
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):
October 20, 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 October 20, 2010, Netflix, Inc. (the “Company”) announced its financial results for the quarter ended September 30, 2010. 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 Statements and Exhibits.***(d) Exhibits***

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|------|--|
| 99.1 | Press release issued by Netflix, Inc. on October 20, 2010. |
| 99.2 | Management’s commentary on financial results for the quarter ended September 30, 2010. |

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: October 20, 2010

/s/ BARRY MCCARTHY
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 October 20, 2010.
99.2*	Management's commentary on financial results for the quarter ended September 30, 2010.

* 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, October 20, 2010

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

PR CONTACT: Ken Ross
VP, Corporate Communications
(408) 540-3931

Netflix Announces Q3 2010 Financial Results

Subscribers – 16.9 million
Revenue – \$553.2 million
GAAP Net Income – \$38.0 million
GAAP EPS – \$0.70 per diluted share

LOS GATOS, Calif., October 20, 2010 – Netflix, Inc. (Nasdaq: NFLX) today reported results for the third quarter ended September 30, 2010.

“Q3 represents our fourth consecutive quarter of more than one million net subscriber additions. This growth is clearly driven by the strength of our streaming offering. In fact, by every measure, we are now primarily a streaming company that also offers DVD-by-mail,” said Reed Hastings, Netflix co-founder and CEO. “At the same time, the introduction of our streaming offering in Canada in late September has provided us with very encouraging signs regarding the potential for the Netflix service internationally.”

Third-Quarter 2010 Financial Highlights

Subscribers. Netflix ended the third quarter of 2010 with approximately 16,933,000 total subscribers, representing 52 percent year-over-year growth from 11,109,000 total subscribers at the end of the third quarter of 2009 and 13 percent sequential growth from 15,001,000 subscribers at the end of the second quarter of 2010.

Net subscriber change in the quarter was an increase of 1,932,000 compared to an increase of 510,000 for the same period of 2009 and an increase of 1,034,000 for the second quarter of 2010.

Gross subscriber additions for the quarter totaled 4,101,000, representing 88 percent year-over-year growth from 2,180,000 gross subscriber additions in the third quarter of 2009 and 34 percent quarter-over-quarter increase from 3,059,000 gross subscriber additions in the second quarter of 2010.

Of the 16,933,000 total subscribers at quarter end, 94 percent, or 15,863,000, were paid subscribers. The other 6 percent, or 1,070,000, were free subscribers. Paid subscribers represented 98 percent of total subscribers at the end of the third quarter of 2009 and 97 percent at the end of the second quarter of 2010.

Revenue for the third quarter of 2010 was \$553.2 million, representing 31 percent year-over-year growth from \$423.1 million for the third quarter of 2009, and 6 percent sequential growth from \$519.8 million for the second quarter of 2010.

Gross margin¹ for the third quarter of 2010 was 37.7 percent compared to 34.9 percent for the third quarter of 2009 and 39.4 percent for the second quarter of 2010.

GAAP net income for the third quarter of 2010 was \$38.0 million, or \$0.70 per diluted share compared to GAAP net income of \$30.1 million, or \$0.52 per diluted share, for the third quarter of 2009 and GAAP net income of \$43.5 million, or \$0.80 per diluted share, for the second quarter of 2010. GAAP net income grew 26 percent on a year-over-year basis and GAAP EPS grew 35 percent on a year-over-year basis.

Percentage of subscribers who watched instantly more than 15 minutes of a TV episode or movie in the third quarter of 2010 was 66 percent compared to 41 percent for the same period of 2009 and 61 percent for the second quarter of 2010. In Q4 a majority of Netflix subscribers will watch more content streamed from Netflix than delivered on DVD. With that transition in the business from mostly DVD to mostly streaming, this will be the last quarter the company will report this metric.

Subscriber acquisition cost² for the third quarter of 2010 was \$19.81 per gross subscriber addition compared to \$26.86 for the same period of 2009 and \$24.37 for the second quarter of 2010.

Churn³ for the third quarter of 2010 was 3.8 percent compared to 4.4 percent for the third quarter of 2009 and 4.0 percent for the second quarter of 2010. Churn includes free subscribers as well as paying subscribers who elect not to renew their monthly subscription service during the quarter.

Free cash flow⁴ for the third quarter of 2010 was \$7.8 million compared to \$25.5 million for the third quarter of 2009 and \$34.2 million for the second quarter of 2010.

Trailing twelve-month free cash flow for the third quarter of 2010 was \$109.8 million compared to \$117.9 million for the third quarter of 2009 and \$127.5 million for the second quarter of 2010.

Cash provided by operating activities for the third quarter of 2010 was \$42.2 million compared to \$78.3 million for the third quarter of 2009 and \$60.3 million for the second quarter of 2010.

Business Outlook

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

Fourth-Quarter 2010

- Ending subscribers of 19.0 million to 19.7 million, up from 17.7 million to 18.5 million
- Revenue of \$586 million to \$598 million, versus \$580 million to \$596 million
- GAAP net income of \$32 million to \$40 million, unchanged
- GAAP EPS of \$0.59 to \$0.74 per diluted share, unchanged

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 Condensed Consolidated Statements of Operations divided by total gross subscriber additions during the quarter.

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.

Full-Year 2010

- Ending subscribers of 19.0 million to 19.7 million, up from 17.7 million to 18.5 million
- Revenue of \$2.15 billion to \$2.16 billion, versus \$2.14 billion to \$2.16 billion
- GAAP net income of \$146 million to \$154 million, versus \$141 million to \$156 million
- GAAP EPS of \$2.68 to \$2.83 per diluted share, up from \$2.58 to \$2.86 per diluted share

Earnings Q&A Session

In conjunction with this earnings press release, the Company has posted management's commentary to its Web site at <http://ir.netflix.com>. Netflix management will host a live Q&A session at 3:00 p.m. Pacific Time to discuss the Company's financial results and business outlook, with questions submitted via email. Please email your questions to ir@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 Ken Ross at (408) 540-3931 or krross@netflix.com.

A live webcast and the replay of the earnings Q&A session can be accessed on the investor relations section of the Netflix website at <http://ir.netflix.com>. For those without access to the Internet, a replay of the call will be available from 6:00 p.m. Pacific Time on October 20, 2010 through midnight on October 25, 2010. To listen to the replay, call (706) 645-9291, conference ID 87600137.

Use of Non-GAAP Measures

This press release and its attachments include reference to non-GAAP financial measures of free cash flow and non-GAAP net income. 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. Management believes that free cash flow is an important liquidity metric because it measures, during a given period, the amount of cash generated that is available to repay debt obligations, make investments, repurchase stock and for certain other 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 16 million members in the United States and Canada, Netflix, Inc. [Nasdaq: NFLX] is the world's leading Internet subscription service for enjoying movies and TV shows. For \$8.99 a month, Netflix members in the U.S. can instantly watch unlimited movies and TV episodes streaming right to their TVs and computers and can receive unlimited DVDs delivered quickly to their homes. In Canada, streaming unlimited movies and TV shows from Netflix is available for \$7.99 a month. Among the large and expanding base of devices streaming from Netflix are Microsoft's Xbox 360, Nintendo's Wii and Sony's PS3 consoles; Blu-ray disc players from Best Buy's Insignia brand, LG and Samsung; Internet TVs from LG, Samsung, Sony and VIZIO; the Roku digital video player and TiVo digital video recorders; and Apple's iPhone, iPad and iPod touch. All of these devices are available in the U.S. and a growing number are available in Canada. 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 subscribers usage of our streaming service, our subscriber growth, revenue, GAAP net income and earnings per share for the fourth 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 22, 2010. 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			Nine Months Ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Revenues	\$ 553,219	\$519,819	\$ 423,120	\$ 1,566,703	\$ 1,225,727
Cost of revenues:					
Subscription	292,406	265,387	233,091	817,353	677,863
Fulfillment expenses *	52,063	49,547	42,183	149,212	125,922
Total cost of revenues	<u>344,469</u>	<u>314,934</u>	<u>275,274</u>	<u>966,565</u>	<u>803,785</u>
Gross profit	208,750	204,885	147,846	600,138	421,942
Operating expenses:					
Technology and development *	42,108	37,863	30,014	117,370	81,333
Marketing *	81,238	74,533	58,556	230,990	167,029
General and administrative *	17,135	17,119	11,543	51,447	37,809
Gain on disposal of DVDs	(1,232)	(1,972)	(1,604)	(4,857)	(2,819)
Total operating expenses	<u>139,249</u>	<u>127,543</u>	<u>98,509</u>	<u>394,950</u>	<u>283,352</u>
Operating income	69,501	77,342	49,337	205,188	138,590
Other income (expense):					
Interest expense	(4,945)	(4,893)	(674)	(14,797)	(2,018)
Interest and other income	853	921	1,808	2,746	4,284
Income before income taxes	65,409	73,370	50,471	193,137	140,856
Provision for income taxes	27,442	29,851	20,330	79,379	55,909
Net income	<u>\$ 37,967</u>	<u>\$ 43,519</u>	<u>\$ 30,141</u>	<u>\$ 113,758</u>	<u>\$ 84,947</u>
Net income per share:					
Basic	\$ 0.73	\$ 0.83	\$ 0.54	\$ 2.17	\$ 1.48
Diluted	\$ 0.70	\$ 0.80	\$ 0.52	\$ 2.09	\$ 1.43
Weighted average common shares outstanding:					
Basic	52,142	52,486	56,146	52,510	57,576
Diluted	53,931	54,324	57,938	54,341	59,427
* Stock-based compensation included in expense line items:					
Fulfillment expenses	\$ 323	\$ 307	\$ 99	\$ 806	\$ 321
Technology and development	2,694	2,376	1,169	6,939	3,430
Marketing	777	756	452	2,176	1,353
General and administrative	3,502	3,489	1,512	9,805	4,538
Reconciliation of Non-GAAP Financial Measures					
(unaudited)					
Non-GAAP net income reconciliation:					
GAAP net income	\$ 37,967	\$ 43,519	\$ 30,141	\$ 113,758	\$ 84,947
Stock-based compensation	7,296	6,928	3,232	19,726	9,642
Income tax effect of stock-based compensation	(3,064)	(2,820)	(1,302)	(8,118)	(3,833)
Non-GAAP net income	<u>\$ 42,199</u>	<u>\$ 47,627</u>	<u>\$ 32,071</u>	<u>\$ 125,366</u>	<u>\$ 90,756</u>
Non-GAAP net income per share:					
Basic	\$ 0.81	\$ 0.91	\$ 0.57	\$ 2.39	\$ 1.58
Diluted	\$ 0.78	\$ 0.88	\$ 0.55	\$ 2.31	\$ 1.53
Weighted average common shares outstanding:					
Basic	52,142	52,486	56,146	52,510	57,576
Diluted	53,931	54,324	57,938	54,341	59,427

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

	As of	
	September 30,	December 31,
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 113,108	\$ 134,224
Short-term investments	143,705	186,018
Current content library, net	138,389	37,329
Prepaid content	59,322	26,741
Other current assets	37,723	26,701
Total current assets	492,247	411,013
Content library, net	120,047	108,810
Property and equipment, net	125,057	131,653
Deferred tax assets	19,219	15,958
Other non-current assets	13,713	12,300
Total assets	<u>\$ 770,283</u>	<u>\$ 679,734</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 170,120	\$ 92,542
Accrued expenses	36,974	33,387
Current portion of lease financing obligations	2,027	1,410
Deferred revenue	102,986	100,097
Total current liabilities	312,107	227,436
Long-term debt	200,000	200,000
Lease financing obligations, excluding current portion	34,659	36,572
Other non-current liabilities	31,542	16,583
Total liabilities	578,308	480,591
Stockholders' equity:		
Common stock, \$0.001 par value; 160,000,000 shares authorized at September 30, 2010 and December 31, 2009; 52,257,495 and 53,440,073 issued and outstanding at September 30, 2010 and December 31, 2009, respectively	52	53
Accumulated other comprehensive income, net	1,279	273
Retained earnings	190,644	198,817
Total stockholders' equity	191,975	199,143
Total liabilities and stockholders' equity	<u>\$ 770,283</u>	<u>\$ 679,734</u>

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

	Three Months Ended			Nine Months Ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Cash flows from operating activities:					
Net income	\$ 37,967	\$ 43,519	\$ 30,141	\$ 113,758	\$ 84,947
Adjustments to reconcile net income to net cash provided by operating activities:					
Acquisition of streaming content library	(115,149)	(66,157)	(9,998)	(231,781)	(41,432)
Amortization of content library	77,146	65,143	56,690	204,581	159,229
Depreciation and amortization of property, equipment and intangibles	8,678	9,309	9,618	28,846	27,806
Amortization of discounts and premiums on investments	200	236	126	670	439
Amortization of debt issuance costs	140	137	—	375	—
Stock-based compensation expense	7,296	6,928	3,232	19,726	9,642
Excess tax benefits from stock-based compensation	(16,093)	(11,182)	(1,600)	(34,699)	(9,099)
Loss on disposal of property and equipment	254	—	—	254	254
Gain on sale of short-term investments	(206)	(215)	(984)	(685)	(1,455)
Gain on disposal of DVDs	(2,142)	(3,058)	(2,491)	(8,428)	(5,030)
Deferred taxes	3,194	(3,394)	(71)	(2,961)	4,710
Changes in operating assets and liabilities:					
Prepaid content	(25,485)	(2,133)	107	(32,581)	2,592
Other current assets	(3,374)	(9,211)	7,518	(12,037)	(4,203)
Accounts payable	41,692	19,706	(13,173)	78,738	(11,150)
Accrued expenses	18,003	7,917	2,175	39,666	6,272
Deferred revenue	1,567	1,310	(1,372)	2,889	(4,004)
Other assets and liabilities	8,539	1,397	(1,607)	13,353	(272)
Net cash provided by operating activities	42,227	60,252	78,311	179,684	219,246
Cash flows from investing activities:					
Acquisitions of DVD content library	(29,900)	(24,191)	(46,273)	(90,993)	(135,996)
Purchases of short-term investments	(15,379)	(21,795)	(21,006)	(73,169)	(102,159)
Proceeds from sale of short-term investments	42,238	32,055	85,904	105,063	130,669
Proceeds from maturities of short-term investments	1,995	4,310	3,480	10,318	30,985
Purchases of property and equipment	(7,342)	(5,671)	(9,994)	(19,406)	(23,499)
Acquisitions of intangible assets	(375)	—	—	(505)	(200)
Proceeds from sale of DVDs	3,109	3,815	3,345	10,908	7,230
Other assets	48	10	134	(114)	143
Net cash (used in) provided by investing activities	(5,606)	(11,467)	15,590	(57,898)	(92,827)
Cash flows from financing activities:					
Principal payments of lease financing obligations	(470)	(465)	(294)	(1,296)	(858)
Proceeds from issuance of common stock	10,927	13,109	2,725	33,954	26,092
Excess tax benefits from stock-based compensation	16,093	11,182	1,600	34,699	9,099
Repurchases of common stock	(57,390)	(45,145)	(129,686)	(210,259)	(244,916)
Net cash used in financing activities	(30,840)	(21,319)	(125,655)	(142,902)	(210,583)
Net increase (decrease) in cash and cash equivalents	5,781	27,466	(31,754)	(21,116)	(84,164)
Cash and cash equivalents, beginning of period	107,327	79,861	87,471	134,224	139,881
Cash and cash equivalents, end of period	<u>\$ 113,108</u>	<u>\$107,327</u>	<u>\$ 55,717</u>	<u>\$ 113,108</u>	<u>\$ 55,717</u>
Non-GAAP free cash flow reconciliation:					
Net cash provided by operating activities	\$ 42,227	\$ 60,252	\$ 78,311	\$ 179,684	\$ 219,246
Acquisitions of DVD content library	(29,900)	(24,191)	(46,273)	(90,993)	(135,996)
Purchases of property and equipment	(7,342)	(5,671)	(9,994)	(19,406)	(23,499)
Acquisitions of intangible assets	(375)	—	—	(505)	(200)
Proceeds from sale of DVDs	3,109	3,815	3,345	10,908	7,230
Other assets	48	10	134	(114)	143
Non-GAAP free cash flow	<u>\$ 7,767</u>	<u>\$ 34,215</u>	<u>\$ 25,523</u>	<u>\$ 79,574</u>	<u>\$ 66,924</u>

	Twelve Months Ended		
	September 30,		September 30,
	2010	June 30, 2010	2009
Non-GAAP free cash flow reconciliation:			
Net cash provided by operating activities	\$ 285,501	\$ 321,585	\$ 311,346
Acquisitions of DVD content library	(148,041)	(164,414)	(174,291)
Purchases of property and equipment	(41,839)	(44,491)	(30,970)
Acquisitions of intangible assets	(505)	(130)	(200)
Proceeds from sale of DVDs	14,842	15,078	11,925
Other assets	(186)	(100)	111
Non-GAAP free cash flow	<u>\$ 109,772</u>	<u>\$ 127,528</u>	<u>\$ 117,921</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		
	September 30, 2010	June 30, 2010	September 30, 2009
Subscriber information:			
Subscribers: beginning of period	15,001	13,967	10,599
Gross subscriber additions: during period	4,101	3,059	2,180
Gross subscriber additions year-to-year change	88.1%	58.0%	42.7%
Gross subscriber additions quarter-to-quarter sequential change	34.1%	(12.4%)	12.6%
Less subscriber cancellations: during period	(2,169)	(2,025)	(1,670)
Subscribers: end of period	16,933	15,001	11,109
Subscribers year-to-year change	52.4%	41.5%	28.1%
Subscribers quarter-to-quarter sequential change	12.9%	7.4%	4.8%
Free subscribers: end of period	1,070	424	274
Free subscribers as percentage of ending subscribers	6.3%	2.8%	2.5%
Paid subscribers: end of period	15,863	14,577	10,835
Paid subscribers year-to-year change	46.4%	40.5%	27.6%
Paid subscribers quarter-to-quarter sequential change	8.8%	7.0%	4.4%
Average monthly revenue per paying subscriber	\$ 12.12	\$ 12.29	\$ 13.30
Average monthly gross profit per paying subscriber	\$ 4.57	\$ 4.84	\$ 4.65
Percentage of subscribers who watched instantly more than 15 minutes of a TV episode or movie	66%	61%	41%
Household penetration - Bay Area	27%	26%	21%
Household penetration - Rest of Country	14%	13%	10%
Churn	3.8%	4.0%	4.4%
Subscriber acquisition cost	\$ 19.81	\$ 24.37	\$ 26.86
Margins:			
Gross margin	37.7%	39.4%	34.9%
Operating margin	12.6%	14.9%	11.6%
Net margin	6.9%	8.4%	7.1%
Expenses as percentage of revenues:			
Technology and development	7.6%	7.3%	7.1%
Marketing	14.7%	14.3%	13.8%
General and administrative	3.1%	3.3%	2.7%
Gain on disposal of DVDs	(0.2%)	(0.4%)	(0.3%)
Total operating expenses	25.2%	24.5%	23.3%
Year-to-year change:			
Total revenues	30.7%	27.2%	24.0%
Cost of subscription	25.4%	16.7%	24.9%
Fulfillment expenses	23.4%	18.2%	11.2%
Technology and development	40.3%	39.6%	28.4%
Marketing	38.7%	61.2%	19.0%
General and administrative	48.4%	29.2%	(1.7%)
Gain on disposal of DVDs	(23.2%)	1571.2%	(1.5%)
Total operating expenses	41.4%	47.5%	19.1%

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 22, 2010.

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

The third quarter of 2010 was another extraordinary quarter of growth for Netflix. On a year-over-year basis, our subscriber growth was 52%, our revenue growth was 31%, and EPS grew 35%.

For Q4, we are forecasting, at the midpoint, subscriber growth of 58%, revenue growth of 33%, and EPS growth of 19%. In other words, we are forecasting even more subscriber growth in the fourth quarter.

Driving these results is the strength of our consumer streaming offering. Three years ago we were a DVD-by-mail company that offered some streaming. We are very proud to announce that by every measure we are now a streaming company, which also offers DVD-by-mail. In Q4, we'll spend more on streaming content than DVD content, and we'll deliver many more hours of entertainment via streaming than on DVD. More impressively, a majority of our subs will watch more content streamed from Netflix than delivered by us on DVD. DVD-by-mail shipments are still growing, but streaming for us is much larger and growing much faster.

In terms of the economics of this evolution, our revenue in Q3 grew about 30% but our disc shipments only grew about 10%, which has allowed us to take up our streaming spend. We plan to continue to drive this trend with more streaming content spend, consistent with our operating margins goals. Since we still spend over \$500m per year just on postage there is plenty of

financial room for more investment in streaming content going forward. In a few leading markets, such as the San Francisco Bay Area, the tide has already turned, and DVD-by-mail shipments are slightly down from a year ago, while streaming usage grew dramatically and subscriber growth is strong. The virtuous cycle for us is: acquire more streaming content which helps grow our subscriber base and lessen our DVD-by-mail expense, which in turn provides us with greater financial resources to acquire more streaming content, improve the user interface and continue to grow the subscriber base.

As the reputation of Netflix streaming gains strength among consumers, we become an essential application on every internet connected device. Apple launched their terrific \$99 AppleTV, and Netflix is one of the few non-Apple applications included. Similarly, Google is launching their Google TV platform, built into a Sony TV, and Netflix is a key application on the platform. Google and Apple are driving their internet platforms to the TV, which, along with Microsoft, Nintendo, and Sony game consoles, Blu-ray players, Internet TVs, and Roku's, are making the enjoyment of internet video on the TV easier and easier.

Not only are we adding new partner devices, but we are also improving the experience on our existing partner devices. Until this week, subscribers had to insert a game disc into their PS3 or Wii to start the Netflix application. Now we have new, much improved, versions of our TV-screen UI that is directly downloadable and updatable on the Wii and PS3, with no disc required to install or operate the application.

The volume and the quality of our streaming content in the U.S. continues to grow, with big new infusions of great movies and TV episodes. In Q3, we began our long-term relationship with the studio-owned pay TV service EPIX. We have already added nearly 1,000 new titles from Paramount, MGM and Lionsgate through this new deal, with more to come. Coupled with our existing Starz deal, we now have the complete theatrical output from Sony, Disney, Paramount, Lionsgate and MGM studios. TV shows are of equal importance to our content strategy and with our recent TV content additions, TV shows are now viewed on Netflix about the same number of hours as are movies. In the quarter, we renewed and expanded our deal with NBC Universal. This includes the addition of current network series like "Parks and Recreation" and new seasons of "30 Rock" and the entire library of "Saturday Night Live." More importantly, we added series from NBCU's cable networks, like the USA shows "Psych" and "Monk." Current F/X series "Archer" and "Louie, Louie," are also now available. Our studio and Indie output

movie deals now cover a higher percentage of movies than any Pay TV service and we now stream the most complete offering of previous seasons of TV shows from most of the network and cable channels. Of course, there is more to come as we can afford to spend more. As we grow, we are reinvesting our additional revenue back into growing our streaming content to make it as compelling as possible and extend our competitive lead.

In Q3, we began our international expansion with our launch of the Netflix service in Canada. We are encouraged by our results, and we are on track to be profitable in Canada late next year. To review, our primary costs in serving Canadians are licensing content and marketing our service, and our revenue is from subscriptions. We break even when we have enough subscribers to cover the costs of content and marketing. If we continue to gain confidence in a large return on our Canadian investment, and we have confidence in the financial return on further geographic expansion, then we'll look to grow beyond North America starting in the second half of 2011. In that case, we would invest approximately \$50m for beyond-North-America expansion in the second half of 2011, and our addressable market would increase significantly. As I said on last quarter's Q&A, we plan to operate the very fast growing North American business with a 12% or better annual operating margin next year, independent of our possible beyond-North-America expansion. Our advantages on a global basis are our relationships with global CE companies, our technology for dynamic personalization and streaming, our process knowledge of building an internet content subscription business, and our relationships with content companies.

The internet is naturally global in a way that isn't true of regulated broadcast spectrum or local cable. When you look at Skype revenue or Comscore reporting of YouTube users, both representative of globally-available pure-broadband services, approximately 80% comes from outside the US. We see the upside of becoming a global broadband entertainment firm as expanding our addressable market considerably. Just as we did with our expansion from DVD-by-mail to streaming, we'll exercise prudence in going step by step in our global expansion; for example, waiting until we have confidence in a large ROI on our Canadian expansion before going beyond North America. Other Netflix expansions, such as from DVD-by-mail to streaming, and into Canada, we've accomplished while at the same time increasing consolidated operating margin. The difference here is the relatively large size of the global opportunity as broadband becomes world-wide, and the competitive window that will be open only temporarily.

Our success with our pure streaming offering in Canada at \$7.99 has encouraged us to test this model in the USA. If our results are as strong as we think they will be, then we will look to start this offering later in this Q4. Pure streaming could become our core offering in the USA, and DVD would be offered as a supplement for an additional charge, like we offer Blu-ray today. We'll know by the holiday season if consumers would prefer this more streaming-centric approach.

The competitive landscape is continuing to evolve. There are rumors of Amazon entering subscription; Hulu Plus is in beta; and TV Everywhere is getting more widely adopted. We've expanded our TV show selection and have become as strong in TV shows as we are in movies. Despite the competitive environment, our 52% subscriber growth last quarter continues to underscore the compelling nature of our offering.

Looking forward to 2011, we see many of the same forces at play in 2010: video store closures, more Netflix devices, improved Netflix user-interface, more Netflix streaming content, more awareness of streaming generally, and increasing competition. Going into next year, we will be growing subscribers by over 50% year-over-year, and we'll work hard to keep that extraordinary momentum going through 2011.

Barry McCarthy, CFO, Netflix

"Growth" was again the dominant theme in the third quarter, fueled by the broad-based appeal and rapid growth of streaming. For 9 of the last 11 quarters, subscriber growth has been accelerating. Not since the third quarter of 2006 has the year-over-year growth in ending subscribers been this fast.

Last quarter I suggested that the financial results year-to-date and our guidance through 2010 should give you confidence that the business model is working well and our financial results are solid. Our Q3 results underscore the point.

Q3 Results

Revenue growth accelerated last quarter by 670 bps on a Y/Y basis on the strength of our subscriber growth. Faster subscriber growth in the U.S., along with our growth in Canada, explains the relatively high percentage of free to paid subscribers at quarter end.

Gross margin of 37.7% increased by 280 bps Y/Y. Lower DVD-related costs, expressed as a percent of revenue, were the principal drivers of higher margin, despite the Y/Y increase in shipments of DVD's. This reduction includes content, postage and labor costs. The margin expansion related to these costs more than offset the significantly higher costs of growing our streaming content library, which only reflected a partial quarter of Epix related licensing expense. An additional 63 bps of margin expansion was related to a change in the estimate of royalty rates used for the accrual of license fees for music rights.

On prior earnings calls you've heard Reed say there are at least two ways to invest in growth. One is to spend more on marketing. Another is to improve the value proposition of our service, either in the form of lower prices, or better service, or both. The financial expression of this interplay is the relationship between gross margin, SAC, and churn.

Record low SAC in the quarter of \$19.81 and record low churn of 3.8% reflects the impact of our ongoing investment in growing the Netflix ecosystem for streamed content, which drives more organic growth, longer customer life, and more lifetime value. We expect the trend to continue.

As it relates to Q3 churn, subscriber engagement in streaming drove a 20 bps improvement in churn Q/Q and a 60 bps improvement Y/Y. Overall churn is lowest among subscribers engaged in both DVD and streaming behavior, followed by streaming only subs, followed by DVD only subs. The trend toward lower churn from streaming-related subs reflects the significant investments we've made to improve the overall user experience.

Lower churn, which drives greater lifetime value, and more organic growth, which drives lower SAC, are two of the ways in which we expect to recoup our investment in licensing more streamed content, which pressures gross margin, both in the U.S. and as we grow our international business.

Free cash flow of \$7.8 million declined sharply on a Y/Y and Q/Q basis. Prepayment on the Epix license agreement was the primary contributor to the decline. Other than Epix, the Q3 cash flow attributes of our business remained strong, and we'll return to more normalized FCF levels in Q4, with FCF more in line with NI.

We finished the quarter with \$257 million in cash and short-term investments and \$200 million in debt, which matures in 2017. As many of you know, we used the proceeds of the debt offering to repurchase Netflix stock.

During the quarter, we continued to use excess cash for share repurchases. In total we spent \$58.6 million to purchase 530 thousand shares at an average cost of \$110.

In terms of future buybacks, we have no plans to dip below \$260 million in cash and cash equivalents.

Q4 Guidance

Today's earnings release includes our revised Q4 guidance. As in prior years, we'll release our 2011 guidance on the Q4 earnings call in January.

We expect the current momentum to continue through the fourth quarter and beyond. This explains our upwardly revised subscriber guidance for Q4. Faster subscriber growth results, in part, from our investments in licensing additional streamed content, which improves the Netflix value proposition. New license deals in the U.S. and Canada, plus a full quarter of Epix license fee expense, will pressure gross margins in Q4 and reduce operating margins somewhat from Q3 levels. Y/Y reductions in marketing spending will mostly fund the increased content spending as we balance the tradeoffs between growing even faster and short term profits.

Reed's comments mentioned that in Q4 we'll spend more on streaming content and deliver more hours of entertainment via streaming than on DVD. And a majority of our subs will watch more content streamed from Netflix than delivered by us on DVD. With that transition in our business from mostly DVD to mostly streaming, this will be the last quarter we report the percent of subs that streamed more than 15 minutes of streamed content in the last 91 days.

Closing Thoughts

The promise of "streaming" has become a reality faster than many of us expected. And the balance of risks and rewards that we all associated with managing the evolution of our business model across the digital divide has shifted in our favor more quickly than we forecast it would.

As a consequence, we have more upside in the business than ever before, both domestically and abroad.

Continuous improvements in the Netflix service have been a key component in our success. Done correctly, it drives organic growth, lower gross margin, lower SAC, lower churn and higher lifetime value.

Our overarching objective is to drive that same virtuous cycle of success in international markets. And we look forward to reporting on our progress in the years to come.



Q3'10 Financial Highlights | October 20, 2010

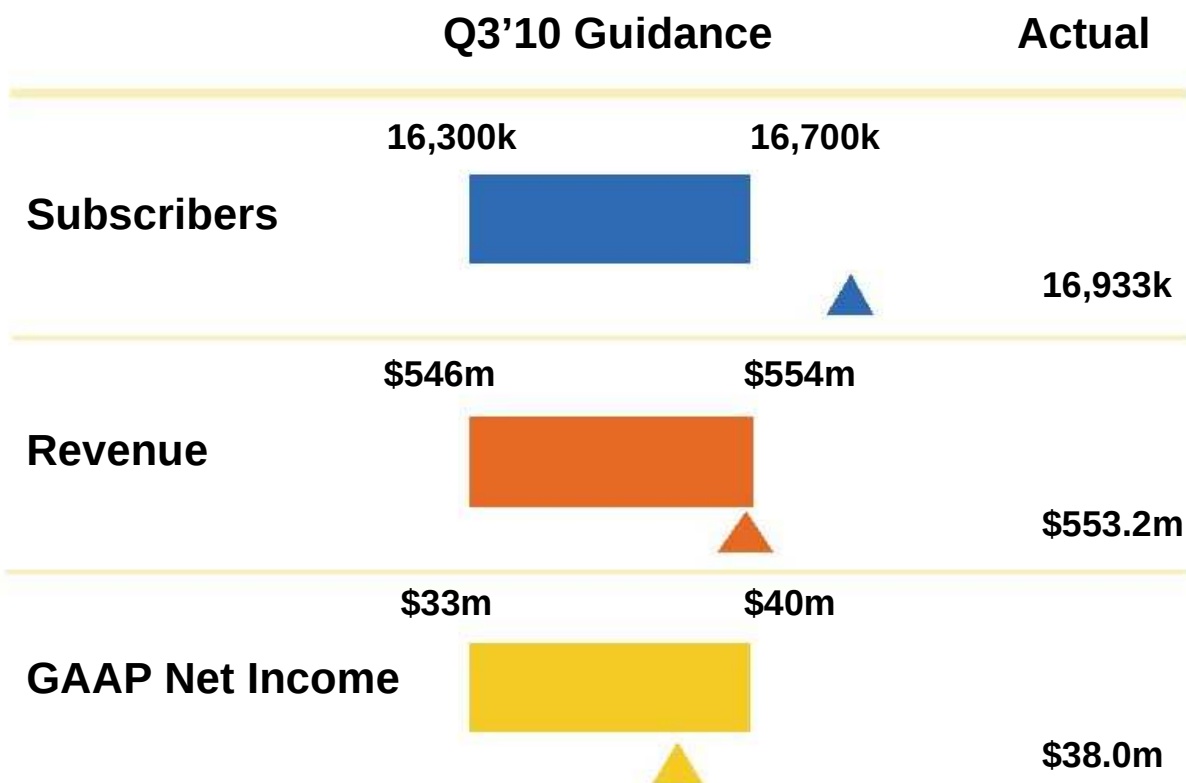
Forward-Looking Statements and Non-GAAP Financial Measurements

This presentation 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 22, 2010.

This presentation 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>.



Q3 Results

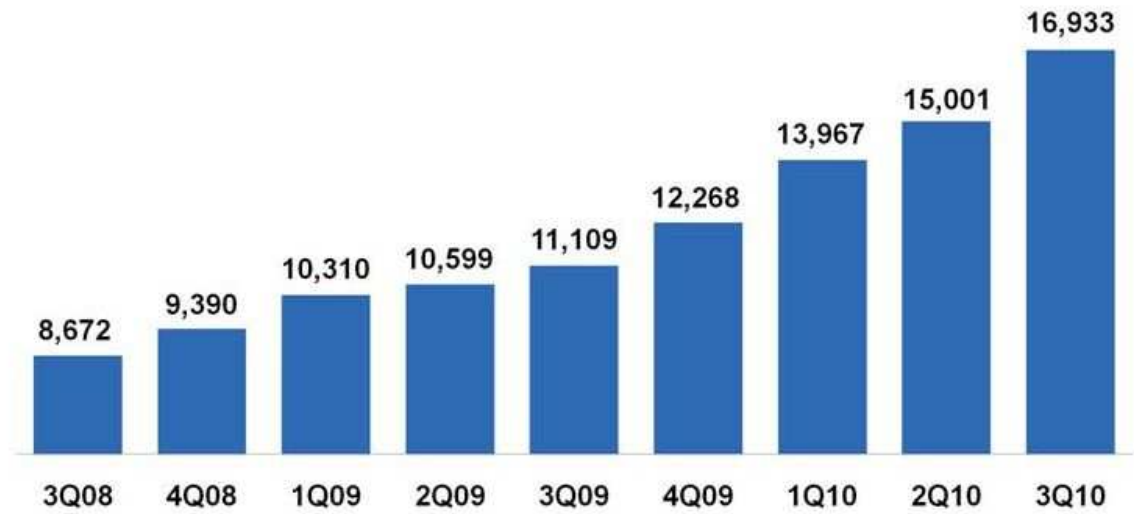


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Subscriber Growth

(in thousands)

Netflix Subscribers

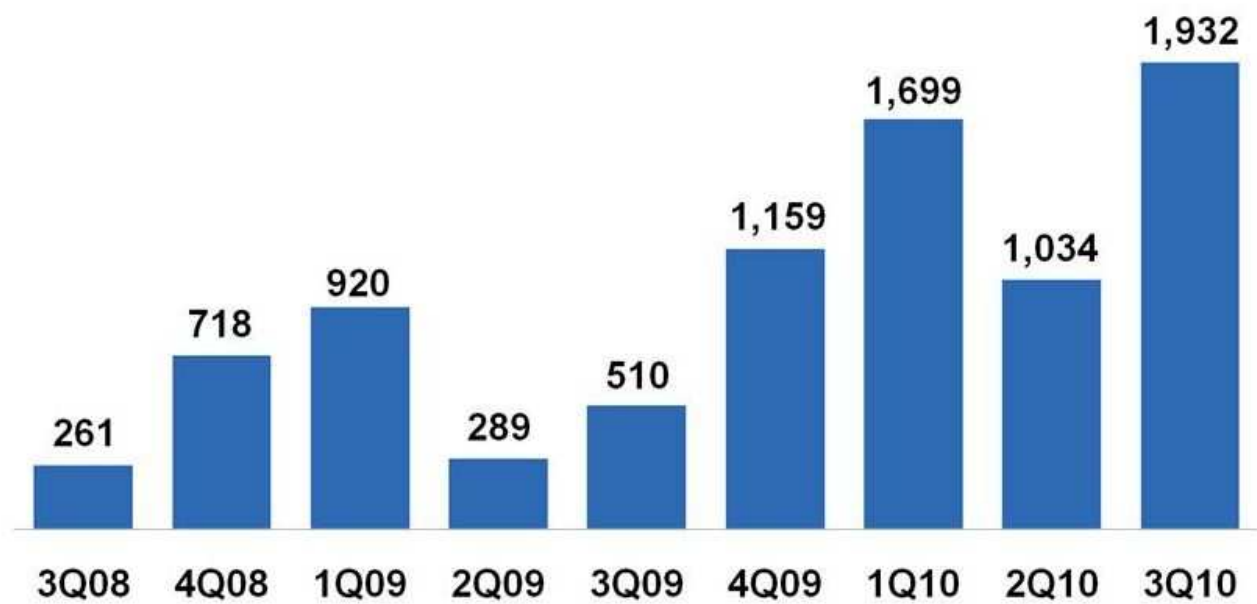


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Net Additions

(in thousands)

Net Subscriber Additions

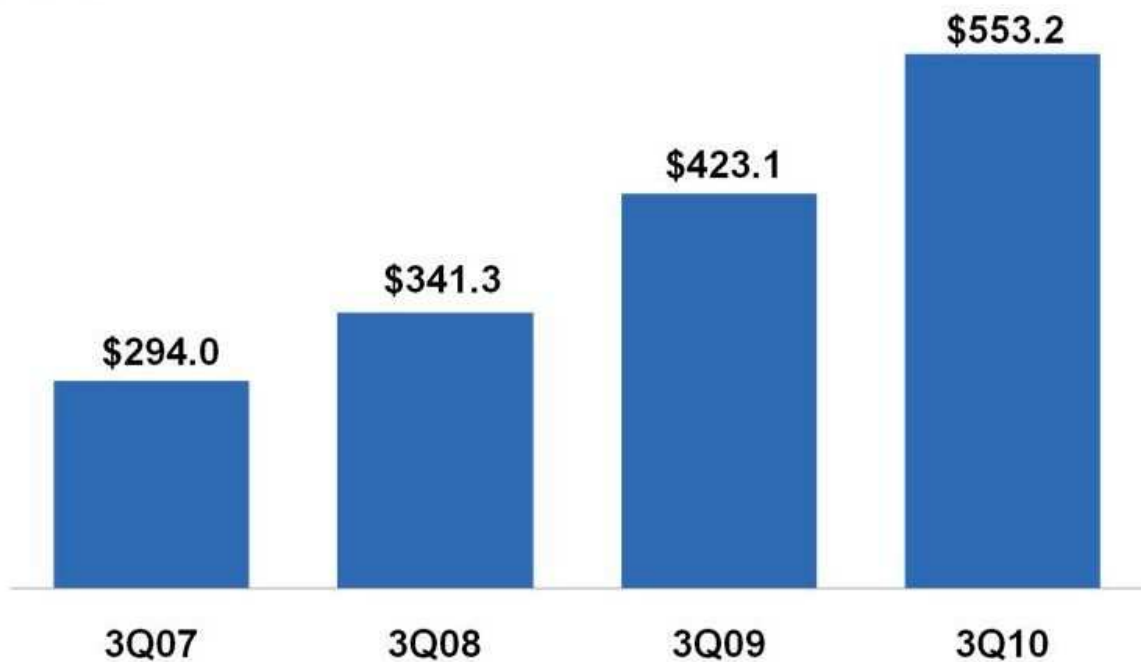


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Q3 Revenue

(in millions)

Total Revenue



Note: Netflix implemented price reductions in July 2007

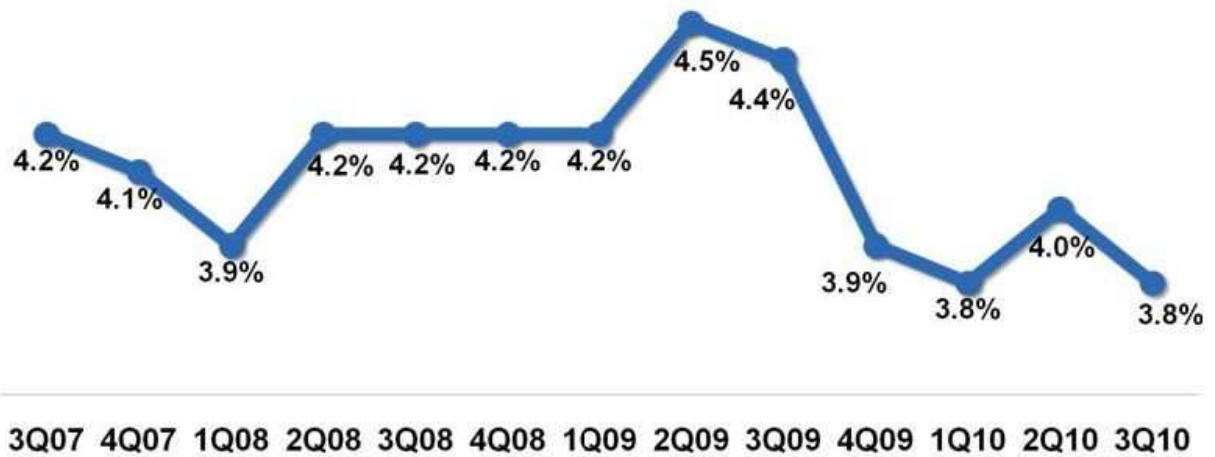
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Q3 GAAP Net Income & Fully Diluted EPS



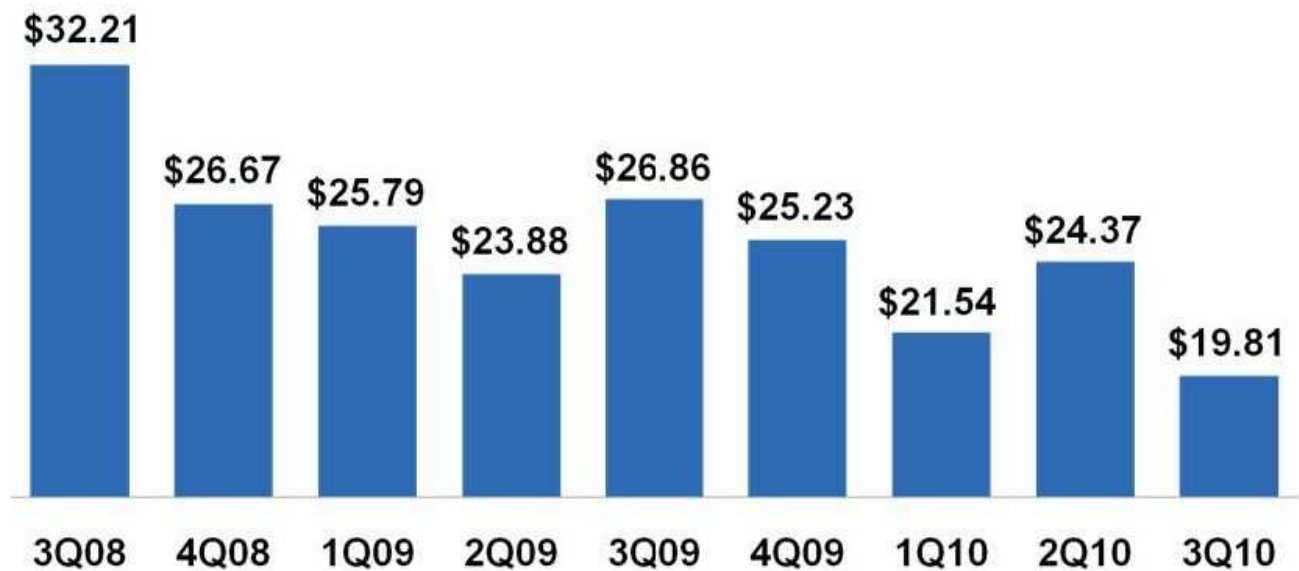
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Subscriber Acquisition Cost



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Free Cash Flow

(in thousands)

	3Q09	4Q09	1Q10	2Q10	3Q10
Non-GAAP Free Cash Flow Reconciliation:					
Net cash provided by operating activities	\$78,311	\$105,817	\$77,205	\$60,252	\$42,227
Purchases of property and equipment	(9,994)	(22,433)	(6,393)	(5,671)	(7,342)
Acquisition of intangible asset	—	—	(130)	—	(375)
Acquisitions of DVD content library	(46,273)	(57,048)	(36,902)	(24,191)	(29,900)
Proceeds from sale of DVDs	3,345	3,934	3,984	3,815	3,109
Other assets	134	(72)	(172)	10	48
Non-GAAP Free Cash Flow	\$25,523	\$30,198	\$37,592	\$34,215	\$7,767

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Business Outlook

	4Q10	FY'10
Subscribers	19.0 – 19.7M	19.0 – 19.7M
Revenue	\$586 – 598M	\$2.15 – 2.16B
GAAP Net Income	\$32 – 40M	\$146 – 154M
GAAP EPS*	\$0.59 – 0.74	\$2.68 – 2.83

*Fully Diluted

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Quarterly Summary Financials

	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10
Subscribers (M)	10.6	11.1	12.3	14.0	15.0	16.9
Y/Y Change	26%	28%	31%	35%	42%	52%
Revenue (M)	\$409	\$423	\$445	\$494	\$520	\$553
Y/Y Change	21%	24%	24%	25%	27%	31%
Operating Profit (M)	\$53	\$49	\$53	\$58	\$77	\$70
Y/Y Change	54%	45%	41%	60%	47%	41%
Net Income (M)	\$32	\$30	\$31	\$32	\$44	\$38
Y/Y Change	22%	48%	36%	44%	34%	26%
EPS*	\$0.54	\$0.52	\$0.56	\$0.59	\$0.80	\$0.70
Y/Y Change	29%	58%	47%	59%	48%	35%
% of Subscribers Watching Instantly > 15 minutes	37%	41%	48%	55%	61%	66%

*Fully Diluted

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Fiscal Year Summary Financials

	2005	2006	2007	2008	2009	Mid-point of Guidance 2010
Subscribers (M)	4.2	6.3	7.5	9.4	12.3	19.4
<i>Y/Y Change</i>	60%	51%	18%	26%	31%	58%
Revenue (M)	\$682	\$997	\$1,205	\$1,365	\$1,670	\$2,159
<i>Y/Y Change</i>	36%	46%	21%	13%	22%	29%
Operating Profit (M)	\$3	\$65	\$92	\$122	\$192	--
<i>Y/Y Change</i>	-86%	2387%	41%	32%	58%	
Net Income (M)	\$42	\$49	\$67	\$83	\$116	\$150
<i>Y/Y Change</i>	96%	17%	36%	25%	40%	29%
EPS*	\$0.64	\$0.71	\$0.97	\$1.32	\$1.98	\$2.76
<i>Y/Y Change</i>	94%	11%	37%	36%	50%	39%
% of Subscribers Watching Instantly > 15 minutes	NA	NA	NA	28%	48%	--

*Fully Diluted

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