in advanced television solutions that go beyond the DVR. Therefore, we plan to increase our research and development spending from the prior year to engage in these new technological and product developments.

During the first quarter of fiscal year ending January 31, 2011, we launched our next generation TiVo Premiere and TiVo Premiere XL boxes which go beyond traditional DVR functionality by merging linear television and broadband delivered content together. The cost to produce these new boxes is lower than our previous HD DVR offering and we expect this to improve not only our cost of hardware but also positively benefit subscription acquisition costs. However, we still anticipate near-term increases in our sales and marketing, subscription acquisition costs as we begin marketing these new products in an effort to ensure that consumers understand the unique qualities and benefits provided by the TiVo service and our next generation TiVo Premiere boxes.

In fiscal year ending January 31, 2011, we will continue our efforts to protect our technological innovations and intellectual property. As a result, we expect our litigation expenses for our ongoing patent infringement lawsuits, which include our ongoing litigation with Dish (EchoStar) as well as recently commenced lawsuits involving AT&T, Verizon and Microsoft, to increase significantly from our most recent fiscal year ended January 31, 2010.

Key Business Metrics

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

Subscriptions. Management reviews this metric, and believes it may be useful to investors, in order to evaluate our relative position in the marketplace and to forecast future potential service revenues. Below is a table that details the change in our subscription base during the last eight quarters. The TiVo-Owned lines refer to subscriptions sold directly or indirectly by TiVo to consumers who have TiVo-enabled DVRs and for which TiVo incurs acquisition costs. The MSOs/Broadcasters lines refer to subscriptions sold to consumers by MSOs/Broadcasters such as DIRECTV, Cablevision Mexico, Seven/Hybrid TV (Australia), Television New Zealand (TVNZ) (New Zealand), and Comcast and for which TiVo expects to incur little or no acquisition costs. Additionally, we provide a breakdown of the percent of TiVo-Owned subscriptions for which consumers pay recurring fees, including on a monthly and a prepaid one, two, or three year basis, as opposed to a one-time prepaid product lifetime fee.

Table of Contents

	Three Months Ended							
(Subscriptions in thousands)	April 30, 2010	Jan 31, 2010	Oct 31, 2009	July 31, 2009	April 30, 2009	Jan 31, 2009	Oct 31, 2008	July 31, 2008
TiVo-Owned Subscription Gross Additions:	33	46	34	31	37	59	44	36
Subscription Net Additions/(Losses):								
TiVo-Owned	(51)	(72)	(45)	(42)	(30)	(4)	(28)	(42)
*MSOs/Broadcasters	(45)	(59)	(269)	(104)	(109)	(121)	(135)	(136)
Total Subscription Net Additions/(Losses)	**(96)**	**(131)**	**(314)**	**(146)**	**(139)**	**(125)**	**(163)**	**(178)**
Cumulative Subscriptions:								
TiVo-Owned	1,414	1,465	1,537	1,582	1,624	1,654	1,658	1,686
MSOs/Broadcasters	1,095	1,140	1,199	1,468	1,572	1,681	1,802	1,937
Total Cumulative Subscriptions	**2,509**	**2,605**	**2,736**	**3,050**	**3,196**	**3,335**	**3,460**	**3,623**
Fully Amortized Active Lifetime Subscriptions	**282**	**279**	**237**	**219**	**215**	**225**	**236**	**194**
% of TiVo-Owned Cumulative Subscriptions paying recurring fees	**57%**	**58%**	**58%**	**59%**	**59%**	**59%**	**60%**	**60%**

* MSOs/Broadcasters Subscription Net Additions/(Losses) in the third quarter ended October 31, 2009 would have been a loss of (123,000) subscriptions, excluding a one time reduction of (146,000) subscriptions associated with a subscription over-reporting error by DIRECTV.

We define a subscription as a contract referencing a TiVo-enabled DVR for which (i) a consumer has committed to pay for the TiVo service and (ii) service is not canceled. We count product lifetime subscriptions in our subscription base until both of the following conditions are met: (i) the period we use to recognize product lifetime subscription revenues ends; and (ii) the related DVR has not made contact to the TiVo service within the prior six month period. Product lifetime subscriptions past this period which have not called into the TiVo service for six months are not counted in this total. Effective November 1, 2008, we extended the period we use to recognize product lifetime subscription revenues from 54 months to 60 months for all product lifetime subscriptions acquired on or before October 31, 2007. We now amortize all product lifetime subscriptions over a 60 month period. We are not aware of any uniform standards for defining subscriptions and caution that our presentation may not be consistent with that of other companies. Additionally, the subscription fees that some of our MSOs/Broadcasters pay us may be based upon a specific contractual definition of a subscriber or subscription which may not be consistent with how we define a subscription for our reporting purposes.

TiVo-Owned subscriptions declined by 51,000 subscriptions decreasing the TiVo-Owned installed subscription base to approximately 1.4 million subscriptions as of April 30, 2010 as compared to the fiscal year ended January 31, 2010. We believe this decrease in total TiVo-Owned subscriptions was largely due to the continued decrease in subscription gross additions resulting from increased competition from DVRs distributed by cable and satellite. As a result of this competition and current economic conditions, we may experience further net losses in our TiVo-Owned subscription base in the fiscal year ending January 31, 2011 despite the introduction of our new TiVo Premiere box.

MSOs/Broadcasters installed subscription base decreased by 45,000 subscriptions to 1.1 million subscriptions as of April 30, 2010 as compared to the fiscal year ended January 31, 2010. The decrease in subscriptions is due to DIRECTV s promotion of a competing DVR while concurrently not marketing any DVR with TiVo service, as well as the fact that our other mass distribution deals are still in the early phases of development and/or deployment. We have agreed to work with DIRECTV to develop a version of the TiVo service for DIRECTV s broadband-enabled HD DVR platform. TiVo is working with DIRECTV with the intention to deploy this product to consumers later this year. We expect current MSOs/Broadcasters trends to continue until more of our deployments commence such as DIRECTV, Virgin, and others occur and Comcast moves into additional markets.

TiVo-Owned Churn Rate per Month. Management reviews this metric, and believes it may be useful to investors, in order to evaluate our ability to retain existing TiVo-Owned subscriptions (including both monthly and product lifetime subscriptions) by providing services that are competitive in the market. Management believes factors such as service enhancements, service commitments, higher customer satisfaction, and improved customer support may improve this metric. Conversely, management believes factors such as increased competition, lack of competitive service features such as high definition television recording capabilities in our older model DVRs or access to certain digital television channels or MSO Video on Demand services, as well as, increased price sensitivity may cause our TiVo-Owned Churn Rate per month to increase.

We define the TiVo-Owned Churn Rate per month as the total TiVo-Owned subscription cancellations in the period divided by the Average TiVo-Owned subscriptions for the period (including both monthly and product lifetime subscriptions), which then is divided by the number of months in the period. We calculate Average TiVo-Owned subscriptions for the period by adding the average TiVo-Owned subscriptions for each month and dividing by the number of months in the period. We calculate the average TiVo-Owned subscriptions for each month by adding the beginning and ending subscriptions for the month and dividing by two. We are not aware of any uniform standards for calculating churn and caution that our presentation may not be consistent with that of other companies.

Table of Contents

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

(Subscriptions in thousands)	Three Months Ended April 30, 2010	Jan 31, 2010	Oct 31, 2009	July 31, 2009	April 30, 2009	Jan 31, 2009	Oct 31, 2008	July 31, 2008
Average TiVo-Owned subscriptions	1,437	1,506	1,560	1,604	1,639	1,656	1,675	1,712
TiVo-Owned subscription cancellations	(84)	(118)	(79)	(73)	(67)	(63)	(72)	(78)
TiVo-Owned churn rate per month	-2.0%	-2.6%	-1.7%	-1.5%	-1.4%	-1.3%	-1.4%	-1.5%

Included in our TiVo-Owned Churn Rate per month are those product lifetime subscriptions that have both reached the end of the revenue recognition period and whose DVRs have not contacted the TiVo service within the prior six months. Conversely, we do not count as churn product lifetime subscriptions that have not reached the end of the revenue recognition period, regardless of whether such subscriptions continue to contact the TiVo service. TiVo-Owned Churn Rate per month was 2.0% for the quarter ended April 30, 2010, as compared to 1.4% for the same prior year period resulting from an increase in churn among our subscribers with older single and dual tuner model DVRs. We expect churn to increase further in the fiscal year ending January 31, 2011 as compared to the fiscal year ended January 31, 2010 as a result of a continued increase in inactive product lifetime subscriptions, competition from other providers, and the growing importance of encrypted digital and high definition television recording capabilities which can only be accessed through either a cable or satellite provided set top box or through a box which incorporates CableCARD technology (which is only available through cable and some telecommunications providers) and a switched digital adapter if necessary.

Subscription Acquisition Cost or SAC. Management reviews this metric, and believes it may be useful to investors, in order to evaluate trends in the efficiency of our marketing programs and subscription acquisition strategies. We define SAC as our total TiVo-Owned acquisition costs for a given period divided by TiVo-Owned subscription gross additions for the same period. We define total acquisition costs as sales and marketing, subscription acquisition costs less net TiVo-Owned related hardware revenues (defined as TiVo-Owned related gross hardware revenues less rebates, revenue share and market development funds paid to retailers) plus TiVo-Owned related cost of hardware revenues. The sales and marketing, subscription acquisition costs line item includes advertising expenses and promotion-related expenses directly related to subscription acquisition activities, but does not include expenses related to advertising sales. We do not include third parties subscription gross additions, such as MSOs/Broadcasters gross additions with TiVo subscriptions, in our calculation of SAC because we typically incur limited or no acquisition costs for these new subscriptions, and so we also do not include MSOs/Broadcasters sales and marketing, subscription acquisition costs, hardware revenues, or cost of hardware revenues in our calculation of TiVo-Owned SAC. We are not aware of any uniform standards for calculating total acquisition costs or SAC and caution that our presentation may not be consistent with that of other companies.

	Three Months Ended Apr 30, 2010	Jan 31, 2010	Oct 31, 2009	July 31, 2009	Apr 30, 2009	Jan 31, 2009	Oct 31, 2008	Jul 31, 2008
	(In thousands, except SAC)							
Subscription Acquisition Costs								
Sales and marketing, subscription acquisition costs	$ 3,191	$ 2,022	$ 1,206	$ 838	$ 982	$ 1,690	$ 2,301	$ 888
Hardware revenues (see Note 1)	(18,169)	(23,389)	(10,030)	(8,762)	(6,606)	(10,881)	(12,976)	(11,850)
Less: MSOs/Broadcasters-related hardware revenues	5,437	12,818	190	1,516	(27)	362	3,339	4,934
Cost of hardware revenues	19,219	27,962	14,436	12,935	10,576	15,764	16,339	15,274
Less: MSOs/Broadcasters-related cost of hardware revenues	(4,158)	(12,064)	(203)	(1,433)	(6)	(385)	(3,100)	(4,524)
Total Acquisition Costs	5,520	7,349	5,599	5,094	4,919	6,550	5,903	4,722
TiVo-Owned Subscription Gross Additions	33	46	34	31	37	59	44	36

Subscription Acquisition Costs (SAC)	$ 167	$ 160	$ 165	$ 164	$ 133	$ 111	$ 134	$ 131

Table of Contents

	Twelve Months Ended							
	April 30, 2010	Jan 31, 2010	Oct 31, 2009	July 31, 2009	April 30, 2009	Jan 31, 2009	Oct 31, 2008	July 31, 2008
	(In thousands, except SAC)							
Subscription Acquisition Costs								
Sales and marketing, subscription acquisition costs	$ 7,257	$ 5,048	$ 4,716	$ 5,811	$ 5,861	$ 6,038	$ 11,543	$ 18,292
Hardware revenues (See Note 1)	(60,350)	(48,787)	(36,279)	(39,225)	(42,313)	(41,652)	(46,837)	(51,101)
Less: MSOs/Broadcasters-related hardware revenues	19,961	14,497	2,041	5,190	8,608	9,333	8,971	5,632
Cost of hardware revenues	74,552	65,909	53,711	55,614	57,953	57,742	65,907	78,712
Less: MSOs/Broadcasters-related cost of hardware revenues	(17,858)	(13,706)	(2,027)	(4,924)	(8,015)	(8,590)	(8,205)	(5,105)
Total Acquisition Costs	23,562	22,961	22,162	22,466	22,094	22,871	31,379	46,430
TiVo-Owned Subscription Gross Additions	144	148	161	171	176	187	237	262
Subscription Acquisition Costs (SAC)	$ 164	$ 155	$ 138	$ 131	$ 126	$ 122	$ 132	$ 177

As a result of the seasonal nature of our subscription growth, total acquisition costs vary significantly during the year. Management primarily reviews the SAC metric on an annual basis due to the timing difference between our recognition of promotional program expense and the subsequent addition of the related subscriptions. For example, we have historically experienced increased TiVo-Owned subscription gross additions during the fourth quarter, however, sales and marketing, subscription acquisition activities occur throughout the year.

During the three months ended April 30, 2010, our total acquisition costs were $5.5 million, an increase of $601,000 from the same prior year period. This increase in total acquisition costs was related to our increased sales and marketing subscription acquisition spending of $2.2 million which was due to the launch of our new TiVo Premiere boxes, which we rolled out during the quarter ended April 30, 2010. This increased spending was offset by improved TiVo-Owned hardware gross margin loss which decreased by $1.6 million. This improvement in hardware gross margin loss is related to our new TiVo Premiere boxes which we rolled out during the quarter ended April 30, 2010.

During the twelve months ended April 30, 2010 our total acquisition costs were $23.6 million, a 7% increase when compared to the $22.1 million in total acquisition costs from the same prior year period. This increase in total acquisition costs was largely related to our increased sales and marketing subscription acquisition spending of $1.4 million which was due to the launch of our new TiVo Premiere boxes, which we rolled out during the quarter ended April 30, 2010.

The increase in SAC of $34 and $38, for the three and twelve months ended April 30, 2010, respectively as compared to the same prior year periods, was largely related to the increase total acquisition costs combined with fewer subscription gross additions during the three and twelve month periods as compared to the same prior year periods.

***Average Revenue Per Subscription or ARPU*.** Management reviews this metric, and believes it may be useful to investors, in order to evaluate the potential of our subscription base to generate revenues from a variety of sources, including subscription fees, advertising, and audience research measurement. ARPU does not include rebates, revenue share, and other payments to channel that reduce our GAAP revenues. As a result, you should not use ARPU as a substitute for measures of financial performance calculated in accordance with GAAP. Management believes it is useful to consider this metric excluding the costs associated with rebates, revenue share, and other payments to channel because of the discretionary and varying nature of these expenses and because management believes these expenses, which are included in hardware revenues, net, are more appropriately monitored as part of SAC. We are not aware of any uniform standards for calculating ARPU and caution that our presentation may not be consistent with that of other companies.

We calculate ARPU per month for TiVo-Owned subscriptions by subtracting MSOs/Broadcaster-related service revenues (which includes MSOs/Broadcasters subscription service revenues and MSOs/Broadcasters -related advertising revenues) from our total reported net service revenues and dividing the result by the number of months in the period. We then divide by Average TiVo-Owned subscriptions for the period, calculated as described above for churn rate. The following table shows this calculation:

TiVo-Owned Average Revenue per Subscription	Three Months Ended April 30, 2010	Jan 31, 2010	Oct 31, 2009	July 31, 2009	April 30, 2009	Jan 31, 2009	Oct 31, 2008	July 31, 2008
	(In thousands, except ARPU)							
Total service revenues	36,244	38,442	37,701	41,500	42,129	44,115	47,676	48,174
Less: MSOs/Broadcasters -related service revenues	(3,760)	(4,190)	(1,893)	(4,315)	(4,522)	(5,137)	(5,772)	(5,781)
TiVo-Owned-related service revenues	32,484	34,252	35,808	37,185	37,607	38,978	41,904	42,393
Average TiVo-Owned revenues per month	10,828	11,417	11,936	12,395	12,536	12,993	13,968	14,131
Average TiVo-Owned per month subscriptions	1,437	1,506	1,560	1,604	1,639	1,656	1,675	1,712
TiVo-Owned ARPU per month	$ 7.54	$ 7.58	$ 7.65	$ 7.73	$ 7.65	$ 7.85	$ 8.34	$ 8.25

Table of Contents

The decrease in TiVo-Owned ARPU per month for the quarter ended April 30, 2010 was largely due to a higher number of product lifetime subscriptions that are fully amortized, as compared to the same prior year period. In the fiscal year ending January 31, 2011, we expect TiVo-Owned ARPU per month to be relatively flat as compared to the fiscal year ended January 31, 2010.

We calculate ARPU per month for MSOs/Broadcasters subscriptions by first subtracting TiVo-Owned-related service revenues (which includes TiVo-Owned subscription service revenues and TiVo-Owned related advertising revenues) from our total reported service revenues. Then we divide average revenues per month for MSOs/Broadcasters -related service revenues by the average MSOs/Broadcasters subscriptions for the period. The following table shows this calculation:

	Three Months Ended							
MSOs/Broadcasters Average Revenue per Subscription	**April 30, 2010**	**Jan 31, 2010**	**Oct 31, 2009**	**July 31, 2009**	**April 30, 2009**	**Jan 31, 2009**	**Oct 31, 2008**	**July 31, 2008**
	(In thousands, except ARPU)							
Total service revenues	36,244	38,442	37,701	41,500	42,129	44,115	47,676	48,174
Less: TiVo-Owned-related service revenues	(32,484)	(34,252)	(35,808)	(37,185)	(37,607)	(38,978)	(41,904)	(42,393)
*MSOs/Broadcasters -related service revenues	3,760	4,190	1,893	4,315	4,522	5,137	5,772	5,781
Average MSOs/Broadcasters revenues per month	1,253	1,397	631	1,438	1,507	1,712	1,924	1,927
Average MSOs/Broadcasters per month subscriptions	1,120	1,165	1,378	1,521	1,625	1,743	1,868	2,009
*MSOs/Broadcasters ARPU per month	$ 1.12	$ 1.20	$ 0.46	$ 0.95	$ 0.93	$ 0.98	$ 1.03	$ 0.96

* MSOs/Broadcasters-related ARPU in the third quarter ending October 31, 2009 would have been approximately $0.88, excluding the one time reduction of $1.8 million in MSOs/Broadcasters-related service revenues related to the one time reduction of 146,000 subscriptions associated with the correction of subscription over-reporting error by DIRECTV previously disclosed.

The MSOs/Broadcasters related service revenues for the quarter ended April 30, 2010 increased $0.19 per subscription to $1.12 per subscription, as compared $0.93 for the same prior year period. This fluctuation in average revenue per subscription is largely due to increased minimum commitments associated with our distribution agreement with DIRECTV. In the fiscal year ending January 31, 2011, we expect MSOs/Broadcasters revenue to be higher, as compared to the fiscal year ended January 31, 2010 due to these increased minimum commitments.

Critical Accounting Estimates

In preparing our Condensed Consolidated Financial Statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, operating income (loss) and net income (loss), as well as on the value of certain assets and liabilities on our Condensed Consolidated Balance Sheets. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. At least quarterly, we evaluate our assumptions, judgments and estimates and make changes accordingly. Historically, our assumptions, judgments and estimates relative to our critical accounting estimates have not differed materially from actual results. For further information about our critical accounting estimates, see the discussion under the heading Critical Accounting Estimates in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended April 30, 2010, as compared to the recent accounting pronouncements described in the Company s Annual Report on Form 10-K, that are of significance, or potential significance to the Company. The Company is still evaluating the impact of the adoption of new accounting standards which provide guidance for arrangements with multiple deliverables and revenue recognition for tangible products containing software and hardware elements on its consolidated financial statements. Both standards will be effective for TiVo in the first quarter of fiscal year 2012.

23

Table of Contents

Results of Operations

Net Revenues. Our net revenues for the three months ended April 30, 2010 and 2009 as a percentage of total net revenues were as follows:

	Three Months Ended April 30,			
	2010		2009	
	(In thousands, except percentages)			
Service revenues	$ 36,244	59%	$ 42,129	76%
Technology revenues	$ 6,973	11%	$ 6,386	12%
Hardware revenues	$ 18,169	30%	$ 6,606	12%
Net revenues	$ 61,386	100%	$ 55,121	100%
Change from same prior year period	11%		-10%	

Service Revenues. The decrease in TiVo-Owned service revenues of $5.9 million in the three months ended April 30, 2010 as compared to the same prior year period was due to a lower cumulative subscription base and an increased number of fully-amortized product lifetime subscriptions which no longer generated subscription revenues.

Technology Revenues. Technology revenues for the three months ended April 30, 2010 increased by 9% or $587,000 as compared to the prior fiscal year primarily due to our continued development work with DIRECTV and Comcast combined with newer development projects for our new distribution channels such as non-DVR devices such as Best Buy s Insignia branded televisions and our development deal with Conax which is a conditional access security provider.

Hardware Revenues. Hardware revenues, net of allowance for sales returns and net of revenue share and marketing development fund payments for the three months ended April 30, 2010, increased by $11.6 million as compared to the same prior year period. The increase in net hardware revenues for the three months ended April 30, 2010 is related to the increase in the number of units sold during the period as compared to the same prior year period, as our sales volume increased due to the launch of our new TiVo Premiere boxes.

Cost of service revenues.

	Three Months Ended April 30,	
	2010	2009
	(In thousands, except percentages)	
Cost of service revenues	$ 10,403	$ 10,150
Change from same prior year period	2%	-9%
Percentage of service revenues	29%	24%
Service gross margin	$ 25,841	$ 31,979
Service gross margin as a percentage of service revenues	71%	76%

Cost of service revenues consist primarily of telecommunication and network expenses, employee salaries, service center, credit card processing fees, and other expenses related to providing the TiVo service. Cost of service revenues remained relatively flat, as compared to the same prior year period.

Cost of technology revenues.

	Three Months Ended April 30,	
	2010	2009
	(In thousands, except percentages)	
Cost of technology revenues	$ 5,021	$ 4,483
Change from same prior year period	12%	14%
Percentage of technology revenues	72%	70%

Technology gross margin	$ 1,952	$ 1,903
Technology gross margin as a percentage of technology revenues	28%	30%

Table of Contents

Cost of technology revenues includes costs associated with our development work primarily for Comcast, DIRECTV, and our other international and domestic projects. The 12% increase in cost of technology revenues as compared to the same prior year period is largely due to the increase in technology revenues for the same period.

Cost of hardware revenues.

	Three Months Ended April 30,	
	2010	2009
	(In thousands, except percentages)	
Cost of hardware revenues	$ 19,219	$ 10,576
Change from same prior year period	82%	2%
Percentage of hardware revenues	106%	160%
Hardware gross margin	$ (1,050)	$ (3,970)
Hardware gross margin as a percentage of hardware revenue	-6%	-60%

Cost of hardware revenues include all product costs associated with the TiVo-enabled DVRs we distribute and sell, including manufacturing-related overhead and personnel, warranty, certain licensing, order fulfillment, and freight costs. We sell this hardware primarily as a means to grow our service revenues and, as a result, do not intend to generate positive gross margins from these hardware sales. Our costs of hardware sales for the three months ended April 30, 2010 increased primarily because we sold significantly more TiVo units as compared to the same prior year periods due to the launch of our new TiVo Premiere boxes.

Hardware gross margin loss for the three months ended April 30, 2010 decreased by $2.9 million as compared to the same prior year period largely due to the launch and sales of our new TiVo Premiere boxes which cost less to produce than our previous HD DVR offerings which were among the products sold during the same prior year period.

Research and development expenses.

	Three Months Ended April 30,	
	2010	2009
	(In thousands, except percentages)	
Research and development expenses	$ 18,628	$ 15,066
Change from same prior year period	24%	2%
Percentage of net revenues	30%	27%

Our research and development expenses consist primarily of employee salaries, related expenses, and consulting expenses. The increase in research and development expenses of $3.6 million for the three months ended April 30, 2010 was largely related to increased headcount and headcount related costs of $5.1 million offset by an increased allocation to cost of technology revenues of $1.3 million for utilization of our engineering staff on development projects generating technology revenues. For the fiscal year ending January 31, 2011 we expect to increase our research and development spending as we believe that investments in research and development are critical to remaining competitive and being a leader in advanced television solutions beyond the DVR.

Sales and marketing expenses.

	Three Months Ended April 30,	
	2010	2009
	(In thousands, except percentages)	
Sales and marketing expenses	$ 7,760	$ 5,695
Change from same prior year period	36%	-4%
Percentage of net revenues	13%	10%

Sales and marketing expenses consist primarily of employee salaries and related expenses. The increase for the quarter ended April 30, 2010, as compared to the same prior year period in sales and marketing expenses of $2.1 million was primarily related to increased headcount and headcount related costs of $846,000. Additionally we incurred approximately $1.0 million in increased channel support and other related expenses associated with the launch of our new TiVo Premiere boxes.

25

Table of Contents

Sales and marketing, subscription acquisition costs.

	Three Months Ended April 30, 2010	2009
	(In thousands, except percentages)	
Sales and marketing, subscription acquisition costs	$ 3,191	$ 982
Change from same prior year period	225%	-15%
Percentage of net revenues	5%	2%

Sales and marketing, subscription acquisition costs include advertising expenses and promotional expenses directly related to our efforts to acquire new TiVo-Owned subscriptions to the TiVo service. The increase for the three months ended April 30, 2010, as compared to the same prior year period was largely related to the launch of our next generation TiVo Premiere and TiVo Premiere XL boxes in the retail channel.

General and administrative expenses.

	Three Months Ended April 30, 2010	2009
	(In thousands, except percentages)	
General and administrative	$ 11,697	$ 12,242
Change from same prior year period	-4%	18%
Percentage of net revenues	19%	22%

General and administrative expenses consist primarily of employee salaries and related expenses for executive, administrative, accounting, information technology systems, facility costs, and legal and professional fees. During the three months ended April 30, 2010, general and administrative expenses decreased by $545,000 as compared to the same prior year period. The decrease is largely related to lower non cash stock compensation expenses of $707,000. For the fiscal year ending January 31, 2011 we anticipate higher general and administrative spending due to increased legal activities related to our litigations.

Interest income. Interest income resulting from cash and cash equivalents held in interest bearing accounts and short-term investments for the three months ended April 30, 2010 was $369,000 or approximately a 94% increase compared to the $190,000 from the same prior year period. The increase was a result of an increase in the average interest rate earned for the quarter ended April 30, 2010 to approximately 0.58% from 0.33% in the same prior year period as we changed our investment mix, combined with an increased cash balance in the quarter ended April 30, 2010 as compared to the same prior year period.

Liquidity and Capital Resources

We have financed our operations and met our capital expenditure requirements primarily from the proceeds from the sale of equity securities. Our cash resources are subject, in part, to the amount and timing of cash received from our subscriptions, licensing and engineering services customers, and hardware customers. As of April 30, 2010, we had $255.5 million of cash, cash equivalents, and short-term investments. We believe our cash, cash equivalents and short-term investments, provide sufficient resources to fund operations, capital expenditures, and working capital needs through the next twelve months and beyond.

Our primary sources of liquidity are cash flows provided by operations, investing, and financing activities. Although we currently anticipate these sources of liquidity, together with cash and cash equivalents and short-term investments will be sufficient to meet our cash needs through the next twelve months and beyond, we may require or choose to obtain additional financing. Our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance, and the condition of the capital markets at the time we seek financing. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock, and our stockholders may experience dilution. If we need to raise additional funds in the future and are unable to do so or obtain additional financing on acceptable terms in the future, it is possible we would have to limit certain planned activities including sales and marketing and research and development activities. Please refer to Part II, Item 1A, Risk Factors for further discussion.

26

Table of Contents

Statement of Cash Flows Discussion

The following table summarizes our cash flow activities:

	Three Months Ended April 30,	
	2010	2009
	(in thousands)	
Net cash provided by (used in) operating activities	$ (12,672)	$ 5,462
Net cash used in investing activities	$ (14,957)	$ (23,563)
Net cash provided by financing activities	$ 24,859	$ 5,931

Net Cash Provided by (Used in) Operating Activities

During the three months ended April 30, 2010 our net cash used by operating activities was $12.7 million as compared to net cash provided by operating activities of $5.5 million during the same prior year period. This change in operating cash flow was largely attributed to our increased net loss of $10.3 million.

Net Cash Used in Investing Activities

The net cash used in investing activities for the three months ended April 30, 2010 was approximately $15.0 million compared to $23.6 million for the same prior year period. The net cash used in investing activities for the fiscal year ended April 30, 2010 was largely related to TiVo s cash management process, and the purchase and sales of short-term investments resulting in a net expenditure of cash and cash equivalents of $13.8 million (which resulted in a corresponding increase in short-term investments of $13.8 million). Additionally, during the three months ended April 30 2010, we acquired property and equipment of $1.2 million which is used to support our business.

Net Cash Provided by Financing Activities

For the three months ended April 30, 2010, the principal sources of cash generated from financing activities was related to the issuance of common stock upon exercise of stock options which generated $28.7 million which was partially offset by the repurchase of $3.8 million in restricted stock to satisfy employee tax withholdings.

Financing Agreements

Universal Shelf Registration Statement. We have an effective universal shelf registration statement on Form S-3 (No. 333-146156) on file with the Securities and Exchange Commission under which we may issue up to $100,000,000 of securities, including debt securities, common stock, preferred stock, and warrants. Depending on market conditions, we may issue securities under this or future registration statements or in private offerings exempt from registration requirements.

Contractual Obligations

		Payments due by Period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
		(In thousands)			
Operating leases	$ 13,529	$ 2,146	$ 3,775	$ 3,928	$ 3,680
Purchase obligations	8,996	8,996	0	0	0
Total contractual cash obligations	**$ 22,525**	**$ 11,142**	**$ 3,775**	**$ 3,928**	**$ 3,680**

Purchase Commitments with Contract Manufacturers and Suppliers. We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to manage manufacturing lead times and help assure adequate component supply, we enter into agreements with contract manufacturers and suppliers that

either allow them to procure inventory based upon criteria as defined by us or that establish the parameters defining our requirements. In certain instances, these agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed. The table above displays that portion of our purchase commitments arising from these agreements that is firm, non-cancelable, and unconditional. If there are unexpected changes to anticipated demand for our products or in the sales mix of our products, some of the firm, non-cancelable, and unconditional purchase commitments may result in TiVo being committed to purchase excess inventory.

As of April 30, 2010, gross unrecognized tax benefits, which if recognized would affect the effective tax rate, were approximately $231,000, which are classified as long-term liabilities in the condensed consolidated balance sheet. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years due to uncertainties in the timing of tax audit outcomes; therefore, such amounts are not included in the above contractual obligation table.

Table of Contents

Off-Balance Sheet Arrangements

As part of our ongoing business, we generally do not engage in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities. Accordingly, our operating results, financial condition, and cash flows are not generally subject to off-balance sheet risks associated with these types of arrangements. We did not have any material off-balance sheet arrangements as of April 30, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio and we conduct transactions in U.S. dollars. We currently invest the majority of our cash in money market funds, high-grade government and corporate debt, and high-grade foreign corporate and government securities. We maintain our investments with three financial institutions with high credit ratings. We also hold investments in auction rate securities. As part of our cash management process, we perform periodic evaluations of the relative credit ratings of issuers of these securities. We have not experienced any credit losses on our cash, cash equivalents, or short and long-term investments. Our investment portfolio only includes instruments with original maturities of less than two years (with the exception of auction rate securities as discussed below) held for investment purposes, not trading purposes. Due to the short-term nature of our cash equivalents and short-term investments we do not anticipate any material effect on our portfolio due to fluctuations in interest rates.

As of April 30, 2010, we held approximately $5.0 million principal amount of investments with an auction reset feature (auction-rate securities), with a fair value of $4.1 million that are classified as a long-term assets. We have recorded an unrealized loss on these auction rate securities of $852,000. We have no intent to sell these securities and it is more-likely-than not that we will not be required to sell these ARS prior to recovery. Based on our expected operating cash flows, and our other sources of cash, we do not anticipate the potential lack of liquidity on these investments will materially affect our ability to execute our current business plan.

ITEM 4. CONTROLS AND PROCEDURES

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures and implementing controls and procedures based on the application of management s judgment.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures, as defined above, were effective in reaching a reasonable level of assurance as of April 30, 2010 (the end of the period covered by this Report).

There have been no changes in our internal control over financial reporting during the three months ended April 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Disclosure Controls and Procedures and Internal Control over Financial Reporting

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented or over-ridden by the individual acts of some persons, by the collusion of two or more people, or by management. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future

conditions. Because of the inherent limitations in a cost-effective control system, misstatements or omissions due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information under the heading Legal Matters set forth under Note 6 of Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report, is incorporated herein by reference.

Table of Contents

ITEM 1A. RISK FACTORS

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risk factors described in our annual report on Form 10-K for the year ended January 31, 2010 in the section entitled Risk Factors , in addition to the other cautionary statements and risks described elsewhere, and the other information contained in this report and in our other filings with the SEC, including our annual report on Form 10-K for the year ended January 31, 2010 and subsequent reports on Forms 10-Q and 8-K.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None

Table of Contents

ITEM 6. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
3.1	Amendment No. 1 to TiVo Inc. Amended and Restated Bylaws, effective as of March 23, 2010 (incorporated by reference to the Registrant s Form 8-K filed on March 29, 2010).
10.1	Third Amended & Restated Employment Agreement between TiVo Inc. and Thomas Rogers, dated as of February 1, 2010 (filed herewith).
10.2+	Letter Agreement between TiVo Inc. and Tribune Media Services, Inc., dated as of March 22, 2010 (filed herewith).
10.3+	Non-DVR Media Application Addendum between TiVo Inc. and Best Buy Stores, L.P., made effective as of July 7, 2009, to the Master Marketing and Development Agreement, dated as of July 7, 2009 (filed herewith).
10.4	Summary of TiVo Inc. Fiscal Year 2011 Bonus Plan For Executive Officers (incorporated by reference to Registrant s Form 8-K filed on May 4, 2010).
31.1	Certification of Thomas Rogers, President and Chief Executive Officer of TiVo Inc. dated June 9, 2010 pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Anna Brunelle, Chief Financial Officer of TiVo Inc. dated June 9, 2010 pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Thomas Rogers, President and Chief Executive Officer of TiVo Inc. dated June 9, 2010 in accordance with 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Anna Brunelle, Chief Financial Officer of TiVo Inc. dated June 9, 2010 in accordance with 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	The following financial information from TiVo Inc. s Quarterly Report on Form 10-Q for the quarter ended April 30, 2010 filed with the SEC on June 9, 2010, formatted in XBRL includes: (i) Condensed Consolidated Statements of Operations for the Three Months Ended April 30, 2010 and 2009, (ii) Condensed Consolidated Balance Sheets as of April 30, 2010 and January 31, 2010, (iii) Condensed Consolidated Statements of Cash Flows for the Three Months Ended April 30, 2010 and 2009 and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text (filed herewith).

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

* The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of TiVo Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

** Furnished, not filed.

Table of Contents

SIGNATURES AND OFFICER CERTIFICATIONS

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

TIVO INC.

Date: June 9, 2010 By: /s/ THOMAS ROGERS
Thomas Rogers
President and Chief Executive

(Principal Executive Officer)

Date: June 9, 2010 By: /s/ ANNA BRUNELLE
Anna Brunelle
Chief Financial Officer

(Principal Financial and Accounting Officer)