
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported):
January 27, 2010

NETFLIX, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

000-49802
(Commission File Number)

77-0467272
(I.R.S. Employer
Identification No.)

100 Winchester Circle
Los Gatos, CA
95032
(Address of principal executive offices)
(Zip Code)

(408) 540-3700
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On January 27, 2010, Netflix, Inc. (the “Company”) announced its financial results for the quarter and year ended December 31, 2009. The press release and management commentary, which is attached hereto as Exhibits 99.1 and 99.2 respectively, and incorporated herein by reference, discloses certain financial measures that may be considered non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company’s performance, financial position, or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the United States. Management believes that non-GAAP net income is a useful measure of operating performance because it excludes the non-cash impact of stock option accounting. In addition, management believes that free cash flow is a useful measure of liquidity because it excludes the non-operational cash flows from purchases and sales of short-term investments, cash flows from investment in business and cash flows from financing activities. However, these non-GAAP measures should be considered in addition to, not as a substitute for, or superior to net income and net cash provided by operating activities, or other financial measures prepared in accordance with GAAP. The non-GAAP information is presented using consistent methodology from quarter-to-quarter and year-to-year.

The information in this report shall not be treated as “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933 or the Securities Exchange Act of 1934, except as expressly stated by specific reference in such filing.

Item 9.01 Financial Statement and Exhibits.***(d) Exhibits***

99.1 Press release issued by Netflix, Inc. on January 27, 2010.

99.2 Management’s commentary on financial results for the quarter and year ended December 31, 2009.

SIGNATURES

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

NETFLIX, INC.

Date: January 27, 2010

/ s / B ARRY M C C ARTHY

Barry McCarthy
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
99.1*	Press release issued by Netflix, Inc. on January 27, 2010.
99.2*	Management's commentary on financial results for the quarter and year ended December 31, 2009.

* These exhibits are intended to be furnished and shall not be deemed "filed" for purposes of the Securities Exchange Act of 1934.

The press release and management's commentary will be attached as Exhibit 99.1 and 99.2, respectively.



FOR IMMEDIATE RELEASE
Wednesday, January 27, 2010

IR CONTACT: Deborah Crawford
VP, Investor Relations
(408) 540-3712

PR CONTACT: Steve Swasey
VP, Corporate Communications
(408) 540-3947

Netflix Announces Q4 2009 Financial Results

Subscribers – 12.3 million
Revenue – \$444.5 million
GAAP Net Income – \$30.9 million
GAAP EPS – \$0.56 per diluted share

LOS GATOS, Calif., January 27, 2010 – Netflix, Inc. (Nasdaq: NFLX) today reported results for the fourth quarter and year ended December 31, 2009.

“Adding more than one million net new subscribers in the fourth quarter and nearly three million over the full year highlights the growing appeal of the Netflix service as we further expand access to and adoption of streaming movies and TV episodes over the Internet,” said Reed Hastings, Netflix co-founder and chief executive officer. “In 2010, we expect to extend our operating momentum as we grow the business both rapidly and profitably.”

Earnings Call Format

Netflix is changing the format of the company’s fourth quarter earnings conference call. The call will consist solely of Q&A. In conjunction with the press release, the company has posted a written version of management’s commentary to its Web site at <http://ir.netflix.com>. The conference call will be webcast today at 6:00 p.m. Eastern Time / 3:00 p.m. Pacific Time. If the format change is well received, future earnings calls will follow the same format. Please see conference call details below.

Fourth-Quarter and Fiscal-Year 2009 Financial Highlights

Subscribers. Netflix ended the fourth quarter of 2009 with approximately 12,268,000 total subscribers, representing 31 percent year-over-year growth from 9,390,000 total subscribers at the end of the fourth quarter of 2008 and 10 percent sequential growth from 11,109,000 subscribers at the end of the third quarter of 2009.

Net subscriber change in the quarter was an increase of 1,159,000 compared to an increase of 718,000 for the same period of 2008 and an increase of 510,000 for the third quarter of 2009.

Gross subscriber additions for the quarter totaled 2,803,000, representing 34 percent year-over-year growth from 2,085,000 gross subscriber additions in the fourth quarter of 2008 and 29 percent quarter-over-quarter growth from 2,180,000 gross subscriber additions in the third quarter of 2009.

Of the 12,268,000 total subscribers at quarter end, 97 percent, or 11,892,000, were paid subscribers. The other 3 percent, or 376,000, were free subscribers. Paid subscribers represented 98 percent of total subscribers at the end of the fourth quarter of 2008 and at the end of the third quarter of 2009.

Revenue for the fourth quarter of 2009 was \$444.5 million, representing 24 percent year-over-year growth from \$359.6 million for the fourth quarter of 2008, and a 5 percent sequential increase from \$423.1 million for the third quarter of 2009. Revenue for fiscal 2009 was \$1.67 billion, up 22 percent from \$1.365 billion for fiscal 2008.

Gross margin¹ for the fourth quarter of 2009 was 38.0 percent compared to 35.2 percent for the fourth quarter of 2008 and 34.9 percent for the third quarter of 2009. Gross margin for fiscal 2009 was 35.4 percent compared to 33.3 percent for fiscal 2008.

GAAP net income for the fourth quarter of 2009 was \$30.9 million, or \$0.56 per diluted share compared to GAAP net income of \$22.7 million, or \$0.38 per diluted share, for the fourth quarter of 2008 and GAAP net income of \$30.1 million, or \$0.52 per diluted share, for the third quarter of 2009. GAAP net income grew 36 percent on a year-over-year basis and GAAP EPS grew 47 percent on a year-over-year basis.

GAAP net income for fiscal 2009 was \$115.9 million, or \$1.98 per diluted share compared to GAAP net income of \$83.0 million, or \$1.32 per diluted share, for fiscal 2008. GAAP net income grew 40 percent on a year-over-year basis and GAAP EPS grew 50 percent on a year-over-year basis.

Non-GAAP net income was \$32.7 million, or \$0.59 per diluted share, for the fourth quarter of 2009 compared to non-GAAP net income of \$24.6 million, or \$0.41 per diluted share, for the fourth quarter of 2008 and non-GAAP net income of \$32.1 million, or \$0.55 per diluted share, for the third quarter of 2009. Non-GAAP net income grew 33 percent on a year-over-year basis and non-GAAP EPS grew 44 percent on a year-over-year basis.

Non-GAAP net income was \$123.5 million, or \$2.11 per diluted share, for fiscal 2009 compared to non-GAAP net income of \$90.7 million, or \$1.44 per diluted share, for fiscal 2008. Non-GAAP net income grew 36 percent on a year-over-year basis and non-GAAP EPS grew 47 percent on a year-over-year basis.

Non-GAAP net income equals net income on a GAAP basis before stock-based compensation expense, net of taxes.

Stock-based compensation was \$3.0 million for the fourth quarter of 2009, compared to \$3.2 million for the fourth quarter of 2008 and for the third quarter of 2009. Stock-based compensation for fiscal 2009 was \$12.6 million compared to \$12.3 million for fiscal 2008. Stock-based compensation is presented in the same lines of the Consolidated Statements of Operations as cash compensation paid to the same individuals.

Subscriber acquisition cost² for the fourth quarter of 2009 was \$25.23 per gross subscriber addition compared to \$26.67 for the same period of 2008 and \$26.86 for the third quarter of 2009. Subscriber acquisition cost for fiscal 2009 was \$25.48 per gross subscriber addition compared to \$29.12 for fiscal 2008.

¹

Gross margin is defined as revenues less cost of subscription and fulfillment expenses divided by revenues.

²

Subscriber acquisition cost is defined as the total marketing expense, which includes stock-based compensation for marketing personnel, on the Company's Consolidated Statements of Operations divided by total gross subscriber additions during the quarter.

Churn³ for the fourth quarter of 2009 was 3.9 percent compared to 4.2 percent for the fourth quarter of 2008 and 4.4 percent for the third quarter of 2009. Churn includes free subscribers as well as paying subscribers who elect not to renew their monthly subscription service during the quarter.

Percentage of subscribers who watched instantly more than 15 minutes of a TV episode or movie in the fourth quarter of 2009 was 48 percent compared to 28 percent for the same period of 2008 and 41 percent for the third quarter of 2009.

Free cash flow⁴ for the fourth quarter of 2009 was \$30.2 million compared to \$51.0 million in the fourth quarter of 2008 and \$25.5 million for the third quarter of 2009. Free cash flow for fiscal 2009 was \$97.1 million compared to \$94.7 million in fiscal 2008.

Cash provided by operating activities for the fourth quarter of 2009 was \$105.8 million compared to \$92.1 million for the fourth quarter of 2008 and \$78.3 million for the third quarter of 2009. Cash provided by operating activities for fiscal 2009 was \$325.1 million compared to \$284.0 million for fiscal 2008.

Business Outlook

The Company's performance expectations for the first quarter of 2010 and full-year 2010 are as follows:

First-Quarter 2010

- Ending subscribers of 13.5 million to 13.8 million
- Revenue of \$490 million to \$496 million
- GAAP net income of \$26 million to \$32 million
- GAAP EPS of \$0.47 to \$0.58 per diluted share

Full-Year 2010

- Ending subscribers of 15.5 million to 16.3 million
- Revenue of \$2.05 billion to \$2.11 billion
- GAAP net income of \$125 million to \$137 million
- GAAP EPS of \$2.28 to \$2.50 per diluted share

Earnings Call

The Company has posted a written version of management's commentary to its Web site at <http://ir.netflix.com>. Therefore, the conference call, which will be webcast today at 6:00 p.m. Eastern Time / 3:00 p.m. Pacific Time, will consist solely of Q&A, with questions submitted via email. Please email your questions to dcrawford@netflix.com. The company will read the questions aloud on the call and respond to as many questions as possible. All media inquiries should be directed to Steve Swasey at (408) 540-3947 or sswasey@netflix.com.

Following completion of the call, a replay of the webcast will be available at <http://ir.netflix.com>. The telephone replay of the call will be available from approximately 6:00 p.m. Pacific Time on January 27, 2010 through midnight on February 2, 2010. To listen to a replay, call (719) 457-0820, access code 5243602.

³ Churn is a monthly measure defined as customer cancellations in the quarter divided by the sum of beginning subscribers and gross subscriber additions, then divided by three months.

⁴ Free cash flow is defined as cash provided by operating activities and investing activities excluding the non-operational cash flows from purchases and sales of short-term investments and cash flows from investment in business.

Use of Non-GAAP Measures

Management believes that non-GAAP net income is a useful measure of operating performance because it excludes the non-cash impact of stock option accounting. In addition, management believes that free cash flow is a useful measure of liquidity because it excludes the non-operational cash flows from purchases and sales of short-term investments, cash flows from investment in business and cash flows from financing activities. However, these non-GAAP measures should be considered in addition to, not as a substitute for or superior to, net income and net cash provided by operating activities, or other financial measures prepared in accordance with GAAP. A reconciliation to the GAAP equivalents of these non-GAAP measures is contained in tabular form on the attached unaudited financial statements.

About Netflix

With more than 12 million members, Netflix, Inc. (Nasdaq: NFLX) is the world's largest subscription service streaming movies and TV episodes over the Internet and sending DVDs by mail. For \$8.99 a month, Netflix members can instantly watch unlimited TV episodes and movies streamed to their TVs and computers and can receive unlimited DVDs delivered quickly to their homes. With Netflix, there are never any due dates or late fees. Members can select from a growing library of titles that can be watched instantly and a vast array of titles on DVD. Among the large and expanding base of devices that can stream movies and TV episodes from Netflix right to members' TVs are Microsoft's Xbox 360 and Sony's PS3 game consoles and, this spring, Nintendo's Wii console; Blu-ray disc players from Samsung, LG and Insignia; Internet TVs from LG, Sony and VIZIO; the Roku digital video player and TiVo digital video recorders. For more information, visit <http://www.netflix.com>.

Forward-Looking Statements

This press release contains certain forward-looking statements within the meaning of the federal securities laws, including statements regarding our subscriber growth, revenue, GAAP net income and earnings per share for the first quarter of 2010 and the full-year 2010. The forward-looking statements in this release are subject to risks and uncertainties that could cause actual results and events to differ, including, without limitation: our ability to attract new subscribers and retain existing subscribers; our ability to manage our subscriber acquisition cost as well as the cost of content delivered to our subscribers; fluctuations in consumer usage of our service; the continued availability of content on terms and conditions acceptable to us; maintenance and expansion of device platforms for instant streaming; continued weakness in the U.S. economy and its affect on online commerce or the filmed entertainment industry; conditions that effect our delivery through the U.S. Postal Service, including regulatory changes and postal rate increases; changes in the costs of acquiring DVDs or electronic content; consumer spending on DVDs and related products; disruption in service on our website or with our computer systems; competition and widespread consumer adoption of different modes of viewing in-home filmed entertainment. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2009. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this press release.

Netflix, Inc.
Consolidated Statements of Operations
(unaudited)
(in thousands, except per share data)

	Three Months Ended			Twelve Months Ended	
	December 31,	September 30,	December 31,	December 31,	December 31,
	2009	2009	2008	2009	2008
Revenues	\$ 444,542	\$ 423,120	\$ 359,595	\$1,670,269	\$1,364,661
Cost of revenues:					
Subscription	231,598	233,091	193,635	909,461	761,133
Fulfillment expenses *	43,888	42,183	39,211	169,810	149,101
Total cost of revenues	275,486	275,274	232,846	1,079,271	910,234
Gross profit	169,056	147,846	126,749	590,998	454,427
Operating expenses:					
Technology and development *	33,209	30,014	24,052	114,542	89,873
Marketing *	70,715	58,556	55,617	237,744	199,713
General and administrative *	13,524	11,543	10,762	51,333	49,662
Gain on disposal of DVDs	(1,741)	(1,604)	(1,603)	(4,560)	(6,327)
Total operating expenses	115,707	98,509	88,828	399,059	332,921
Operating income	53,349	49,337	37,921	191,939	121,506
Other income (expense):					
Interest expense	(4,457)	(674)	(677)	(6,475)	(2,458)
Interest and other income (expense)	2,444	1,808	852	6,728	12,452
Income before income taxes	51,336	50,471	38,096	192,192	131,500
Provision for income taxes	20,423	20,330	15,364	76,332	48,474
Net income	<u>\$ 30,913</u>	<u>\$ 30,141</u>	<u>\$ 22,732</u>	<u>\$ 115,860</u>	<u>\$ 83,026</u>
Net income per share:					
Basic	\$ 0.58	\$ 0.54	\$ 0.39	\$ 2.05	\$ 1.36
Diluted	\$ 0.56	\$ 0.52	\$ 0.38	\$ 1.98	\$ 1.32
Weighted average common shares outstanding:					
Basic	53,609	56,146	58,906	56,560	60,961
Diluted	55,479	57,938	60,311	58,416	62,836

* **Stock-based compensation included in expense line items:**

Fulfillment expenses	\$ 59	\$ 99	\$ 126	\$ 380	\$ 466
Technology and development	1,023	1,169	1,095	4,453	3,890
Marketing	433	452	462	1,786	1,886
General and administrative	1,461	1,512	1,511	5,999	6,022

Reconciliation of Non-GAAP Financial Measures
(unaudited)

Non-GAAP net income reconciliation:					
GAAP net income	\$ 30,913	\$ 30,141	\$ 22,732	\$ 115,860	\$ 83,026
Stock-based compensation	2,976	3,232	3,194	12,618	12,264
Income tax effect of stock-based compensation	(1,184)	(1,302)	(1,287)	(5,017)	(4,585)
Non-GAAP net income	<u>\$ 32,705</u>	<u>\$ 32,071</u>	<u>\$ 24,639</u>	<u>\$ 123,461</u>	<u>\$ 90,705</u>
Non-GAAP net income per share:					
Basic	\$ 0.61	\$ 0.57	\$ 0.42	\$ 2.18	\$ 1.49
Diluted	\$ 0.59	\$ 0.55	\$ 0.41	\$ 2.11	\$ 1.44
Weighted average common shares outstanding:					
Basic	53,609	56,146	58,906	56,560	60,961
Diluted	55,479	57,938	60,311	58,416	62,836

Netflix, Inc.
Consolidated Balance Sheets
(unaudited)
(in thousands, except share and par value data)

	As of	
	December 31,	December 31,
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 134,224	\$ 139,881
Short-term investments	186,018	157,390
Prepaid expenses	12,491	8,122
Prepaid revenue sharing expenses	17,133	18,417
Current content library, net	37,329	18,691
Other assets	23,818	16,424
Total current assets	411,013	358,925
Content library, net	108,810	98,547
Property and equipment, net	131,653	124,948
Deferred tax assets	15,958	22,409
Other non-current assets	12,300	10,595
Total assets	<u>\$ 679,734</u>	<u>\$ 615,424</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 91,475	\$ 100,344
Accrued expenses	33,387	31,394
Current portion of lease financing obligations	1,410	1,152
Deferred revenue	100,097	83,127
Total current liabilities	226,369	216,017
Long-term debt	200,000	—
Lease financing obligations, excluding current portion	36,572	37,988
Other non-current liabilities	17,650	14,264
Total liabilities	480,591	268,269
Stockholders' equity:		
Common stock, \$0.001 par value; 160,000,000 shares authorized at December 31, 2009 and 2008; 53,440,073 and 58,862,478 issued and outstanding at December 31, 2009 and 2008, respectively	53	62
Additional paid-in capital	—	338,577
Treasury stock at cost (3,491,084 shares at December 31, 2008)	—	(100,020)
Accumulated other comprehensive income, net	273	84
Retained earnings	198,817	108,452
Total stockholders' equity	199,143	347,155
Total liabilities and stockholders' equity	<u>\$ 679,734</u>	<u>\$ 615,424</u>

Netflix, Inc.
Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Three Months Ended			Twelve Months Ended	
	December 31,	September 30,	December 31,	December 31,	December 31,
	2009	2009	2008	2009	2008
Cash flows from operating activities:					
Net income	\$ 30,913	\$ 30,141	\$ 22,732	\$ 115,860	\$ 83,026
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization of property, equipment and intangibles	10,238	9,618	9,141	38,044	32,454
Amortization of content library	60,261	56,690	47,579	219,490	209,757
Amortization of discounts and premiums on investments	168	126	184	607	625
Amortization of debt issuance costs	1,124	—	—	1,124	—
Stock-based compensation expense	2,976	3,232	3,194	12,618	12,264
Excess tax benefits from stock-based compensation	(3,584)	(1,600)	(753)	(12,683)	(5,220)
Loss on disposal of property and equipment	—	—	—	254	101
(Gain) loss on sale of short-term investments	(54)	(984)	618	(1,509)	(3,130)
Gain on disposal of DVDs	(2,607)	(2,491)	(3,494)	(7,637)	(13,350)
Gain on sale of investment in business	(1,783)	—	—	(1,783)	—
Deferred taxes	1,789	(15)	1,350	6,328	(5,905)
Changes in operating assets and liabilities:					
Prepaid expenses and other current assets	(9,390)	7,625	11,038	(11,001)	(4,181)
Content library	(22,785)	(9,998)	(11,123)	(64,217)	(48,290)
Accounts payable	8,894	(13,173)	(7,917)	(2,256)	7,111
Accrued expenses	7,506	2,752	171	13,169	(1,824)
Deferred revenue	20,974	(1,372)	17,232	16,970	11,462
Other assets and liabilities	1,177	(2,240)	2,148	1,685	9,137
Net cash provided by operating activities	105,817	78,311	92,100	325,063	284,037
Cash flows from investing activities:					
Purchases of short-term investments	(125,841)	(21,006)	(76,118)	(228,000)	(256,959)
Proceeds from sale of short-term investments	36,037	85,904	58,723	166,706	304,163
Proceeds from maturities of short-term investments	4,688	3,480	1,000	35,673	3,170
Purchases of property and equipment	(22,433)	(9,994)	(7,471)	(45,932)	(43,790)
Acquisitions of intangible asset	—	—	—	(200)	(1,062)
Acquisitions of content library	(57,048)	(46,273)	(38,295)	(193,044)	(162,849)
Proceeds from sale of DVDs	3,934	3,345	4,695	11,164	18,368
Proceeds from sale of investment in business	7,483	—	—	7,483	—
Investment in business	—	—	—	—	(6,000)
Other assets	(72)	134	(32)	71	(1)
Net cash provided by (used in) investing activities	(153,252)	15,590	(57,498)	(246,079)	(144,960)
Cash flows from financing activities:					
Principal payments of lease financing obligations	(300)	(294)	(237)	(1,158)	(823)
Proceeds from issuance of common stock	9,182	2,725	3,231	35,274	18,872
Excess tax benefits from stock-based compensation	3,584	1,600	753	12,683	5,220
Borrowings on line of credit, net of issuance costs	18,978	—	—	18,978	—
Payments on line of credit	(20,000)	—	—	(20,000)	—
Proceeds from issuance of debt, net of issuance costs	193,917	—	—	193,917	—
Repurchases of common stock	(79,419)	(129,686)	(9,992)	(324,335)	(199,904)
Net cash provided by (used in) financing activities	125,942	(125,655)	(6,245)	(84,641)	(176,635)
Net increase (decrease) in cash and cash equivalents	78,507	(31,754)	28,357	(5,657)	(37,558)
Cash and cash equivalents, beginning of period	55,717	87,471	111,524	139,881	177,439
Cash and cash equivalents, end of period	\$ 134,224	\$ 55,717	\$ 139,881	\$ 134,224	\$ 139,881
Non-GAAP free cash flow reconciliation:					
Net cash provided by operating activities	\$ 105,817	\$ 78,311	\$ 92,100	\$ 325,063	\$ 284,037
Purchases of property and equipment	(22,433)	(9,994)	(7,471)	(45,932)	(43,790)
Acquisitions of intangible asset	—	—	—	(200)	(1,062)

Acquisitions of content library	(57,048)	(46,273)	(38,295)	(193,044)	(162,849)
Proceeds from sale of DVDs	3,934	3,345	4,695	11,164	18,368
Other assets	(72)	134	(32)	71	(1)
Non-GAAP free cash flow	<u><u>\$ 30,198</u></u>	<u><u>\$ 25,523</u></u>	<u><u>\$ 50,997</u></u>	<u><u>\$ 97,122</u></u>	<u><u>\$ 94,703</u></u>

Netflix, Inc.

Consolidated Other Data

(unaudited)

(in thousands, except percentages, average monthly revenue per paying subscriber, average monthly gross profit per paying subscriber and subscriber acquisition cost)

	As of / Three Months Ended		
	December 31, 2009	September 30, 2009	December 31, 2008
Subscriber information:			
Subscribers: beginning of period	11,109	10,599	8,672
Gross subscriber additions: during period	2,803	2,180	2,085
Gross subscriber additions year-to-year change	34.4%	42.7%	39.5%
Gross subscriber additions quarter-to-quarter sequential change	28.6%	12.6%	36.5%
Less subscriber cancellations: during period	(1,644)	(1,670)	(1,367)
Subscribers: end of period	12,268	11,109	9,390
Subscribers year-to-year change	30.6%	28.1%	25.6%
Subscribers quarter-to-quarter sequential change	10.4%	4.8%	8.3%
Free subscribers: end of period	376	274	226
Free subscribers as percentage of ending subscribers	3.1%	2.5%	2.4%
Paid subscribers: end of period	11,892	10,835	9,164
Paid subscribers year-to-year change	29.8%	27.6%	25.1%
Paid subscribers quarter-to-quarter sequential change	9.8%	4.4%	7.9%
Average monthly revenue per paying subscriber	\$ 13.04	\$ 13.30	\$ 13.58
Average monthly gross profit per paying subscriber	\$ 4.96	\$ 4.65	\$ 4.79
Percentage of subscribers who watched instantly more than 15 minutes of a TV episode or movie	48%	41%	28%
Churn	3.9%	4.4%	4.2%
Subscriber acquisition cost	\$ 25.23	\$ 26.86	\$ 26.67
Margins:			
Gross margin	38.0%	34.9%	35.2%
Operating margin	12.0%	11.6%	10.5%
Net margin	7.0%	7.1%	6.3%
Expenses as percentage of revenues:			
Technology and development	7.5%	7.1%	6.7%
Marketing	15.9%	13.8%	15.5%
General and administrative	3.0%	2.7%	3.0%
Gain on disposal of DVDs	(0.4)%	(0.3)%	(0.5)%
Total operating expenses	26.0%	23.3%	24.7%
Year-to-year change:			
Total revenues	23.6%	24.0%	18.9%
Subscription	19.6%	24.9%	14.8%
Fulfillment expenses	11.9%	11.2%	25.0%
Technology and development	38.1%	28.4%	30.3%
Marketing	27.1%	19.0%	7.6%
General and administrative	25.7%	(1.7)%	(20.7)%
Gain on disposal of DVDs	8.6%	(1.5)%	(5.5)%
Total operating expenses	30.3%	19.1%	8.3%

Safe Harbor Statement

Today's management commentary contains forward-looking statements relating to future events or future financial performance that involve risks and uncertainties. Actual results may differ materially from those anticipated in these statements based on a number of factors, including those identified in the company's annual report on Form 10-K filed with the SEC on February 25, 2009.

This commentary also contains references to non-GAAP financial measures. A presentation of and reconciliation to the most directly comparable GAAP financial measure, where such can be done without unreasonable effort, can be found on our Web site at <http://ir.netflix.com>.

Reed Hastings, CEO, Netflix

Our ongoing goal is to grow revenue, subscribers, and earnings, while we expand into streaming. In Q4 we succeeded in all of these objectives, setting new performance records along the way. Our numbers are in our press release, so I won't repeat them here. We are thrilled with our results. More than one million net additions in one quarter amazes me, because I remember vividly how it took us four long years, from 1999 to 2003, to get to our first million subscribers.

As you can see from our results, our subscriber growth continues to accelerate. Two years ago, our year-over-year subscriber growth was 18%. A year ago our year-over-year subscriber growth was 26%. Now it is 31%. There are two possible interpretations: the more conservative is that we are experiencing bumps due to the expansion of Netflix streaming to video game platforms, each with large installed bases. The more generous interpretation is that we are on the front half of a big S-curve of streaming adoption. We expect our growth rate to continue to increase in the first half of this year, partially due to the Wii launch this spring, and then we'll see in the second half between the more conservative or more generous explanations of our increasing subscriber growth rate. Our guidance assumes the conservative case. In any case, roughly 30% year-over-year subscriber growth at our size is phenomenal.

Nearly all our subscribers watch DVDs from Netflix, and about half of them also watch instantly from Netflix, so I'll cover DVD and Blu-ray first, before moving on to streaming. Our year-over-year disc shipments continue to grow steadily, and we think we'll be mailing discs as part of our service for another 20 years. Blu-ray is expanding nicely for us, and now over 10% of our subscribers are Blu-ray enabled. This year, for the first time in recent memory, we don't expect a postal rate increase. Despite that, we'll spend about \$600 million on postage this year shipping DVD and Blu-ray movies to our subscribers. Given the rate of video store closures, we think our shipments will continue to grow and that our annual postage will grow to over \$800 million in a few years. Obviously, the long-term goal is to use this money to buy more streaming content and become one of the studios' largest customers.

We recently signed an agreement with Warner Bros. that allows us to buy more copies of their DVD and Blu-ray new releases at a significant discount in exchange for creating a 28-day sales window for retailers such as Wal*mart, Best Buy and Amazon. This allows Warner Bros. a bit of time to increase DVD sales and thus profits on their titles. At the same time, we can now provide our subscribers with a better experience on these movies because we have more copies, and we can put the cost savings into expanding our streaming content. We expect to come to similar terms with some of the other major studios over the next two years as our deals come up for renewal. We are focused on providing unmatched levels of great content to our subscribers on DVD, on Blu-ray and to watch instantly.

As you see in our press release, about 48% of subscribers streamed a movie or TV episode in Q4, up from 41% in the prior quarter. In general, we are driving up viewing breadth with more content, with more platforms, with an improved user interface (UI), and with increased awareness. In terms of more content, we renewed and expanded our deals with NBC/Universal, Warner Bros., Sony, MGM, Paramount, The Disney Channel and others in Q4. These deals bring some of the most popular films and television shows to our subscribers to watch instantly. While we only have a fraction of the content we will eventually offer, it is enough content to drive substantial increases in viewing and viewers. As our ability to write larger checks increases, we'll be able to license more and more relevant content. Hopefully our future negotiations won't be as acrimonious as those between Fox and Time Warner Cable, or Scripps and Cablevision, but public tension during the negotiations between suppliers and distributors seems to be endemic in our industry.

In terms of more platforms, the huge news in Q4 was the successful roll-out of our application for the Sony PlayStation3 (PS3). From the PS3, our consumers can choose and play movies, and they are doing so in large numbers. I am extremely pleased with the results and the numbers are continuing to rocket forward. On the Xbox 360, where we have been available for the last 14 months, our subscribers and viewing are also continuing to grow, both as the Xbox base grows and as the attach rate for Netflix increases. Finally, we recently announced the Wii for release in the spring. The Wii's U.S. installed base is very large, over 26 million, but we won't have an on-screen presence as we do with Xbox and PS3. Instead we'll be responsible for building awareness, for which we have an advertising campaign planned. Looking beyond the three game platforms, if you got to CES you know one of the big themes was connected TVs, and Netflix was everywhere as a signature application indicating to consumers that any particular device had Internet connectivity. Next year we expect to be embedded in nearly every Blu-ray player sold, and nearly every connected TV sold. Our platform reach is growing rapidly. When you consider it was less than two years ago when our first consumer electronics partner, Roku, launched, our progress is all the more remarkable.

In terms of UI and awareness, we are also making steady progress. Most of our advertising purchasing has moved to be streaming-centric, our default home page is now our instant watching home page, and our PR is increasingly focused on instant watching. Our UI on the web is already very effective, but our TV-based UI has lots of improvements coming. The goal is to be so good with suggestions on the TV that consumers can turn on Netflix and know there will be lots they will want to watch right there on their personalized Netflix TV home page.

As we mentioned last quarter, on international, we are planning to launch in a single country in the second half of this year, which will be streaming-only. We'll start small, learn, and then decide what is the sensible course from there.

In addition to our success in the commercial-free subscription segment, the other streaming segments of ad-supported content like Hulu and YouTube are growing tremendously, and the pay-per-view segment is expanding with Apple, Amazon, and Blockbuster leading the way. Recently, Google re-entered pay-per-view content, and Hulu seems likely to expand into subscription TV shows with and without ads. We are all benefiting from the expansion of Internet video, both on laptops and on TV-connected devices. Other firms will eventually test the waters in the commercial-free subscription segment in which we focus. Our strengths are our brand clarity, our ability to include DVD-by-mail, our scale, our commercial-free offering, our device partnerships, our personalization technology, our content licensing, and, frankly, our need to win in our segment. We have an amazing opportunity ahead, and we are charging forward to win the loyalty of more and more consumers.

Barry McCarthy, CFO, Netflix

In his commentary, Reed noted the accelerating year-over-year subscriber growth in 2007, 2008, and 2009. This is the fourth consecutive quarter we've talked about accelerating growth in the business. To put that growth in a slightly broader context, let's look back at the guidance we gave in January 2009 for full year net sub growth of 1.56 million subs, measured from the mid-point of guidance. The results we announced today of 12.268 million ending subs outperformed that guidance by 85%. In addition, we outperformed the guidance we gave in January for full year earnings per share (EPS) growth by 247% (\$0.19 vs. \$0.66), also measured from the midpoint of guidance. As compared with expectations, and the S&P 400, 2009's performance was exceptional, and Q4's performance was among the best quarters in our history.

My remarks today will review our Q4 financial performance, comment on guidance, and update you on our Q4 financing and stock buyback.

Perhaps the biggest surprise in the quarter was average monthly churn of 3.9%, which ties the lowest churn in company history and represents a sequential decline of 50 basis points and a year-over-year decline of 30 basis points. The two factors most responsible for the improvement in churn are subscriber engagement with streaming and subscriber engagement with Blu-ray content.

On last quarter's call I said we expected a sequential decline in subscriber acquisition cost (SAC) in Q4, which is how the quarter played out. Q4 SAC of \$25.23 represents a decline of about 6% both sequentially and year-over-year and was the second lowest in Netflix history. Momentum associated with the launch of PS3, and organic growth related to the broad appeal of streaming movies and TV content, were the primary contributors to lower SAC in Q4.

Gross margin of 38% in Q4 was up on a year-over-year basis by 280 basis points and up sequentially by 310 basis points. Lower content expense, resulting from lower disc usage and a favorable revenue sharing mix, was the primary driver of margin expansion on a year-over-year basis. The decline in disc usage is primarily related to the increased popularity of lower priced plans which is also responsible for the decline in average monthly revenue per paying subscriber. Seasonally lower disc usage accounted for the sequential gross margin expansion.

The lower disc usage I just referred to in Q4 of 2009, like Q4 of 2008, represents a seasonal phenomenon, not a structural change in the business. With our success in streaming you might expect the growth in DVD shipments to have slowed or even declined year-over-year. But that's not happening. In fact, aggregate DVD shipments continue to grow rapidly, at annual rates of approximately 20%, and shipment growth accelerated slightly in Q4 on a year-over-year basis, even as streaming grew dramatically.

Free cash flow of \$30 million in Q4 was down 41% year-over-year due to prepayments for automation equipment and content. We also shifted from revenue sharing to purchase on certain Warner Bros. titles in Q4 which further reduced free cash flow. It's worth noting that the recently announced agreement with Warner has us back into revenue sharing on this class of titles.

Sequentially, free cash flow was up 18% due to the seasonal influx of cash receipts for gift subscription sales, partially offset by higher capital expenditures and content acquisition.

With regard to guidance, as is customary, today's earnings release includes guidance for Q1 and the full year 2010. Our guidance assumes substantial year-over-year growth in streamed content spending. More content spending pressures gross margins. If lower gross margin is the cost of better streaming, then the return on that investment as reflected in our guidance is faster subscriber growth, lower year-over-year subscriber acquisition costs, year-over-year improvements in churn, and faster EPS growth.

We plan to manage the business to an annual operating margin of approximately 11% for the calendar year 2010. If we hadn't outperformed so strongly in 2009, we'd probably have opted for 10% target margins again this year, but 10% margins would slow earnings growth unduly. So instead, we've opted for slightly higher margins, which will generate nearly 20% year-over-year growth in EPS and still allow us the operating flexibility to continue to aggressively invest in growing subscribers and our library of licensed content for streaming as well as international expansion.

Historically, we've experienced rapid sub growth in Q1, and we forecast that trend to continue in 2010, reflecting the broad based consumer appeal of our hybrid service. I began my remarks by talking about accelerating sub growth. Our guidance assumes that trend continues into 2010.

Last quarter we began the process of gradually leveraging our balance sheet to build a more efficient capital structure by lowering our weighted average cost of capital and increasing our returns on invested capital. To that end in Q4 we raised \$200 million in senior unsecured notes which mature in 2017 and cancelled the \$100 million revolving credit agreement that I spoke about on the Q3 call.

During Q4 we repurchased 1.6 million shares of Netflix stock at an average price of \$49.09 for a total cost of \$79.4 million.

For the full year 2009, we repurchased 7.4 million shares, at a total cost of \$324 million and an average cost of \$44.00.

We finished the quarter with \$320.2 million in cash and short-term investments and expect to be active again this quarter repurchasing Netflix shares.

In summary, the business model performed strongly in Q4 and our guidance assumes continued strong performance in 2010. The consumer appeal of streaming, fueled by new consumer electronics partnerships and a broader content library, has accelerated subscriber and revenue growth, lowered subscriber acquisition costs and lowered churn, all of which is driving strong net income and EPS growth as you can see in the Q1 and full year guidance we released today.