

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2021

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: 001-35727

**Netflix, Inc.**

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

100 Winchester Circle, Los Gatos, California

(Address of principal executive offices)

77-0467272

(I.R.S. Employer  
Identification Number)

95032

(Zip Code)

(408) 540-3700

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.001 per share	NFLX	NASDAQ Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of March 31, 2021, there were 443,383,732 shares of the registrant's common stock, par value \$0.001, outstanding.

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## NETFLIX, INC.

**Consolidated Statements of Operations**  
**(unaudited)**  
**(in thousands, except per share data)**

	Three Months Ended	
	March 31, 2021	March 31, 2020
Revenues	\$ 7,163,282	\$ 5,767,691
Cost of revenues	3,868,511	3,599,701
Marketing	512,512	503,830
Technology and development	525,207	453,817
General and administrative	297,196	252,087
Operating income	1,959,856	958,256
Other income (expense):		
Interest expense	(194,440)	(184,083)
Interest and other income	269,086	21,697
Income before income taxes	2,034,502	795,870
Provision for income taxes	(327,787)	(86,803)
Net income	\$ 1,706,715	\$ 709,067
Earnings per share:		
Basic	\$ 3.85	\$ 1.61
Diluted	\$ 3.75	\$ 1.57
Weighted-average common shares outstanding:		
Basic	443,224	439,352
Diluted	455,641	452,494

See accompanying notes to the consolidated financial statements.

## NETFLIX, INC.

**Consolidated Statements of Comprehensive Income**  
**(unaudited)**  
**(in thousands)**

	Three Months Ended	
	March 31, 2021	March 31, 2020
Net income	\$ 1,706,715	\$ 709,067
Other comprehensive loss:		
Foreign currency translation adjustments	(40,261)	(23,533)
Comprehensive income	<u>\$ 1,666,454</u>	<u>\$ 685,534</u>

See accompanying notes to the consolidated financial statements.

## NETFLIX, INC.

**Consolidated Statements of Cash Flows**  
**(unaudited)**  
**(in thousands)**

	Three Months Ended	
	March 31, 2021	March 31, 2020
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,706,715	\$ 709,067
Adjustments to reconcile net income to net cash provided by operating activities:		
Additions to content assets	(3,284,576)	(3,294,275)
Change in content liabilities	(266,040)	258,945
Amortization of content assets	2,719,196	2,483,385
Depreciation and amortization of property, equipment and intangibles	35,741	28,517
Stock-based compensation expense	107,230	97,019
Foreign currency remeasurement gain on debt	(253,330)	(93,060)
Other non-cash items	72,657	65,448
Deferred income taxes	159,733	46,619
Changes in operating assets and liabilities:		
Other current assets	(221,555)	(127,353)
Accounts payable	(137,313)	(149,153)
Accrued expenses and other liabilities	177,897	214,191
Deferred revenue	22,279	62,008
Other non-current assets and liabilities	(61,368)	(41,446)
Net cash provided by operating activities	<u>777,266</u>	<u>259,912</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(81,001)	(98,015)
Change in other assets	(4,615)	(288)
Net cash used in investing activities	<u>(85,616)</u>	<u>(98,303)</u>
<b>Cash flows from financing activities:</b>		
Repayments of debt	(500,000)	—
Proceeds from issuance of common stock	48,071	43,694
Net cash provided by (used in) financing activities	<u>(451,929)</u>	<u>43,694</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(42,138)	(70,902)
Net increase in cash, cash equivalents and restricted cash	197,583	134,401
Cash, cash equivalents and restricted cash at beginning of period	8,238,870	5,043,786
Cash, cash equivalents and restricted cash at end of period	<u>\$ 8,436,453</u>	<u>\$ 5,178,187</u>

See accompanying notes to the consolidated financial statements.

## NETFLIX, INC.

**Consolidated Balance Sheets**  
(in thousands, except share and par value data)

	As of	
	March 31, 2021 (unaudited)	December 31, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,403,705	\$ 8,205,550
Other current assets	1,703,803	1,556,030
Total current assets	10,107,508	9,761,580
Content assets, net	26,043,991	25,383,950
Property and equipment, net	1,015,419	960,183
Other non-current assets	2,956,096	3,174,646
Total assets	<u>\$ 40,123,014</u>	<u>\$ 39,280,359</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current content liabilities	\$ 4,297,957	\$ 4,429,536
Accounts payable	532,942	656,183
Accrued expenses and other liabilities	1,291,812	1,102,196
Deferred revenue	1,140,271	1,117,992
Short-term debt	698,788	499,878
Total current liabilities	7,961,770	7,805,785
Non-current content liabilities	2,465,626	2,618,084
Long-term debt	14,860,552	15,809,095
Other non-current liabilities	1,950,986	1,982,155
Total liabilities	27,238,934	28,215,119
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, \$0.001 par value; 4,990,000,000 shares authorized at March 31, 2021 and December 31, 2020; 443,383,732 and 442,895,261 issued and outstanding at March 31, 2021 and December 31, 2020, respectively	3,600,084	3,447,698
Accumulated other comprehensive income	4,137	44,398
Retained earnings	9,279,859	7,573,144
Total stockholders' equity	12,884,080	11,065,240
Total liabilities and stockholders' equity	<u>\$ 40,123,014</u>	<u>\$ 39,280,359</u>

See accompanying notes to the consolidated financial statements.

## NETFLIX, INC.

Consolidated Statements of Stockholders' Equity  
(unaudited)  
(in thousands)

	Three Months Ended	
	March 31, 2021	March 31, 2020
Total stockholders' equity, beginning balances	\$ 11,065,240	\$ 7,582,157
Common stock and additional paid-in capital:		
Beginning balances	\$ 3,447,698	\$ 2,793,929
Issuance of common stock upon exercise of options	45,156	44,584
Stock-based compensation expense	107,230	97,019
Ending balances	\$ 3,600,084	\$ 2,935,532
Accumulated other comprehensive income (loss):		
Beginning balances	\$ 44,398	\$ (23,521)
Other comprehensive loss	(40,261)	(23,533)
Ending balances	\$ 4,137	\$ (47,054)
Retained earnings:		
Beginning balances	\$ 7,573,144	\$ 4,811,749
Net income	1,706,715	709,067
Ending balances	\$ 9,279,859	\$ 5,520,816
Total stockholders' equity, ending balances	\$ 12,884,080	\$ 8,409,294

See accompanying notes to the consolidated financial statements.

## NETFLIX, INC.

Notes to Consolidated Financial Statements  
(unaudited)**1. Basis of Presentation and Summary of Significant Accounting Policies**

The accompanying interim consolidated financial statements of Netflix, Inc. and its wholly owned subsidiaries (the “Company”) have been prepared in conformity with accounting principles generally accepted in the United States (“U.S.”) and are consistent in all material respects with those applied in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Securities and Exchange Commission (the “SEC”) on January 28, 2021. The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the content asset amortization policy and the recognition and measurement of income tax assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. On a regular basis, the Company evaluates the assumptions, judgments and estimates. Actual results may differ from these estimates.

The interim financial information is unaudited, but reflects all normal recurring adjustments that are, in the opinion of management, necessary to fairly present the information set forth herein. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020. Interim results are not necessarily indicative of the results for a full year.

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 December 31, 2020.

**Recently adopted accounting pronouncements**

In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2019-12, *Simplifying the Accounting for Income Taxes (Topic 740)*. ASU 2019-12 removes certain exceptions for performing intraperiod tax allocations, recognizing deferred taxes for investments, and calculating income taxes in interim periods. The guidance also simplifies the accounting for franchise taxes, transactions that result in a step-up in the tax basis of goodwill, and the effect of enacted changes in tax laws or rates in interim periods. The Company adopted ASU 2019-12 in the first quarter of 2021 and the adoption had no material impact to the Company’s consolidated financial statements.

**2. Revenue Recognition**

The Company’s primary source of revenues is from monthly membership fees. Members are billed in advance of the start of their monthly membership and revenues are recognized ratably over each monthly membership period. Revenues are presented net of the taxes that are collected from members and remitted to governmental authorities. The Company is the principal in all its relationships where partners, including consumer electronics (“CE”) manufacturers, multichannel video programming distributors (“MVPDs”), mobile operators and internet service providers (“ISPs”), provide access to the service as the Company retains control over service delivery to its members. Typically, payments made to the partners, such as for marketing, are expensed. However, if there is no distinct service provided in exchange for the payments made to the partners or if the price that the member pays is established by the partners and there is no standalone price for the Netflix service (for instance, in a bundle), these payments are recognized as a reduction of revenues.

The following tables summarize streaming revenue, paid net membership additions, and paid memberships at end of period by region for the three months ended March 31, 2021 and March 31, 2020, respectively:

**United States and Canada (UCAN)**

	As of/ Three Months Ended	
	March 31, 2021	March 31, 2020
	(in thousands)	
Revenues	\$ 3,170,972	\$ 2,702,776
Paid net membership additions	448	2,307
Paid memberships at end of period (1)	74,384	69,969



**Europe, Middle East, and Africa (EMEA)**

	As of/ Three Months Ended	
	March 31, 2021	March 31, 2020
	(in thousands)	
Revenues	\$ 2,343,674	\$ 1,723,474
Paid net membership additions	1,810	6,956
Paid memberships at end of period (1)	68,508	58,734

**Latin America (LATAM)**

	As of/ Three Months Ended	
	March 31, 2021	March 31, 2020
	(in thousands)	
Revenues	\$ 836,647	\$ 793,453
Paid net membership additions	357	2,901
Paid memberships at end of period (1)	37,894	34,318

**Asia-Pacific (APAC)**

	As of/ Three Months Ended	
	March 31, 2021	March 31, 2020
	(in thousands)	
Revenues	\$ 762,414	\$ 483,660
Paid net membership additions	1,361	3,602
Paid memberships at end of period (1)	26,853	19,835

(1) A paid membership (also referred to as a paid subscription) is defined as a membership that has the right to receive Netflix service following sign-up and a method of payment being provided, and that is not part of a free trial or certain other promotions that may be offered by the Company to new or rejoining members. A membership is canceled and ceases to be reflected in the above metrics as of the effective cancellation date. Voluntary cancellations generally become effective at the end of the prepaid membership period. Involuntary cancellations, as a result of a failed method of payment, become effective immediately. Memberships are assigned to territories based on the geographic location used at time of sign-up as determined by the Company's internal systems, which utilize industry standard geo-location technology.

Total U.S. revenues, inclusive of DVD revenues not reported in the tables above, were \$3.0 billion and \$2.5 billion for the three months ended March 31, 2021 and 2020, respectively. DVD revenues were \$50 million and \$64 million for the three months ended March 31, 2021 and 2020, respectively.

Deferred revenue consists of membership fees billed that have not been recognized, as well as gift cards and other prepaid memberships that have not been fully redeemed. As of March 31, 2021, total deferred revenue was \$1,140 million, the vast majority of which was related to membership fees billed that are expected to be recognized as revenue within the next month. The remaining deferred revenue balance, which is related to gift cards and other prepaid memberships, will be recognized as revenue over the period of service after redemption, which is expected to occur over the next 12 months. The \$22 million increase in deferred revenue as compared to the balance of \$1,118 million for the year ended December 31, 2020 is a result of the increase in membership fees billed due to increased members and average monthly revenue per paying member.

### 3. Earnings Per Share

Basic earnings per share is computed using the weighted-average number of outstanding shares of common stock during the period. Diluted earnings per share is computed using the weighted-average number of outstanding shares of common stock and, when dilutive, potential common shares outstanding during the period. Potential common shares consist of incremental shares issuable upon the assumed exercise of stock options. The computation of earnings per share is as follows:

	Three Months Ended	
	March 31, 2021	March 31, 2020
	(in thousands, except per share data)	
Basic earnings per share:		
Net income	\$ 1,706,715	\$ 709,067
Shares used in computation:		
Weighted-average common shares outstanding	443,224	439,352
Basic earnings per share	<u>\$ 3.85</u>	<u>\$ 1.61</u>
Diluted earnings per share:		
Net income	\$ 1,706,715	\$ 709,067
Shares used in computation:		
Weighted-average common shares outstanding	443,224	439,352
Employee stock options	12,417	13,142
Weighted-average number of shares	<u>455,641</u>	<u>452,494</u>
Diluted earnings per share	<u>\$ 3.75</u>	<u>\$ 1.57</u>

Employee stock options with exercise prices greater than the average market price of the common stock were excluded from the diluted calculation as their inclusion would have been anti-dilutive. The following table summarizes the potential common shares excluded from the diluted calculation:

	Three Months Ended	
	March 31, 2021	March 31, 2020
	(in thousands)	
Employee stock options	<u>257</u>	<u>1,516</u>

#### 4. Cash, Cash Equivalents and Restricted Cash

The following tables summarize the Company's cash, cash equivalents, and restricted cash as of March 31, 2021 and December 31, 2020:

	As of March 31, 2021			
	Cash and cash equivalents	Other Current Assets	Non-current Assets	Total
	(in thousands)			
Cash	\$ 4,019,585	\$ 2,159	\$ 30,443	\$ 4,052,187
Level 1 securities:				
Money market funds	4,083,887	—	146	4,084,033
Level 2 securities:				
Foreign Time Deposits	300,233	—	—	300,233
	<u>\$ 8,403,705</u>	<u>\$ 2,159</u>	<u>\$ 30,589</u>	<u>\$ 8,436,453</u>
	As of December 31, 2020			
	Cash and cash equivalents	Other Current Assets	Non-current Assets	Total
	(in thousands)			
Cash	\$ 3,331,860	\$ 1,783	\$ 31,284	\$ 3,364,927
Level 1 securities:				
Money market funds	4,573,690	—	253	4,573,943
Level 2 securities:				
Foreign Time Deposits	300,000	—	—	300,000
	<u>\$ 8,205,550</u>	<u>\$ 1,783</u>	<u>\$ 31,537</u>	<u>\$ 8,238,870</u>

Other current assets include restricted cash for deposits related to self insurance. Non-current assets include restricted cash related to letter of credit agreements. The fair value of cash equivalents included in the Level 2 category is based on observable inputs, such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly.

See Note 6 *Debt* to the consolidated financial statements for further information regarding the fair value of the Company's senior notes.

There were no material gross realized gains or losses in the three months ended March 31, 2021 and 2020, respectively.

## 5. Balance Sheet Components

### Content Assets, Net

Content assets consisted of the following:

	As of	
	March 31, 2021	December 31, 2020
	(in thousands)	
<b>Licensed content, net</b>	\$ 13,351,416	\$ 13,747,607
<b>Produced content, net</b>		
Released, less amortization	5,671,182	5,809,681
In production	6,030,349	4,827,455
In development and pre-production	991,044	999,207
	12,692,575	11,636,343
<b>Content assets, net</b>	\$ 26,043,991	\$ 25,383,950

As of March 31, 2021, approximately \$5,606 million, \$3,376 million, and \$2,013 million of the \$13,351 million unamortized cost of the licensed content is expected to be amortized in each of the next three years. As of March 31, 2021, approximately \$2,130 million, \$1,633 million, and \$1,038 million of the \$5,671 million unamortized cost of the produced content that has been released is expected to be amortized in each of the next three years.

As of March 31, 2021, the amount of accrued participations and residuals was not material.

The following table represents the amortization of content assets:

	Three Months Ended	
	March 31, 2021	March 31, 2020
	(in thousands)	
Licensed content	\$ 1,829,246	\$ 1,860,170
Produced content	889,950	623,215
Total	\$ 2,719,196	\$ 2,483,385

### Property and Equipment, Net

Property and equipment and accumulated depreciation consisted of the following:

	As of		Estimated Useful Lives
	March 31, 2021	December 31, 2020	
	(in thousands)		
Land	\$ 51,154	\$ 50,700	
Buildings	43,840	42,717	30 years
Leasehold improvements	531,507	524,537	Over life of lease
Furniture and fixtures	108,495	110,185	3-15 years
Information technology	289,813	283,014	3 years
Corporate aircraft	110,862	110,629	8 years
Machinery and equipment	34,236	34,633	3-5 years
Capital work-in-progress	366,056	298,558	
Property and equipment, gross	1,535,963	1,454,973	
Less: Accumulated depreciation	(520,544)	(494,790)	
Property and equipment, net	\$ 1,015,419	\$ 960,183	

### Leases

The Company has entered into operating leases primarily for real estate. These operating leases are included in "Other non-current assets" on the Company's Consolidated Balance Sheets, and represent the Company's right to use the underlying asset for the lease term. The Company's obligations to make lease payments are included in "Accrued expenses and other liabilities" and "Other non-current liabilities" on the Company's Consolidated Balance Sheets. The Company has entered into various short-term operating leases, primarily for marketing billboards, with an initial term of twelve months or less. These leases are not recorded on the Company's Consolidated Balance Sheets. All operating lease expense is recognized on a straight-line basis over the lease term. Because the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate to determine the present value of the lease payments.

Information related to the Company's operating right-of-use assets and related operating lease liabilities were as follows:

	Three Months Ended	
	March 31, 2021	March 31, 2020
	(in thousands)	
Cash paid for operating lease liabilities	\$ 82,439	\$ 57,490
Right-of-use assets obtained in exchange for new operating lease obligations	49,445	51,824

  

	As of	
	March 31, 2021	December 31, 2020
	(in thousands)	
Operating lease right-of-use assets, net	\$ 2,007,729	\$ 2,037,726
Current operating lease liabilities	268,087	256,222
Non-current operating lease liabilities	1,911,892	1,945,631
Total operating lease liabilities	\$ 2,179,979	\$ 2,201,853

## Other Current Assets

Other current assets consisted of the following:

	As of	
	March 31, 2021	December 31, 2020
	(in thousands)	
Trade receivables	\$ 807,036	\$ 610,819
Prepaid expenses	273,527	203,042
Other	623,240	742,169
Total other current assets	<u>\$ 1,703,803</u>	<u>\$ 1,556,030</u>

## 6. Debt

As of March 31, 2021, the Company had aggregate outstanding notes of \$15,559 million, net of \$103 million of issuance costs, with varying maturities (the "Notes"). Of the outstanding balance, \$699 million, net of issuance costs, is classified as short-term debt on the Consolidated Balance Sheets. As of December 31, 2020, the Company had aggregate outstanding notes of \$16,309 million, net of \$107 million of issuance costs. Each of the Notes were issued at par and are senior unsecured obligations of the Company. Interest is payable semi-annually at fixed rates. A portion of the outstanding Notes is denominated in foreign currency (comprised of €5,170 million) and is remeasured into U.S. dollars at each balance sheet date (with remeasurement gain totaling \$253 million for the three months ended March 31, 2021).

The following table provides a summary of the Company's outstanding debt and the fair values based on quoted market prices in less active markets as of March 31, 2021 and December 31, 2020:

	Principal Amount at Par			Maturity	Level 2 Fair Value as of	
	March 31, 2021	December 31, 2020	Issuance Date		March 31, 2021	December 31, 2020
	(in millions)				(in millions)	
5.375% Senior Notes	\$ —	\$ 500	February 2013	February 2021	\$ —	\$ 502
5.500% Senior Notes	700	700	February 2015	February 2022	729	735
5.750% Senior Notes	400	400	February 2014	March 2024	449	449
5.875% Senior Notes	800	800	February 2015	February 2025	917	921
3.000% Senior Notes (1)	551	574	April 2020	June 2025	600	616
3.625% Senior Notes	500	500	April 2020	June 2025	534	535
4.375% Senior Notes	1,000	1,000	October 2016	November 2026	1,119	1,110
3.625% Senior Notes (1)	1,524	1,588	May 2017	May 2027	1,748	1,776
4.875% Senior Notes	1,600	1,600	October 2017	April 2028	1,812	1,807
5.875% Senior Notes	1,900	1,900	April 2018	November 2028	2,302	2,280
4.625% Senior Notes (1)	1,290	1,344	October 2018	May 2029	1,605	1,630
6.375% Senior Notes	800	800	October 2018	May 2029	997	995
3.875% Senior Notes (1)	1,407	1,466	April 2019	November 2029	1,680	1,700
5.375% Senior Notes	900	900	April 2019	November 2029	1,065	1,061
3.625% Senior Notes (1)	1,290	1,344	October 2019	June 2030	1,513	1,533
4.875% Senior Notes	1,000	1,000	October 2019	June 2030	1,152	1,155
	<u>\$ 15,662</u>	<u>\$ 16,416</u>			<u>\$ 18,222</u>	<u>\$ 18,805</u>

(1) The following Senior Notes have a principal amount denominated in euro: 3.000% Senior Notes for €470 million, 3.625% Senior Notes for €1,300 million, 4.625% Senior Notes for €1,100 million, 3.875% Senior Notes for €1,200 million, and 3.625% Senior Notes for €1,100 million.

In February 2021, the Company repaid upon maturity the \$500 million aggregate principal amount of its 5.375% Senior Notes due February 2021.

The expected timing of principal and interest payments for the Company's outstanding Notes are as follows:

	As of	
	March 31, 2021	December 31, 2020
	(in thousands)	
Less than one year	\$ 1,453,690	\$ 1,264,020
Due after one year and through three years	1,804,714	2,136,997
Due after three years and through five years	3,161,269	3,614,906
Due after five years	14,581,110	14,841,164
<b>Total debt obligations</b>	<b>\$ 21,000,783</b>	<b>\$ 21,857,087</b>

Each of the Notes are repayable in whole or in part upon the occurrence of a change of control, at the option of the holders, at a purchase price in cash equal to 101% of the principal plus accrued interest. The Company may redeem the Notes prior to maturity in whole or in part at an amount equal to the principal amount thereof plus accrued and unpaid interest and an applicable premium. The Notes include, among other terms and conditions, limitations on the Company's ability to create, incur or allow certain liens; enter into sale and lease-back transactions; create, assume, incur or guarantee additional indebtedness of certain of the Company's subsidiaries; and consolidate or merge with, or convey, transfer or lease all or substantially all of the Company's and its subsidiaries assets, to another person. As of March 31, 2021 and December 31, 2020, the Company was in compliance with all related covenants.

### ***Revolving Credit Facility***

As of March 31, 2021, the Company has a \$750 million unsecured revolving credit facility ("Revolving Credit Agreement") which matures on March 29, 2024. Revolving loans may be borrowed, repaid and reborrowed until March 29, 2024, at which time all amounts borrowed must be repaid. The Company may use the proceeds of future borrowings under the Revolving Credit Agreement for working capital and general corporate purposes. As of March 31, 2021, no amounts have been borrowed under the Revolving Credit Agreement.

The borrowings under the Revolving Credit Agreement bear interest, at the Company's option, of either (i) a floating rate equal to a base rate (the "Alternate Base Rate") or (ii) a rate equal to an adjusted London interbank offered rate (the "Adjusted LIBO Rate"), plus a margin of 0.75%. The Alternate Base Rate is defined as the greatest of (A) the rate of interest published by the Wall Street Journal, from time to time, as the prime rate, (B) the federal funds rate, plus 0.500% and (C) the Adjusted LIBO Rate for a one-month interest period, plus 1.00%. The Adjusted LIBO Rate is defined as the London interbank offered rate for deposits in U.S. dollars, for the relevant interest period, adjusted for statutory reserve requirements, but in no event shall the Adjusted LIBO Rate be less than 0.00% per annum. Regulatory authorities that oversee financial markets have announced that after the end of 2021, they would no longer compel banks currently reporting information used to set the LIBO Rate to continue to make rate submissions. As a result, it is possible that beginning in 2022, the LIBO Rate will no longer be available as a reference rate. Under the terms of the Company's Revolving Credit Agreement, in the event of the discontinuance of the LIBO Rate, a mutually agreed-upon alternate benchmark rate will be established to replace the LIBO Rate. The Company and Lenders shall in good faith establish an alternate benchmark rate which places the Lenders and the Company in the same economic position that existed immediately prior to the discontinuance of the LIBO Rate. The Company does not anticipate that the discontinuance of the LIBO Rate will materially impact its liquidity or financial position.

The Company is also obligated to pay a commitment fee on the undrawn amounts of the Revolving Credit Agreement at an annual rate of 0.10%. The Revolving Credit Agreement requires the Company to comply with certain covenants, including covenants that limit or restrict the ability of the Company's subsidiaries to incur debt and limit or restrict the ability of the Company and its subsidiaries to grant liens and enter into sale and leaseback transactions; and, in the case of the Company or a guarantor, merge, consolidate, liquidate, dissolve or sell, transfer, lease or otherwise dispose of all or substantially all of the assets of the Company and its subsidiaries, taken as a whole. As of March 31, 2021 and December 31, 2020, the Company was in compliance with all related covenants.

## **7. Commitments and Contingencies**

### ***Content***

As of March 31, 2021, the Company had \$20.7 billion of obligations comprised of \$4.3 billion included in "Current content liabilities" and \$2.5 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and \$13.9 billion of obligations that are not reflected on the Consolidated Balance Sheets as they did not yet meet the criteria for asset recognition.

As of December 31, 2020, the Company had \$19.2 billion of obligations comprised of \$4.4 billion included in "Current content liabilities" and \$2.6 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and \$12.2 billion of obligations that are not reflected on the Consolidated Balance Sheets as they did not yet meet the criteria for asset recognition.

The expected timing of payments for these content obligations is as follows:

	As of	
	March 31, 2021	December 31, 2020
	(in thousands)	
Less than one year	\$ 9,456,342	\$ 8,980,868
Due after one year and through three years	8,241,022	7,819,563
Due after three years and through five years	2,259,821	1,973,091
Due after five years	767,980	445,308
Total content obligations	<u>\$ 20,725,165</u>	<u>\$ 19,218,830</u>

Content obligations include amounts related to the acquisition, licensing and production of content. Obligations that are in non-U.S. dollar currencies are translated to the U.S. dollar at period end rates. An obligation for the production of content includes non-cancelable commitments under creative talent and employment agreements as well as other production related commitments. An obligation for the acquisition and licensing of content is incurred at the time the Company enters into an agreement to obtain future titles. Once a title becomes available, a content liability is recorded on the Consolidated Balance Sheets. Certain agreements include the obligation to license rights for unknown future titles, the ultimate quantity and/or fees for which are not yet determinable as of the reporting date. Traditional film output deals, or certain TV series license agreements where the number of seasons to be aired is unknown, are examples of such license agreements. The Company does not include any estimated obligation for these future titles beyond the known minimum amount. However, the unknown obligations are expected to be significant.

### **Legal Proceedings**

From time to time, in the normal course of its operations, the Company is subject to litigation matters and claims, including claims relating to employee relations, business practices and patent infringement. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and the Company's view of these matters may change in the future as the litigation and events related thereto unfold. The Company expenses legal fees as incurred. The Company records a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. An unfavorable outcome to any legal matter, if material, could have an adverse effect on the Company's operations or its financial position, liquidity or results of operations.

The Company is involved in litigation matters not listed herein but does not consider the matters to be material either individually or in the aggregate at this time. The Company's view of the matters not listed may change in the future as the litigation and events related thereto unfold.

### **Indemnification**

In the ordinary course of business, the Company has entered into contractual arrangements under which it has agreed to provide indemnification of varying scope and terms to business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements and out of intellectual property infringement claims made by third parties. In these circumstances, payment may be conditional on the other party making a claim pursuant to the procedures specified in the particular contract.

The Company's obligations under these agreements may be limited in terms of time or amount, and in some instances, the Company may have recourse against third parties for certain payments. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers that will require it, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The terms of such obligations vary.

It is not possible to make a reasonable estimate of the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. No amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.



## 8. Stockholders' Equity

### Stock Option Plan

In June 2020, the Company's stockholders approved the 2020 Stock Plan, which was adopted by the Company's Board of Directors in March 2020 subject to stockholder approval. The 2020 Stock Plan is the successor to the 2011 Stock Plan and provides for the grant of incentive stock options to employees and for the grant of non-statutory stock options, stock appreciation rights, restricted stock and restricted stock units to employees, directors and consultants.

A summary of the activities related to the Company's stock option plans is as follows:

	Shares Available for Grant	Options Outstanding	
		Number of Shares	Weighted-Average Exercise Price (per share)
Balances as of December 31, 2020	21,702,085	18,676,810	\$ 170.23
Granted	(400,126)	400,126	537.47
Exercised	—	(488,471)	92.45
Expired	—	(4,648)	30.30
Balances as of March 31, 2021	21,301,959	18,583,817	\$ 180.22
Vested and exercisable as of March 31, 2021		18,583,817	\$ 180.22

The aggregate intrinsic value of the Company's outstanding stock options as of March 31, 2021 was \$6,357 million and represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the first quarter of 2021 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last trading day of the first quarter of 2021. This amount changes based on the fair market value of the Company's common stock. The weighted-average remaining contractual term of the Company's outstanding stock options as of March 31, 2021 included in the table above was 5.46 years.

A summary of the amounts related to option exercises, is as follows:

	Three Months Ended	
	March 31, 2021	March 31, 2020
	(in thousands)	
Total intrinsic value of options exercised	\$ 228,020	\$ 303,226
Cash received from options exercised	48,071	43,694

### Stock-based Compensation

Stock options granted are exercisable for the full ten year contractual term regardless of employment status. The following table summarizes the assumptions used to value option grants using the lattice-binomial model and the valuation data:

	Three Months Ended	
	March 31, 2021	March 31, 2020
Dividend yield	— %	— %
Expected volatility	41 %	37 %
Risk-free interest rate	1.08 %	1.71 %
Suboptimal exercise factor	3.81	3.34
Weighted-average fair value (per share)	\$ 268	\$ 167
Total stock-based compensation expense (in thousands)	\$ 107,230	\$ 97,019
Total income tax impact on provision (in thousands)	\$ 24,079	\$ 21,309

The Company considers several factors in determining the suboptimal exercise factor, including the historical and estimated option exercise behavior.

The Company calculates expected volatility based solely on implied volatility. The Company believes that implied volatility of publicly traded options in its common stock is more reflective of market conditions, and given consistently high trade volumes of the options, can reasonably be expected to be a better indicator of expected volatility than historical volatility of its common stock.

In valuing shares issued under the Company's employee stock option plans, the Company bases the risk-free interest rate on U.S. Treasury zero-coupon issues with terms similar to the contractual term of the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. The Company does not use a post-vesting termination rate as options are fully vested upon grant date.

### **Stock Repurchases**

In March 2021, the Company's Board of Directors authorized the repurchase of up to \$5 billion of its common stock, with no expiration date. Stock repurchases may be effected through open market repurchases in compliance with Rule 10b-18 under the Exchange Act, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Exchange Act, privately-negotiated transactions, accelerated stock repurchase plans, block purchases, or other similar purchase techniques and in such amounts as management deems appropriate. The Company is not obligated to repurchase any specific number of shares, and the timing and actual number of shares repurchased will depend on a variety of factors, including the Company's stock price, general economic, business and market conditions, and alternative investment opportunities. The Company may discontinue any repurchases of its common stock at any time without prior notice. As of March 31, 2021, no stock has been repurchased under this program.

## **9. Income Taxes**

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
	<b>(in thousands, except percentages)</b>	
Provision for income taxes	\$ 327,787	\$ 86,803
Effective tax rate	16 %	11 %

The effective tax rate for the three months ended March 31, 2021 differed from the Federal statutory rate primarily due to the impact of international provisions of the Tax Cuts and Jobs Act and recognition of excess tax benefits of stock-based compensation. The effective tax rate for the three months ended March 31, 2020 differed from the Federal statutory rate primarily due to the recognition of excess tax benefits of stock-based compensation and the changes from the global corporate structure simplification.

The increase in effective tax rate for the three months ended March 31, 2021, as compared to the same period in 2020 was primarily due to recognizing less excess tax benefits related to stock-based compensation. For the three months ended March 31, 2021, the Company recognized a discrete tax benefit related to the excess tax benefits from stock-based compensation of \$47 million, compared to the three months ended March 31, 2020 of \$65 million.

Gross unrecognized tax benefits were \$160 million and \$140 million as of March 31, 2021 and December 31, 2020, respectively. The gross unrecognized tax benefits, if recognized by the Company, will result in a reduction of approximately \$99 million to the provision for income taxes thereby favorably impacting the Company's effective tax rate. As of March 31, 2021, gross unrecognized tax benefits of \$38 million were classified as "Other non-current liabilities" and \$64 million as a reduction to deferred tax assets which was classified as "Other non-current assets" in the Consolidated Balance Sheets. The Company includes interest and penalties related to unrecognized tax benefits within the "Provision for income taxes" on the Consolidated Statements of Operations and "Other non-current liabilities" in the Consolidated Balance Sheets. Interest and penalties included in the Company's "Provision for income taxes" were not material in any of the periods presented.

Deferred tax assets of \$427 million and \$589 million were classified as "Other non-current assets" on the Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020, respectively. In evaluating its ability to realize the net deferred tax assets, the Company considered all available positive and negative evidence, including its past operating results and the forecast of future market growth, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies. The Company has a valuation allowance of \$298 million and \$250 million as of March 31, 2021 and December 31, 2020, respectively. The valuation allowance is related to the California research and development credits and certain foreign tax attributes that the Company does not expect to realize.

The Company files U.S. Federal, state and foreign tax returns. The Company is currently under examination by the IRS for 2016 through 2018 and is subject to examination for 2019. The 2015 through 2019 state tax returns are subject to examination by various state tax authorities. The Company is also currently under examination in the U.K. for 2018 and 2019. The Company has no other significant foreign jurisdiction audits underway. The years 2015 through 2020 generally remain subject to examination by foreign tax authorities.

Given the potential outcome of the current examinations, as well as the impact of the current examinations on the potential expiration of the statute of limitations, it is reasonably possible that the balance of unrecognized tax benefits could significantly change within the next twelve months. At this time, an estimate of the range of reasonably possible adjustments to the balance of unrecognized tax benefits cannot be made.

## 10. Segment and Geographic Information

The Company operates as one operating segment. The Company's chief operating decision maker ("CODM") is its co-chief executive officers, who review financial information presented on a consolidated basis for the purposes of making operating decisions, assessing financial performance and allocating resources.

Total U.S. revenues were \$3.0 billion and \$2.5 billion for the three months ended March 31, 2021 and March 31, 2020, respectively. See Note 2 *Revenue Recognition* for additional information about streaming revenue by region.

The Company's long-lived tangible assets, as well as the Company's operating lease right-of-use assets recognized on the Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020, were located as follows:

	As of	
	March 31, 2021	December 31, 2020
	(in thousands)	
United States	\$ 2,269,444	\$ 2,224,891
International	753,704	773,018

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements include, but are not limited to statements regarding: our core strategy; our future financial performance, including expectations regarding revenues, deferred revenue, operating income and margin, net income, expenses, and profitability; liquidity, including the sufficiency of our capital resources, adequacy of existing facilities, net cash provided by (used in) operating activities, access to financing sources, and free cash flows; capital allocation strategies, including any stock repurchases; seasonality; impact of foreign exchange rate fluctuations; the impact of the discontinuance of the LIBO Rate; future regulatory changes and their impact on our business; price changes and testing; impact of recently adopted accounting pronouncements; accounting treatment for changes related to content assets; membership growth, including impact of content and pricing changes on membership growth; partnerships; member viewing patterns; dividends; future contractual obligations, including unknown content obligations and timing of payments; our global content and marketing investments, including investments in original programming; content amortization; tax expense; unrecognized tax benefits; deferred tax assets; our ability to effectively manage change and growth; and the impact of the coronavirus (COVID-19) pandemic and our response to it. These forward-looking statements are subject to risks and uncertainties that could cause actual results and events to differ materially from those included in forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Securities and Exchange Commission ("SEC") on January 28, 2021, in particular the risk factors discussed under the heading "Risk Factors" in Part I, Item IA.

We assume no obligation to revise or publicly release any revision to any forward-looking statements contained in this Quarterly Report on Form 10-Q, unless required by law.

Investors and others should note that we announce material financial information to our investors using our investor relations website (*ir.netflix.net*), SEC filings, press releases, public conference calls and webcasts. We use these channels, as well as social media and blogs to communicate with our members and the public about our company, our services and other issues. It is possible that the information we post on social media and blogs could be deemed to be material information. Therefore, we encourage investors, the media, and others interested in our company to review the information we post on the social media channels and blogs listed on our investor relations website.

### Overview

We are one of the world's leading entertainment services with approximately 208 million paid streaming memberships in over 190 countries enjoying TV series, documentaries and feature films across a wide variety of genres and languages. Members can watch as much as they want, anytime, anywhere, on any internet-connected screen. Members can play, pause and resume watching, all without commercials. Additionally, we continue to offer our DVD-by-mail service in the United States ("U.S.").

We are a pioneer in the delivery of streaming entertainment, launching our streaming service in 2007. Since this launch, we have developed an ecosystem for internet-connected screens and have added increasing amounts of content that enable consumers to enjoy entertainment directly on their internet-connected screens. As a result of these efforts, we have experienced growing consumer acceptance of, and interest in, the delivery of streaming entertainment.

Our core strategy is to grow our streaming membership business globally within the parameters of our operating margin target. We are continuously improving our members' experience by expanding our content with a focus on a programming mix of content that delights our members and attracts new members. In addition, we are continuously enhancing our user interface and extending our streaming service to more internet-connected screens. Our members can download a selection of titles for offline viewing.

Our membership growth exhibits a seasonal pattern that reflects variations when consumers buy internet-connected screens and when they tend to increase their viewing. Historically, the first and fourth quarters (October through March) represent our greatest streaming membership growth. In addition, our membership growth can be impacted by our content release schedule and changes to pricing.

## Results of Operations

The following represents our consolidated performance highlights:

	As of/ Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
(in thousands, except revenue per membership and percentages)				
<b>Financial Results:</b>				
Streaming revenues	\$ 7,113,707	\$ 5,703,363	\$ 1,410,344	25 %
DVD revenues	49,575	64,328	(14,753)	(23)%
<b>Total revenues</b>	<b>\$ 7,163,282</b>	<b>\$ 5,767,691</b>	<b>\$ 1,395,591</b>	<b>24 %</b>
Operating income	\$ 1,959,856	\$ 958,256	\$ 1,001,600	105 %
Operating margin	27.4 %	16.6 %	10.8 %	65 %
<b>Global Streaming Memberships:</b>				
Paid net membership additions	3,976	15,766	(11,790)	(75)%
Paid memberships at end of period	207,639	182,856	24,783	14 %
Average paying memberships	205,651	174,973	30,678	18 %
Average monthly revenue per paying membership	\$ 11.53	\$ 10.87	\$ 0.66	6 %

Consolidated revenues for the three months ended March 31, 2021 increased 24% as compared to the three months ended March 31, 2020. The increase in our consolidated revenues was due to the 18% growth in average paying memberships and a 6% increase in average monthly revenue per paying membership. The increase in average monthly revenue per paying membership was primarily due to price changes and favorable fluctuations in foreign exchange rates. Paid net membership additions for the three months ended March 31, 2021 decreased 75% as compared to the three months ended March 31, 2020. We believe the decrease in paid net membership additions can primarily be attributed to the COVID-19 pandemic which contributed to significant paid net membership additions in the first quarter of 2020, and resulted in less growth in the first quarter of 2021 as compared to the prior year. While we are unable to accurately predict the impact of the pandemic on paid net membership additions, we expect slower paid net membership additions in the first half of 2021 compared to comparable periods in 2020.

The increase in operating margin is primarily due to content amortization growing at a slower rate as compared to the 24% increase in revenues as a result of delays in content releases due to the COVID-19 pandemic. Marketing, technology and development, and general and administrative expenses also grew at a slower rate as compared to the growth in revenue.

The full extent of the impact of the COVID-19 pandemic on our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict. See Part I, Item 1A: "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020 for additional details. In an effort to protect the health and safety of our employees, our workforce has had and continues in most instances to spend a significant amount of time working from home, international travel has been curtailed, and while most of our productions have resumed, certain of our productions continue to experience disruption, as do the productions of our third-party content suppliers. Our other partners have similarly had their operations disrupted, including those partners that we use for our operations as well as development, production, and post-production of content. As a result, the pandemic has and continues to affect our ability to produce content,

which in turn led to delays in certain content releases. Many government measures to contain COVID-19 or slow its spread, including orders to close all businesses not deemed “essential,” isolate residents to their homes or places of residence, and practice social distancing, continue to remain in effect or may be rescinded, modified, or reinstated. We anticipate that these actions and the global health crisis caused by COVID-19, including any resurgences, will continue to negatively impact business activity across the globe. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state, local or foreign authorities, or that we determine are in the best interests of our employees, customers, partners and stockholders. It is not clear what the potential effects any such alterations or modifications may have on our business, including the effects on our customers, suppliers or vendors, or on our financial results.

### **Streaming Revenues**

We derive revenues from monthly membership fees for services related to streaming content to our members. We offer a variety of streaming membership plans, the price of which varies by country and the features of the plan. As of March 31, 2021, pricing on our plans ranged from the U.S. dollar equivalent of \$3 to \$24 per month. We expect that from time to time the prices of our membership plans in each country may change and we may test other plan and price variations.

The following tables summarize streaming revenue and other streaming membership information by region for the three months ended March 31, 2021 and March 31, 2020.

#### **United States and Canada (UCAN)**

	As of/ Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except revenue per membership and percentages)			
Revenues	\$ 3,170,972	\$ 2,702,776	\$ 468,196	17 %
Paid net membership additions	448	2,307	(1,859)	(81)%
Paid memberships at end of period	74,384	69,969	4,415	6 %
Average paying memberships	74,160	68,816	5,344	8 %
Average monthly revenue per paying membership	\$ 14.25	\$ 13.09	\$ 1.16	9 %
Constant currency change (1)				9 %

#### **Europe, Middle East, and Africa (EMEA)**

	As of/ Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except revenue per membership and percentages)			
Revenues	\$ 2,343,674	\$ 1,723,474	\$ 620,200	36 %
Paid net membership additions	1,810	6,956	(5,146)	(74)%
Paid memberships at end of period	68,508	58,734	9,774	17 %
Average paying memberships	67,603	55,256	12,347	22 %
Average monthly revenue per paying membership	\$ 11.56	\$ 10.40	\$ 1.16	11 %
Constant currency change (1)				4 %

**Latin America (LATAM)**

	As of/ Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except revenue per membership and percentages)			
Revenues	\$ 836,647	\$ 793,453	\$ 43,194	5 %
Paid net membership additions	357	2,901	(2,544)	(88)%
Paid memberships at end of period	37,894	34,318	3,576	10 %
Average paying memberships	37,716	32,868	4,848	15 %
Average monthly revenue per paying membership	\$ 7.39	\$ 8.05	\$ (0.66)	(8)%
Constant currency change (1)				5 %

**Asia-Pacific (APAC)**

	As of/ Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except revenue per membership and percentages)			
Revenues	\$ 762,414	\$ 483,660	\$ 278,754	58 %
Paid net membership additions	1,361	3,602	(2,241)	(62)%
Paid memberships at end of period	26,853	19,835	7,018	35 %
Average paying memberships	26,173	18,034	8,139	45 %
Average monthly revenue per paying membership	\$ 9.71	\$ 8.94	\$ 0.77	9 %
Constant currency change (1)				3 %

(1) We believe constant currency information is useful in analyzing the underlying trends in average monthly revenue per paying membership. In order to exclude the effect of foreign currency rate fluctuations on average monthly revenue per paying membership, we estimate current period revenue assuming foreign exchange rates had remained constant with foreign exchange rates from each of the corresponding months of the prior-year period. For the three months ended March 31, 2021, our revenues would have been approximately \$80 million lower had foreign currency exchange rates remained constant with those for the three months ended March 31, 2020.

**Cost of Revenues**

Amortization of content assets makes up the majority of cost of revenues. Expenses associated with the acquisition, licensing and production of content (such as payroll and related personnel expenses, costs associated with obtaining rights to music included in our content, overall deals with talent, miscellaneous production related costs and participations and residuals), streaming delivery costs and other operations costs make up the remainder of cost of revenues. We have built our own global content delivery network (“Open Connect”) to help us efficiently stream a high volume of content to our members over the internet. Delivery expenses, therefore, include equipment costs related to Open Connect, payroll and related personnel expenses and all third-party costs, such as cloud computing costs, associated with delivering content over the internet. Other operations costs include customer service and payment processing fees, including those we pay to our integrated payment partners, as well as other costs incurred in making our content available to members.

	Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except percentages)			
Cost of revenues	\$ 3,868,511	\$ 3,599,701	\$ 268,810	7 %
As a percentage of revenues	54 %	62 %		

The increase in cost of revenues was primarily due to a \$236 million increase in content amortization relating to our existing and new content, including more exclusive and original programming. Other content costs increased \$33 million primarily due to increases in expenses associated with streaming delivery costs and payment processing fees driven by our growing member base.

### Marketing

Marketing expenses consist primarily of advertising expenses and certain payments made to our marketing partners, including consumer electronics (“CE”) manufacturers, multichannel video programming distributors (“MVPDs”), mobile operators and internet service providers (“ISPs”). Advertising expenses include promotional activities such as digital and television advertising. Marketing expenses also include payroll and related expenses for personnel that support marketing activities.

	Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except percentages)			
Marketing	\$ 512,512	\$ 503,830	\$ 8,682	2 %
As a percentage of revenues	7 %	9 %		

The increase in marketing expenses was primarily due to a \$11 million increase in personnel-related costs, primarily due to growth in average headcount to support the increase in our production activity and continued improvements in our streaming service, partially offset by decreased advertising expenses.

### Technology and Development

Technology and development expenses consist of payroll and related expenses for all technology personnel, as well as other costs incurred in making improvements to our service offerings, including testing, maintaining and modifying our user interface, our recommendations, merchandising and streaming delivery technology and infrastructure. Technology and development expenses also include costs associated with computer hardware and software.

	Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except percentages)			
Technology and development	\$ 525,207	\$ 453,817	\$ 71,390	16 %
As a percentage of revenues	7 %	8 %		

The increase in technology and development expenses was primarily due to a \$61 million increase in personnel-related costs, primarily due to growth in average headcount to support the increase in our production activity and continued improvements in our streaming service.

### General and Administrative

General and administrative expenses consist of payroll and related expenses for corporate personnel. General and administrative expenses also include professional fees and other general corporate expenses.

	Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except percentages)			
General and administrative	\$ 297,196	\$ 252,087	\$ 45,109	18 %
As a percentage of revenues	4 %	4 %		

The increase in general and administrative expenses was primarily due to a \$24 million increase in third-party expenses, including costs for contractors and consultants. In addition, personnel-related costs increased by \$19 million, primarily due to growth in average headcount to support the increase in our production activity and continued improvements in our streaming service.

### **Interest Expense**

Interest expense consists primarily of the interest associated with our outstanding debt obligations, including the amortization of debt issuance costs. See Note 6 *Debt* in the accompanying notes to our consolidated financial statements for further detail on our debt obligations.

	Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except percentages)			
Interest expense	\$ 194,440	\$ 184,083	\$ 10,357	6 %
As a percentage of revenues	3 %	3 %		

Interest expense primarily consists of interest on our Notes of \$190 million for the three months ended March 31, 2021. The increase in interest expense for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020 was due to the increase in debt.

### **Interest and Other Income**

Interest and other income consists primarily of foreign exchange gains on foreign currency denominated balances and interest earned on cash and cash equivalents.

	Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except percentages)			
Interest and other income	\$ 269,086	\$ 21,697	\$ 247,389	1,140 %
As a percentage of revenues	4 %	— %		

Interest and other income increased in the three months ended March 31, 2021 primarily due to foreign exchange gains of \$258 million, compared to gains of \$9 million for the corresponding period in 2020. In the three months ended March 31, 2021, the foreign exchange gains were primarily driven by the \$253 million non-cash gain from the remeasurement of our €5,170 million Senior Notes, coupled with the remeasurement of cash and content liability positions in currencies other than the functional currencies. In the three months ended March 31, 2020, the foreign exchange gains were primarily driven by the \$93 million non-cash gain from the remeasurement of our €4,700 million Senior Notes, partially offset by the remeasurement of cash and content liability positions in currencies other than the functional currencies.



### Provision for Income Taxes

	Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except percentages)			
Provision for income taxes	\$ 327,787	\$ 86,803	\$ 240,984	278 %
Effective tax rate	16 %	11 %		

The effective tax rate for the three months ended March 31, 2021 differed from the Federal statutory rate primarily due to the impact of international provisions of the Tax Cuts and Jobs Act and recognition of excess tax benefits of stock-based compensation.

The increase in our effective tax rate for the three months ended March 31, 2021, as compared to the same period in 2020 was primarily due to recognizing less excess tax benefits related to stock-based compensation.

### Liquidity and Capital Resources

	As of		Change	
	March 31, 2021	December 31, 2020	March 31, 2021 vs. December 31, 2020	
	(in thousands, except percentages)			
Cash, cash equivalents and restricted cash	\$ 8,436,453	\$ 8,238,870	\$ 197,583	2 %
Short-term and long-term debt	15,559,340	16,308,973	(749,633)	(5)%

Cash, cash equivalents and restricted cash increased \$198 million in the three months ended March 31, 2021 primarily due to cash provided by operations, partially offset by the repayment of debt.

Debt, net of debt issuance costs, decreased \$750 million primarily due to the repayment upon maturity of the \$500 million aggregate principal amount of our 5.375% Senior Notes in February 2021, coupled with the remeasurement of our euro-denominated notes. The amount of principal and interest on our outstanding notes due in the next twelve months is \$1,454 million. As of March 31, 2021, no amounts had been borrowed under the \$750 million Revolving Credit Agreement. See Note 6 *Debt* in the accompanying notes to our consolidated financial statements.

We anticipate that our future capital needs from the debt market will be more limited compared to prior years. Our ability to obtain this or any additional financing that we may choose to, or need to, will depend on, among other things, our development efforts, business plans, operating performance and the condition of the capital markets at the time we seek financing. We may not be able to obtain such financing on terms acceptable to us or at all. If we raise additional funds through the issuance of equity 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.

In March 2021, our Board of Directors authorized the repurchase of up to \$5 billion of our common stock, with no expiration date. Stock repurchases may be effected through open market repurchases in compliance with Rule 10b-18 under the Exchange Act, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Exchange Act, privately-negotiated transactions, accelerated stock repurchase plans, block purchases, or other similar purchase techniques and in such amounts as management deems appropriate. We are not obligated to repurchase any specific number of shares, and the timing and actual number of shares repurchased will depend on a variety of factors, including our stock price, general economic, business and market conditions, and alternative investment opportunities. We may discontinue any repurchases of our common stock at any time without prior notice. As of March 31, 2021, no stock has been repurchased under this program.

Our primary uses of cash include the acquisition, licensing and production of content, streaming delivery, marketing programs and personnel-related costs. Cash payment terms for non-original content have historically been in line with the amortization period. Investments in original content, and in particular content that we produce and own, require more cash upfront relative to licensed content. For example, production costs are paid as the content is created, well in advance of when the content is available on the service and amortized. We expect to continue to significantly increase our investments in global content, particularly in original content, which will impact our liquidity. We currently anticipate that cash flows from operations, available funds and access to financing sources, including our revolving credit facility, will continue to be sufficient to meet our cash needs for at least the next twelve months.

### Free Cash Flow

We define free cash flow as cash provided by (used in) operating activities less purchases of property and equipment and change in other assets. We believe 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 strategic acquisitions and investments and for certain other activities like stock repurchases. Free cash flow is considered a non-GAAP financial measure and should not be considered in isolation of, or as a substitute for, net income, operating income, net cash provided by (used in) operating activities, or any other measure of financial performance or liquidity presented in accordance with GAAP.

In assessing liquidity in relation to our results of operations, we compare free cash flow to net income, noting that the major recurring differences are excess content payments over amortization, non-cash stock-based compensation expense, non-cash remeasurement gain/loss on our euro-denominated debt, and other working capital differences. Working capital differences include deferred revenue, excess property and equipment purchases over depreciation, taxes and semi-annual interest payments on our outstanding debt. Membership fees due are generally collected quickly.

	Three Months Ended		Change	
	March 31, 2021	March 31, 2020	Q1'21 vs. Q1'20	
	(in thousands, except percentages)			
Net cash provided by operating activities	\$ 777,266	\$ 259,912	\$ 517,354	199 %
Net cash used in investing activities	(85,616)	(98,303)	(12,687)	(13)%
Net cash provided by (used in) financing activities	(451,929)	43,694	(495,623)	(1,134)%
<b>Non-GAAP reconciliation of free cash flow:</b>				
Net cash provided by operating activities	777,266	259,912	517,354	199 %
Purchases of property and equipment	(81,001)	(98,015)	(17,014)	(17)%
Change in other assets	(4,615)	(288)	(4,327)	(1,502)%
Free cash flow	<u>\$ 691,650</u>	<u>\$ 161,609</u>	<u>\$ 530,041</u>	<u>328 %</u>

Net cash provided by operating activities increased \$517 million to \$777 million for the three months ended March 31, 2021. The increase in cash provided by operating activities was primarily driven by a \$1,396 million or 24% increase in revenues, partially offset by an increase in investments in content that require more upfront cash payments. The payments for content assets increased \$515 million, from \$3,035 million to \$3,551 million, or 17%, as compared to the increase in the amortization of content assets of \$236 million, from \$2,483 million to \$2,719 million, or 9%. In addition, we had increased payments associated with higher operating expenses, primarily related to increased headcount to support our continued improvements in our streaming service and our international expansion.

Net cash used in investing activities decreased \$13 million for the three months ended March 31, 2021, primarily due to a decrease in purchases of property and equipment.

Net cash provided by (used in) financing activities decreased \$496 million for the three months ended March 31, 2021, primarily due to the repayment of debt.

Free cash flow was \$1,015 million lower than net income for the three months ended March 31, 2021 primarily due to \$831 million of cash payments for content assets over amortization expense, \$253 million of non-cash remeasurement gain on our euro-denominated debt, and \$38 million in other non-favorable working capital differences, partially offset by \$107 million of non-cash stock-based compensation expense.

Free cash flow was \$547 million lower than net income for the three months ended March 31, 2020, primarily due to \$552 million of cash payments for content assets over amortization expense and \$93 million of non-cash remeasurement gain on our euro-denominated debt, partially offset by \$97 million non-cash stock-based compensation expense and \$1 million in favorable working capital differences.

### Contractual Obligations

For the purpose of this table, contractual obligations for purchases of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The expected timing of the payment of the obligations discussed below is estimated based on information available to us as of March 31, 2021. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations. The following table summarizes our contractual obligations as of March 31, 2021:

Contractual obligations (in thousands):	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Content obligations (1)	\$ 20,725,165	\$ 9,456,342	\$ 8,241,022	\$ 2,259,821	\$ 767,980
Debt (2)	21,000,783	1,453,690	1,804,714	3,161,269	14,581,110
Operating lease obligations (3)	2,825,470	357,900	655,591	576,630	1,235,349
Other purchase obligations (4)	1,067,747	679,340	383,349	5,058	—
<b>Total</b>	<b>\$ 45,619,165</b>	<b>\$ 11,947,272</b>	<b>\$ 11,084,676</b>	<b>\$ 6,002,778</b>	<b>\$ 16,584,439</b>

- (1) As of March 31, 2021, content obligations were comprised of \$4.3 billion included in “Current content liabilities” and \$2.5 billion of “Non-current content liabilities” on the Consolidated Balance Sheets and \$13.9 billion of obligations that are not reflected on the Consolidated Balance Sheets as they did not then meet the criteria for recognition.

Content obligations include amounts related to the acquisition, licensing and production of content. An obligation for the production of content includes non-cancelable commitments under creative talent and employment agreements and other production related commitments. An obligation for the acquisition and licensing of content is incurred at the time we enter into an agreement to obtain future titles. Once a title becomes available, a content liability is recorded on the Consolidated Balance Sheets. Certain agreements include the obligation to license rights for unknown future titles, the ultimate quantity and/or fees for which are not yet determinable as of the reporting date. Traditional film output deals, or certain TV series license agreements where the number of seasons to be aired is unknown, are examples of these types of agreements. The contractual obligations table above does not include any estimated obligation for the unknown future titles, payment for which could range from less than one year to more than five years. However, these unknown obligations are expected to be significant and we believe could include approximately \$1 billion to \$4 billion over the next three years, with the payments for the vast majority of such amounts expected to occur after the next twelve months. The foregoing range is based on considerable management judgments and the actual amounts may differ. Once we know the title that we will receive and the license fees, we include the amount in the contractual obligations table above.

- (2) Debt obligations include our Notes consisting of principal and interest payments. See Note 6 *Debt* to the consolidated financial statements for further details.
- (3) Operating lease obligations are comprised of operating lease liabilities included in "Accrued expenses and other liabilities" and "Other non-current liabilities" on the Consolidated Balance Sheets, inclusive of imputed interest. Operating lease obligations also include additional obligations that are not reflected on the Consolidated Balance Sheets as they did not meet the criteria for recognition. See Note 5 *Balance Sheet Components* in the accompanying notes to our consolidated financial statements for further details regarding leases.
- (4) Other purchase obligations include all other non-cancelable contractual obligations. These contracts are primarily related to streaming delivery and cloud computing costs, as well as other miscellaneous open purchase orders for which we have not received the related services or goods.

As of March 31, 2021, we had gross unrecognized tax benefits of \$160 million. At this time, an estimate of the range of reasonably possible adjustments to the balance of unrecognized tax benefits cannot be made.

### Off-Balance Sheet Arrangements

We do not have transactions with unconsolidated entities, such as entities often referred to as structured finance or special purpose entities, whereby we have financial guarantees, subordinated retained interests, derivative instruments, or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to us.

### ***Indemnification***

The information set forth under Note 7 *Commitments and Contingencies* to the consolidated financial statements under the caption “Indemnification” is incorporated herein by reference.

### ***Critical Accounting Policies and Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported periods. The SEC has defined a company’s critical accounting policies as the ones that are most important to the portrayal of a company’s financial condition and results of operations, and which require a company to make its most difficult and subjective judgments. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

### ***Content***

We acquire, license and produce content, including original programming, in order to offer our members unlimited viewing of video entertainment. The content licenses are for a fixed fee and specific windows of availability. Payment terms for certain content licenses and the production of content require more upfront cash payments relative to the amortization expense. Payments for content, including additions to content assets and the changes in related liabilities, are classified within "Net cash provided by operating activities" on the Consolidated Statements of Cash Flows.

We recognize content assets (licensed and produced) as "Content assets, net" on the Consolidated Balance Sheets. For licensed content, we capitalize the fee per title and record a corresponding liability at the gross amount of the liability when the license period begins, the cost of the title is known and the title is accepted and available for streaming. For produced content, we capitalize costs associated with the production, including development cost, direct costs and production overhead. Participations and residuals are expensed in line with the amortization of production costs.

Based on factors including historical and estimated viewing patterns, we amortize the content assets (licensed and produced) in “Cost of revenues” on the Consolidated Statements of Operations over the shorter of each title's contractual window of availability or estimated period of use or ten years, beginning with the month of first availability. The amortization is on an accelerated basis, as we typically expect more upfront viewing, for instance due to additional merchandising and marketing efforts, and film amortization is more accelerated than TV series amortization. On average, over 90% of a licensed or produced content asset is expected to be amortized within four years after its month of first availability. We review factors that impact the amortization of the content assets on a regular basis. Our estimates related to these factors require considerable management judgment.

Our business model is subscription based as opposed to a model generating revenues at a specific title level. Content assets (licensed and produced) are predominantly monetized as a group and therefore are reviewed at a group level when an event or change in circumstances indicates a change in the expected usefulness of the content or that the fair value may be less than unamortized cost. To date, we have not identified any such event or changes in circumstances. If such changes are identified in the future, these aggregated content assets will be stated at the lower of unamortized cost or fair value. In addition, unamortized costs for assets that have been, or are expected to be, abandoned are written off.

### ***Income Taxes***

We record a provision for income taxes for the anticipated tax consequences of our reported results of operations using the asset and liability method. Deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as net operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which future realization is uncertain.

Although we believe our assumptions, judgments and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

In evaluating our ability to recover our deferred tax assets, in full or in part, we consider all available positive and negative evidence, including our past operating results, and our forecast of future earnings, future taxable income and prudent and feasible tax planning strategies. The assumptions utilized in determining future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses. Actual operating results in future years could differ from our current assumptions, judgments and estimates. However, we believe that it is more likely than not that most of the deferred tax assets recorded on our Consolidated Balance Sheets will ultimately be realized. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. As of March 31, 2021, the valuation allowance of \$298 million was related to the California research and

development credits and certain foreign tax attributes that we do not expect to realize.

We did not recognize certain tax benefits from uncertain tax positions within the provision for income taxes. We may recognize a tax benefit only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. At March 31, 2021, our estimated gross unrecognized tax benefits were \$160 million of which \$99 million, if recognized, would favorably impact our future earnings. Due to uncertainties in any tax audit outcome, our estimates of the ultimate settlement of our unrecognized tax positions may change and the actual tax benefits may differ significantly from the estimates. See Note 9 *Income Taxes* to the consolidated financial statements for further information regarding income taxes.

***Recent Accounting Pronouncements***

The information set forth under Note 1 to the consolidated financial statements under the caption “Basis of Presentation and Summary of Significant Accounting Policies” is incorporated herein by reference.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For financial market risks related to changes in interest rates, reference is made to Item 7A “Quantitative and Qualitative Disclosures About Market Risk” contained in Part II of our Annual Report on Form 10-K for the year ended December 31, 2020. Our exposure to market risk has not changed significantly since December 31, 2020.

#### *Foreign Currency Risk*

Revenues denominated in currencies other than the U.S. dollar account for 56% of the consolidated amount for the three months ended March 31, 2021. We therefore have foreign currency risk related to these currencies, which are primarily the euro, the British pound, the Brazilian real, the Canadian dollar, the Mexican Peso, the Australian dollar, and the Japanese yen.

Accordingly, changes in exchange rates, and in particular a weakening of foreign currencies relative to the U.S. dollar may negatively affect our revenue and operating income as expressed in U.S. dollars. In the three months ended March 31, 2021, our revenues would have been approximately \$80 million lower had foreign currency exchange rates remained consistent with those in same period of 2020.

We have also experienced and will continue to experience fluctuations in our net income as a result of gains (losses) on the settlement and the remeasurement of monetary assets and liabilities denominated in currencies that are not the functional currency. In the three months ended March 31, 2021, we recognized a \$258 million foreign exchange gain primarily due to the non-cash remeasurement of our Senior Notes denominated in euros, coupled with the remeasurement of cash and content liabilities denominated in currencies other than the functional currencies.

In addition, the effect of exchange rate changes on cash, cash equivalents and restricted cash as disclosed on the Consolidated Statements of Cash Flow for the three months ended March 31, 2021 was a decrease of \$42 million.

We do not use foreign exchange contracts or derivatives to hedge any foreign currency exposures. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Our continued international expansion increases our exposure to exchange rate fluctuations and, as a result, such fluctuations could have a significant impact on our future results of operations.

### **Item 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our co-Chief Executive Officers and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our co-Chief Executive Officers and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q were effective in providing reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our co-Chief Executive Officers and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Our management, including our co-Chief Executive Officers and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. 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 design of a control system must reflect the fact that there are resource constraints, and 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, within the Company have been detected.

#### *Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The information set forth under Note 7 *Commitments and Contingencies* in the notes to the consolidated financial statements under the caption “Legal Proceedings” is incorporated herein by reference.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

***Company Purchases of Equity Securities***

In March 2021, our Board of Directors authorized the repurchase of up to \$5 billion of our common stock, with no expiration date. Stock repurchases may be effected through open market repurchases in compliance with Rule 10b-18 under the Exchange Act, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Exchange Act, privately-negotiated transactions, accelerated stock repurchase plans, block purchases, or other similar purchase techniques and in such amounts as management deems appropriate. We are not obligated to repurchase any specific number of shares, and the timing and actual number of shares repurchased will depend on a variety of factors, including our stock price, general economic, business and market conditions, and alternative investment opportunities. We may discontinue any repurchases of our common stock at any time without prior notice. As of March 31, 2021, no stock has been repurchased under this program.

**Item 6. Exhibits**

(a) Exhibits:

See Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.





## Executive Severance and Retention Incentive Plan

Amended and Restated April 1, 2021

1. **Introduction.** The purpose of this Executive Severance and Retention Incentive Plan (the “Plan”) is to provide assurances of specified severance benefits to eligible executives of Netflix, Inc. and its Affiliates upon certain terminations of employment and to provide specified retention incentives to eligible executives of the Company upon a Change in Control. The Company believes that the severance plan set forth in this Plan will aid the Company in attracting and retaining highly qualified individuals. In addition, the Company believes that the retention incentive set forth in this Plan will help (a) assure that the Company will have continued dedication and objectivity from its executives notwithstanding the possibility, threat or occurrence of a Change in Control and (b) provide the Covered Executives with an incentive to continue their employment and to motivate executives to maximize the value of the Company upon a Change in Control for the benefit of its stockholders. This Plan is an “employee welfare benefit plan,” as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended. This document constitutes both the written instrument under which the Plan is maintained and the required summary plan description for the Plan.

2. **Important Terms.** To help you understand how this Plan works, it is important to know the following terms:

2.1 “**Administrator**” means Netflix, acting through its Chief Talent Officer or any person to whom the Administrator has delegated any authority or responsibility pursuant to Section 9, but only to the extent of such delegation.

2.2 “**Affiliate**” means any corporation or other entity (including, but not limited to, a limited liability company, partnership or joint venture) controlling, controlled by, or under common control with Netflix, Inc., unless otherwise excluded from the Plan. Affiliates excluded from the Plan are listed in Exhibit A.

2.3 “**Allocatable Compensation**” means a currency-denominated annual compensation amount available for allocation by the Covered Executive between cash compensation and equity compensation as approved by (i) the Compensation Committee of the Board or other properly designated Board committee, or (ii) for a Covered Executive whose compensation is not subject to approval by a committee of the Board, his or her manager or other authorized individual, in either case that is in effect either (a) immediately preceding the Severance Date (with respect to the Severance Benefit) or the date of the Change of Control (with respect to the Retention Incentive), or (b) at any time within the twelve (12) month period prior to the Severance Date (with respect to the Severance Benefit) or date of the Change of Control (with respect to the Retention Incentive), whichever of (a) or (b) is greater.

2.4 “**Board**” means the Board of Directors of Netflix.

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2.5 “**Cause**” means (i) an act of fraud or personal dishonesty undertaken by a Covered Executive in connection with the Covered Executive’s responsibilities as an employee that is intended to result in substantial gain or personal enrichment of the Covered Executive, (ii) a Covered Executive’s conviction of, or plea of nolo contendere to, a felony, or (iii) a Covered Executive’s gross misconduct in connection with the performance of the Covered Executive’s responsibilities as an employee or willful failure to perform a reasonable material component of the Covered Executive’s responsibilities as an employee.

2.6 “**Change in Control**” means the first to occur of any of the following:

(a) Any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of Netflix representing fifty percent (50%) or more of the total voting power represented by Netflix’s then outstanding voting securities; or

(b) consummation of the sale or disposition by Netflix of all or substantially all of Netflix’s assets; or

(c) The consummation of a merger or consolidation of Netflix with any other corporation, other than a merger or consolidation which would result in the voting securities of Netflix outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of Netflix, or such surviving entity or its parent outstanding immediately after such merger or consolidation; or

(d) A change in the composition of the Board, as a result of which less than a majority of the Directors are Incumbent Directors. An “Incumbent Director” means a Director who either (A) is a Director as of the Effective Date, or (B) is elected, or nominated for election, to the Board with the affirmative votes of at least a majority of those Directors whose election or nomination was not in connection with any transaction described in subsections (a), (b) or (c) or in connection with an actual or threatened proxy contest relating to the election of Directors.

2.7 “**Company**” means Netflix and its Affiliates.

2.8 “**Covered Executive**” means a common law employee employed by Netflix or an Affiliate at the Vice President level or higher as reflected in Netflix’s or Affiliate’s human resource systems.

2.9 “**Director**” means a member of Netflix’s Board of Directors.

2.10 “**Effective Date**” means July 1, 2005.

2.11 “**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended.

2.12 “**Involuntary Termination**” means a termination of employment with the Company of a Covered Executive under the circumstances described in Section 3.1. For purposes of the Plan, the transfer of a Covered Executive’s employment between Netflix and its Affiliates, or between Affiliates will not be considered a termination of employment and the Covered Executive will not be entitled to receive a Severance Benefit.

2.13 “**Netflix**” means Netflix, Inc., a Delaware corporation, and any successor thereto.

2.14 “**Option**” means a right granted pursuant to Netflix’s stock option plan(s) to purchase common stock of Netflix pursuant to the terms and conditions of such plan(s).

2.15 “**Plan**” means the Executive Severance and Retention Incentive Plan, as set forth in this document, and as hereafter amended from time to time.

2.16 “**Retention Incentive**” means the compensation the Covered Executive will be provided pursuant to Section 4.

2.17 “**Severance Benefit**” means the compensation and other benefits the Covered Executive will be provided pursuant to Section 3.

2.18 “**Severance Date**” means the date on which an Eligible Executive experiences an Involuntary Termination.

### 3. **Severance.**

3.1 **Eligibility.** If at any time prior to a Change in Control, Netflix or an Affiliate terminates a Covered Executive’s employment for other than Cause, death or permanent disability such that the Covered Executive is no longer an employee of the Company, then, subject to the Covered Executive’s compliance with Section 3.3, the Covered Executive shall receive the Severance Benefit provided pursuant to this Section 3. For purposes of clarification, the severance amount set forth in 3.2 shall not be due or payable to any Covered Executive who shall have received or is eligible to receive the Retention Incentive.

#### 3.2 **Severance Benefit.**

(a) Each Covered Executive who becomes eligible for a Severance Benefit under Section 3.1 shall be paid a lump sum cash payment equal to nine (9) months of Allocatable Compensation. Notwithstanding the foregoing, employees hired as Covered Executives shall be paid a lump sum cash payment equal to thirty-six (36) months of Allocatable Compensation (subject to the other provisions of this Section 3.2), provided that the Severance Benefit shall be reduced by an amount equal to one (1) month of Allocatable Compensation for each month of tenure at the Company for the Covered Executive’s first twenty seven (27) months of continuous employment following hire by the Company. The purpose of the foregoing is to provide newly hired Covered Executives with 36 months Severance Benefit reducing to the standard nine (9) months. The Severance Benefit shall be paid to the Covered Executive as soon as administratively practicable following the Severance Date, but in no event more than two and

one half months following the Severance Date but subject to Section 7 and to the Covered Executive's compliance with Section 3.3.

(b) Notwithstanding any contrary provision of the Plan, the Administrator may reduce the Severance Benefit provided in Section 3.2(a) but only with the written consent of the Covered Executive, and provided that any such reduction may be made only if in accordance with all applicable laws, including (but not limited to) Section 409A of the Code.

**3.3 Release Agreement.** As a condition to receiving a Severance Benefit under this Plan, each Covered Executive will be required to sign a waiver and release of all claims arising out of his or her Involuntary Termination and employment with the Company in a form reasonably satisfactory to the Chief Legal Officer of Netflix (the "Release"). The Release must be executed and irrevocably effective within the period required by the Release but in no event later than sixty (60) days following the Covered Executive's Severance Date, inclusive of any revocation period set forth in the Release (such deadline, the "Release Deadline"). The Severance Benefit will not be paid or provided until the Release becomes irrevocably effective. If the Release does not become irrevocably effective by the Release Deadline due to action or inaction of the Covered Executive, the Covered Executive will forfeit all rights to the Severance Benefit.

Notwithstanding any contrary provision of the Plan, in order to help a Covered Executive avoid having to pay the additional twenty percent (20%) income tax under Section 409A of the Internal Revenue Code of 1986, as amended, in the event that a Covered Executive's Severance Date occurs at a time during the calendar year when it would be possible for the Release to become effective in the calendar year following the calendar year in which the Severance Date occurs, then the Severance Benefit owed (if any) will be paid on the first payroll date that is at least sixty (60) days following the Severance Date (but in all cases subject to Section 7).

#### 4. **Retention Incentive.**

**4.1 Eligibility.** An individual shall be eligible for the Retention Incentive under the Plan, in the amount set forth in Section 4.2, *only if* he or she (i) is a Covered Executive on the date of a Change in Control, and (ii) is not eligible for a Severance Benefit under Section 3.

**4.2 Retention Incentive.** Each Covered Executive eligible for a Retention Incentive in accordance with Section 4.1 shall be entitled to receive a lump sum cash payment equal to twelve (12) months of Allocatable Compensation. The Retention Incentive shall be paid to the Covered Executive as soon as administratively practicable following the date of the Change in Control, but in no event more than two and one-half months thereafter.

**4.3 Parachute Payments.** In the event that a Severance Benefit or Retention Incentive provided for in this Plan or otherwise payable or provided to the Covered Executive (i) constitutes a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) but for this Section 4.3, would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then the Employee's Severance Benefit or Retention Incentive hereunder shall be either

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by the Covered Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. Unless Netflix and the Covered Executive otherwise agree in writing, any determination required under this Section 4.3 shall be made in writing in good faith by an accounting firm chosen by the Administrator and reasonably acceptable to the Covered Executive (the "Accountants"). If a reduction in benefits is required only under the Plan, the reduction will apply to the Employee's Severance Benefit or Retention Incentive, as applicable. If a reduction in benefits is required under the Plan and one or more other arrangements or plans entered into with or maintained for the benefit of the Covered Executive that provides for vesting acceleration of equity awards, cash severance or retention benefits, and/or continued employee benefits coverage, the reduction will occur in the following order: the vesting acceleration of stock options or stock appreciation rights, then cash severance or retention benefits, then vesting acceleration of equity awards other than stock options or stock appreciation rights, and then Company-paid employee benefits coverage. In the event that acceleration of vesting of stock options, stock appreciation rights or other equity awards is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant for the Covered Executive's stock options, stock appreciation rights or other equity awards, as applicable. If two or more stock options, stock appreciation rights or other equity awards are granted on the same day, the stock options, stock appreciation rights or other equity awards, as applicable, will be reduced on a pro-rata basis. For purposes of making the calculations required by this Section 4.3, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. Netflix and the Covered Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. Netflix shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 4.3.

5. **Reserved**

6. **Non-Duplication of Benefits.** Notwithstanding any other provision in the Plan to the contrary and except as provided in this Section 6, the Severance Benefits and Retention Incentive provided hereunder shall be in lieu of any other severance and/or retention plan benefits and the Severance Benefits and Retention Incentive provided hereunder shall be reduced by any severance paid or provided to a Covered Executive under any other plan or arrangement. Notwithstanding the preceding sentence, this Section 6 shall not apply to a Covered Executive to the extent such Covered Executive's separate, written employment, retention or other agreement with the Company explicitly exempts the Covered Executive from the preceding sentence.

7. **Section 409A.**

7.1 Notwithstanding anything herein to the contrary, it is the intent that the Retention Incentives and Severance Benefits payable under the Plan satisfy the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations and be exempt from Section 409A of the Code and the final regulations and any guidance promulgated thereunder (“Section 409A”). If the Severance Benefits (or any portion thereof), when considered together with any other severance payments or separation benefits, are considered deferred compensation subject to Section 409A (together, the “Deferred Compensation Separation Benefits”), no Deferred Compensation Separation Benefits or other severance benefits that otherwise are exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be considered due or payable until the Covered Executive has incurred a “separation from service” within the meaning of Section 409A. In addition, if the Covered Executive is a “specified employee” within the meaning of Section 409A at the time of the Covered Executive’s separation from service (other than due to death), then any Deferred Compensation Separation Benefits otherwise due to the Covered Executive on or within the six (6) month period following the Covered Executive’s separation from service will accrue during such six (6) month period and will become payable in a lump sum payment (less applicable withholding taxes) on the date six (6) months and one (1) day following the date of the Covered Executive’s separation from service. All subsequent payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if the Covered Executive dies following his or her separation but prior to the six (6) month anniversary of his or her date of separation, then any payments delayed in accordance with this paragraph will be payable in a lump sum (less applicable withholding taxes) to the Covered Executive’s estate as soon as administratively practicable after the date of the Covered Executive’s death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit.

7.2 Each payment and benefit payable under the Plan is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations. Any payment or benefit that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations shall not constitute a Deferred Compensation Separation Benefit. Any payment or benefit that entitles the Covered Executive to taxable reimbursements or taxable in-kind benefits covered by Section 1.409A-1(b)(9)(v) shall not constitute a Deferred Compensation Separation Benefit. Any severance payment or portion thereof that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit shall not constitute a Deferred Compensation Separation Benefit. For this purpose, “Section 409A Limit” will mean the lesser of two (2) times: (A) the Covered Executive’s annualized compensation based upon the annual rate of pay paid to Covered Executive during his or her taxable year preceding the Covered Executive’s taxable year of the Covered Executive’s separation from service as determined under Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (B) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which the Covered Executive’s employment is terminated.

7.3 It is the intent of this Plan to comply with the requirements of Section 409A so that none of the payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Notwithstanding anything to the contrary in the Plan, including but not limited to Section 11, Netflix reserves the right to amend the Plan as it deems necessary or advisable, in its sole discretion and without the consent of the Covered Executives, to comply with Section 409A of the Code or to otherwise avoid income recognition under Section 409A of the Code prior to the actual payment of Retention Incentives or Severance Benefits or imposition of any additional tax (provided that no such amendment shall materially reduce the benefits provided hereunder).

8. **Withholding.** The Company will withhold from any Severance Benefit and Retention Incentive all federal, state, local and other taxes required to be withheld therefrom and any other required payroll deductions.

9. **Administration.** Netflix is the administrator of the Plan (within the meaning of section 3(16)(A) of ERISA). The Plan will be administered and interpreted by the Administrator (in his or her sole discretion). The Administrator is the “named fiduciary” of the Plan for purposes of ERISA and will be subject to the fiduciary standards of ERISA when acting in such capacity. Any decision made or other action taken by the Administrator prior to a Change in Control with respect to the Plan, and any interpretation by the Administrator of any term or condition of the Plan prior to a Change in Control, or any related document, will be conclusive and binding on all persons and be given the maximum possible deference allowed by law. Following a Change in Control, any decision made or other action taken by the Administrator with respect to the Plan, and any interpretation by the Administrator of any term or condition of the Plan, or any related document that (i) does not affect the benefits payable under the Plan shall not be subject to review unless found to be arbitrary and capricious or (ii) does affect the benefits payable under the Plan shall not be subject to review unless found to be unreasonable or not to have been made in good faith. The Administrator has the authority to act for the Company (in a non-fiduciary capacity) as to any matter pertaining to the Plan; *provided, however*, that this authority does not apply with respect to (a) Netflix’s power to amend or terminate the Plan or (b) any action that could reasonably be expected to increase significantly the cost of the Plan is subject to the prior approval of the senior officer of Netflix. The Administrator may delegate in writing to any other person all or any portion of his or her authority or responsibility with respect to the Plan.

10. **Eligibility to Participate.** The Administrator will not be excluded from participating in the Plan if otherwise eligible, but he or she is not entitled to act or pass upon any matters pertaining specifically to his or her own benefit or eligibility under the Plan. A senior officer of Netflix, Inc. will act upon any matters pertaining specifically to the benefit or eligibility of the Administrator under the Plan.

11. **Amendment or Termination.** Netflix reserves the right to amend or terminate the Plan at any time provided that (a) as the Plan relates to each individual who is a Covered Executive on the Effective Date, without such Covered Executive’s written consent, the Plan may not be amended or terminated so as to reduce the amount of the Severance Benefit or

Retention Incentive payable to the Covered Executive nor to restrict the Covered Executive's eligibility for a Severance Benefit or Retention Incentive, and (b) as the Plan relates to each individual who first becomes a Covered Executive after the Effective Date, (1) the Plan may be amended or terminated before such individual becomes a Covered Executive, and (2) after such individual becomes a Covered Executive, without such Covered Executive's written consent, the Plan may not be amended or terminated so as to reduce the amount of the Severance Benefit and Retention Incentive payable to the Covered Executive nor to restrict the Covered Executive's eligibility for a Severance Benefit or Retention Incentive. Any amendment or termination of the Plan will be in writing. Any action of Netflix in amending or terminating the Plan will be taken in a non-fiduciary capacity. Upon a Change in Control and following the receipt by all eligible Covered Executives of the Retention Incentive provided for herein, this Plan shall have no further force or effect.

12. **Claims Procedure.** Any employee or other person who believes he or she is entitled to any payment under the Plan may submit a claim in writing to the Administrator within ninety (90) days of the earlier of (i) the date the claimant learned the amount of their Severance Benefit or Retention Incentive under the Plan or (ii) the date the claimant learned that he or she will not be entitled to any benefits under the Plan. If the claim is denied (in full or in part), the claimant will be provided a written notice explaining the specific reasons for the denial and referring to the provisions of the Plan on which the denial is based. The notice will also describe any additional information needed to support the claim and the Plan's procedures for appealing the denial. The denial notice will be provided within ninety (90) days after the claim is received. If special circumstances require an extension of time (up to ninety (90) days), written notice of the extension will be given within the initial ninety (90) day period. This notice of extension will indicate the special circumstances requiring the extension of time and the date by which the Administrator expects to render its decision on the claim.

13. **Appeal Procedure.** If the claimant's claim is denied, the claimant (or his or her authorized representative) may apply in writing to the Administrator for a review of the decision denying the claim. Review must be requested within sixty (60) days following the date the claimant received the written notice of their claim denial or else the claimant loses the right to review. The claimant (or representative) then has the right to review and obtain copies of all documents and other information relevant to the claim, upon request and at no charge, and to submit issues and comments in writing. The Administrator will provide written notice of his or her decision on review within sixty (60) days after it receives a review request. If additional time (up to sixty (60) days) is needed to review the request, the claimant (or representative) will be given written notice of the reason for the delay. This notice of extension will indicate the special circumstances requiring the extension of time and the date by which the Administrator expects to render its decision. If the claim is denied (in full or in part), the claimant will be provided a written notice explaining the specific reasons for the denial and referring to the provisions of the Plan on which the denial is based. The notice shall also include a statement that the claimant will be provided, upon request and free of charge, reasonable access to, and copies of, all documents and other information relevant to the claim and a statement regarding the claimant's right to bring an action under Section 502(a) of ERISA.



14. **Source of Payments.** All Severance Benefits and Retention Incentives will be paid in cash from the general funds of Netflix; no separate fund will be established under the Plan; and the Plan will have no assets. No right of any person to receive any payment under the Plan will be any greater than the right of any other general unsecured creditor of Netflix.

15. **Inalienability.** In no event may any current or former employee of the Company sell, transfer, anticipate, assign or otherwise dispose of any right or interest under the Plan. At no time will any such right or interest be subject to the claims of creditors nor liable to attachment, execution or other legal process.

16. **No Enlargement of Employment Rights.** Neither the establishment or maintenance of the Plan, any amendment of the Plan, nor the making of any benefit payment hereunder, will be construed to confer upon any individual any right to be continued as an employee of the Company. The Company expressly reserves the right to discharge any employee at any time, with or without cause. However, as described in the Plan, a Covered Executive may be entitled to Severance Benefits under the Plan depending upon the circumstances of his or her termination of employment.

17. **Successors.** Any successor to Netflix of all or substantially all of Netflix's business and/or assets (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) will assume the obligations under the Plan and agree expressly to perform the obligations under the Plan in the same manner and to the same extent as Netflix would be required to perform such obligations in the absence of a succession. For all purposes under the Plan, the term "Company" will include any successor to the Company's business and/or assets which become bound by the terms of the Plan by operation of law, or otherwise.

18. **Applicable Law.** The provisions of the Plan will be construed, administered and enforced in accordance with ERISA and, to the extent applicable, the internal substantive laws of the State of California (with the exception of its conflict of laws provisions).

19. **Severability.** If any provision of the Plan is held invalid or unenforceable, its invalidity or unenforceability will not affect any other provision of the Plan, and the Plan will be construed and enforced as if such provision had not been included.

20. **Headings.** Headings in this Plan document are for purposes of reference only and will not limit or otherwise affect the meaning hereof.

21. **Indemnification.** Netflix hereby agrees to indemnify and hold harmless the officers and employees of the Company, and the members of their boards of directors, from all losses, claims, costs or other liabilities arising from their acts or omissions in connection with the administration, amendment or termination of the Plan, to the maximum extent permitted by applicable law. This indemnity will cover all such liabilities, including judgments, settlements and costs of defense. Netflix will provide this indemnity from its own funds to the extent that insurance does not cover such liabilities. This indemnity is in addition to and not in lieu of any other indemnity provided to such person by Netflix.

22. **Additional Information.**

**Plan Name:** Executive Severance and Retention Incentive Plan

**Plan Sponsor:** Netflix, Inc.  
100 Winchester Circle  
Los Gatos, CA 95032

**Identification Numbers:** EIN: - 77-0467272  
PLAN: 501

**Plan Year:** Calendar year

**Plan Administrator:** Netflix, Inc.  
Attention: Chief Talent Officer  
100 Winchester Circle  
Los Gatos, CA 95032  
(408) 540-3700

**Agent for Service of  
Legal Process:** Netflix, Inc.  
Attention: Chief Legal Officer  
100 Winchester Circle  
Los Gatos, CA 95032  
(408) 540-3700  
  
Service of process may also be made upon the Plan  
Administrator.

**Type of Plan** Bonus Plan/Severance Plan/Employee Welfare  
Benefit Plan

**Plan Costs** The cost of the Plan is paid by the Employer.

23. **Statement of ERISA Rights.**

As a Covered Executive under the Plan, you have certain rights and protections under ERISA:

(a) You may examine (without charge) all Plan documents, including any amendments and copies of all documents filed with the U.S. Department of Labor, such as the Plan's annual report (IRS Form 5500). These documents are available for your review in Netflix's Human Resources Department.

(b) You may obtain copies of all Plan documents and other Plan information upon written request to the Plan Administrator. A reasonable charge may be made for such copies.

In addition to creating rights for Covered Executives, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate the Plan (called “fiduciaries”) have a duty to do so prudently and in the interests of you and the other Covered Executives. No one, including Netflix, Inc., any Affiliate or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit under the Plan or exercising your rights under ERISA. If your claim for a severance benefit is denied, in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the denial of your claim reviewed. (The claim review procedure is explained in Sections 12 and 13 above.)

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials and do not receive them within thirty (30) days, you may file suit in a federal court. In such a case, the court may require the Plan Administrator to provide the materials and to pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim which is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court.

In any case, the court will decide who will pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds that your claim is frivolous.

If you have any questions regarding the Plan, please contact the Plan Administrator. If you have any questions about this statement or about your rights under ERISA, you may contact the nearest area office of the Employee Benefits Security Administration (formerly the Pension and Welfare Benefits Administration), U.S. Department of Labor, listed in your telephone directory, or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue, N.W. Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

#### **24. Participation by Affiliates.**

By participating in the Plan an Affiliate is deemed to agree to all of its terms, including (but not limited to) the provisions granting exclusive authority to Netflix to amend the Plan and granting exclusive authority to the Administrator to administer and interpret the Plan. The liabilities incurred under the Plan to the Covered Executives shall be solely the liabilities of Netflix. However, the costs of the Plan may be apportioned among Netflix and its Affiliates as the Administrator (in its discretion) may determine. All acts required of the Company under the

Plan may be performed by Netflix for itself, and its Affiliates, as determined by the Administrator (in its discretion).

25. **Execution.**

*In Witness Whereof*, Netflix, by its duly authorized officer, has executed this amended Plan on the date indicated below.

Netflix, Inc.

/s/ Jessica Neal

By: Jessica Neal

Title: Chief Talent Officer

Date: April 1, 2021

Exhibit A -- Affiliates Excluded from the Plan

None

**CERTIFICATION OF CO-CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Reed Hastings, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Netflix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 22, 2021

By:

\_\_\_\_\_  
/S/ REED HASTINGS  
Reed Hastings  
Co-Chief Executive Officer

**CERTIFICATION OF CO-CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ted Sarandos, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Netflix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 22, 2021

By:

\_\_\_\_\_  
/S/ TED SARANDOS

Ted Sarandos  
Co-Chief Executive Officer and Chief Content Officer





**CERTIFICATIONS OF CO-CHIEF EXECUTIVE OFFICERS AND CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Reed Hastings, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Netflix, Inc. for the quarter ended March 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Netflix, Inc.

Dated: April 22, 2021

By:

/s/ REED HASTINGS

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Reed Hastings  
Co-Chief Executive Officer

I, Ted Sarandos, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Netflix, Inc. for the quarter ended March 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Netflix, Inc.

Dated: April 22, 2021

By:

/s/ TED SARANDOS

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Ted Sarandos  
Co-Chief Executive Officer and Chief Content Officer

I, Spencer Neumann, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Netflix, Inc. for the quarter ended March 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Netflix, Inc.

Dated: April 22, 2021

By:

/s/ SPENCER NEUMANN

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Spencer Neumann  
Chief Financial Officer