
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

Current Report

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

Date of Report (Date of earliest event reported):
April 21, 2010

NETFLIX, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

000-49802
(Commission File Number)

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

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

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

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

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

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

On April 21, 2010, Netflix, Inc. (the “Company”) announced its financial results for the quarter ended March 31, 2010. The press release and management commentary, which is attached hereto as Exhibits 99.1 and 99.2 respectively, and incorporated herein by reference, discloses certain financial measures that may be considered non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company’s performance, financial position, or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the United States. Management believes that non-GAAP net income is a useful measure of operating performance because it excludes the non-cash impact of stock option accounting. In addition, management believes that free cash flow is a useful measure of liquidity because it excludes the non-operational cash flows from purchases and sales of short-term investments, cash flows from investment in business and cash flows from financing activities. However, these non-GAAP measures should be considered in addition to, not as a substitute for, or superior to net income and net cash provided by operating activities, or other financial measures prepared in accordance with GAAP. The non-GAAP information is presented using consistent methodology from quarter-to-quarter and year-to-year.

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

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

99.1 Press release issued by Netflix, Inc. on April 21, 2010.

99.2 Management’s commentary on financial results for the quarter ended March 31, 2010.

SIGNATURES

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

NETFLIX, INC.

Date: April 21, 2010

/s/ BARRY M. C. ARTHY
Barry McCarthy
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
99.1*	Press release issued by Netflix, Inc. on April 21, 2010.
99.2*	Management’s commentary on financial results for the quarter ended March 31, 2010.

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

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



FOR IMMEDIATE RELEASE
Wednesday, April 21, 2010

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

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

Netflix Announces Q1 2010 Financial Results

Subscribers – 14.0 million
Revenue – \$493.7 million
GAAP Net Income – \$32.3 million
GAAP EPS – \$0.59 per diluted share

LOS GATOS, Calif., April 21, 2010 – Netflix, Inc. (Nasdaq: NFLX) today reported results for the first quarter ended March 31, 2010.

“Our growth continued to accelerate in the first quarter, with record net subscriber additions and record-low subscriber acquisition cost,” said Netflix co-founder and CEO Reed Hastings. “It is clear that our performance, and the overall appeal of the Netflix service, is being driven by subscribers watching instantly. On that score, we reached a milestone in the quarter as more than half of all members – 55 percent and growing – enjoyed movies and TV episodes streamed from Netflix over the Internet.”

First-Quarter 2010 Financial Highlights

Subscribers. Netflix ended the first quarter of 2010 with approximately 13,967,000 total subscribers, representing 35 percent year-over-year growth from 10,310,000 total subscribers at the end of the first quarter of 2009 and 14 percent sequential growth from 12,268,000 subscribers at the end of the fourth quarter of 2009.

Net subscriber change in the quarter was an increase of 1,699,000 compared to an increase of 920,000 for the same period of 2009 and an increase of 1,159,000 for the fourth quarter of 2009.

Gross subscriber additions for the quarter totaled 3,492,000, representing 45 percent year-over-year growth from 2,413,000 gross subscriber additions in the first quarter of 2009 and 25 percent quarter-over-quarter growth from 2,803,000 gross subscriber additions in the fourth quarter of 2009.

Of the 13,967,000 total subscribers at quarter end, 98 percent, or 13,622,000, were paid subscribers. The other 2 percent, or 345,000, were free subscribers. Paid subscribers represented 98 percent of total subscribers at the end of the first quarter of 2009 and 97 percent at the end of the fourth quarter of 2009.

Revenue for the first quarter of 2010 was \$493.7 million, representing 25 percent year-over-year growth from \$394.1 million for the first quarter of 2009, and 11 percent sequential growth from \$444.5 million for the fourth quarter of 2009.

Gross margin¹ for the first quarter of 2010 was 37.8 percent compared to 34.2 percent for the first quarter of 2009 and 38.0 percent for the fourth quarter of 2009.

GAAP net income for the first quarter of 2010 was \$32.3 million, or \$0.59 per diluted share compared to GAAP net income of \$22.4 million, or \$0.37 per diluted share, for the first quarter of 2009 and GAAP net income of \$30.9 million, or \$0.56 per diluted share, for the fourth quarter of 2009. GAAP net income grew 44 percent on a year-over-year basis and GAAP EPS grew 59 percent on a year-over-year basis.

Percentage of subscribers who watched instantly more than 15 minutes of a TV episode or movie in the first quarter of 2010 was 55 percent compared to 36 percent for the same period of 2009 and 48 percent for the fourth quarter of 2009.

Subscriber acquisition cost² for the first quarter of 2010 was \$21.54 per gross subscriber addition compared to \$25.79 for the same period of 2009 and \$25.23 for the fourth quarter of 2009.

Churn³ for the first quarter of 2010 was 3.8 percent compared to 4.2 percent for the first quarter of 2009 and 3.9 percent for the fourth quarter of 2009. Churn includes free subscribers as well as paying subscribers who elect not to renew their monthly subscription service during the quarter.

Free cash flow⁴ for the first quarter of 2010 was \$35.8 million compared to \$15.1 million for the first quarter of 2009 and \$30.2 million for the fourth quarter of 2009.

Last twelve-month free cash flow for the first quarter of 2010 was \$117.8 million compared to \$105.0 million for the first quarter of 2009 and \$97.1 million for the fourth quarter of 2009.

Cash provided by operating activities for the first quarter of 2010 was \$75.4 million compared to \$65.6 million for the first quarter of 2009 and \$105.8 million for the fourth quarter of 2009.

Business Outlook

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

Second-Quarter 2010

- Ending subscribers of 14.7 million to 15.0 million
- Revenue of \$517 million to \$525 million
- GAAP net income of \$34 million to \$40 million
- GAAP EPS of \$0.62 to \$0.73 per diluted share

Full-Year 2010

- Ending subscribers of 16.5 million to 17.3 million, up from 15.5 million to 16.3 million
- Revenue of \$2.11 billion to \$2.16 billion, up from \$2.05 billion to \$2.11 billion
- GAAP net income of \$132 million to \$144 million, up from \$125 million to \$137 million
- GAAP EPS of \$2.41 to \$2.63 per diluted share, up from \$2.28 to \$2.50 per diluted share

¹ Gross margin is defined as revenues less cost of subscription and fulfillment expenses divided by revenues.

² Subscriber acquisition cost is defined as the total marketing expense, which includes stock-based compensation for marketing personnel, on the Company's Condensed Consolidated Statements of Operations divided by total gross subscriber additions during the quarter.

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

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

Earnings Q&A Session

In conjunction with this earnings press release, the Company has posted management's commentary to its Web site at <http://ir.netflix.com>. Netflix management will host a live Q&A session at 3:00 p.m. Pacific Time to discuss the Company's financial results and business outlook, with questions submitted via email. Please email your questions to ir@netflix.com. *(Please note this new email address)*. The company will read the questions aloud on the call and respond to as many questions as possible. All media inquiries should be directed to Steve Swasey at (408) 540-3947 or sswasey@netflix.com.

A live webcast and the replay of the earnings Q&A session can be accessed on the investor relations section of the Netflix website at <http://ir.netflix.com>. For those without access to the Internet, a replay of the call will be available from 6:00 p.m. Pacific Time on April 21, 2010 through midnight on April 24, 2010. To listen to the replay, call (706) 645-9291, conference ID 67441533.

Use of Non-GAAP Measures

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

About Netflix

With more than 13 million members, Netflix, Inc. (Nasdaq: NFLX) is the world's largest subscription service streaming movies and TV episodes over the Internet and sending DVDs by mail. For \$8.99 a month, Netflix members can instantly watch unlimited TV episodes and movies streamed to their TVs and computers and can receive unlimited DVDs delivered quickly to their homes. With Netflix, there are never any due dates or late fees. Members can select from a growing library of titles that can be watched instantly and a vast array of titles on DVD. Among the large and expanding base of devices that can stream movies and TV episodes from Netflix right to members' TVs are Microsoft's Xbox 360 and Sony's PS3 game consoles and Nintendo's Wii console; Blu-ray disc players from Samsung, LG and Insignia; Internet TVs from LG, Sony and VIZIO; the Roku digital video player and TiVo digital video recorders; and Apple's iPad tablet. For more information, visit <http://www.netflix.com>.

Forward-Looking Statements

This press release contains certain forward-looking statements within the meaning of the federal securities laws, including statements regarding our subscriber growth, revenue, GAAP net income and earnings per share for the second quarter of 2010 and the full-year 2010. The forward-looking statements in this release are subject to risks and uncertainties that could cause actual results and events to differ, including, without limitation: our ability to attract new subscribers and retain existing subscribers; our ability to manage our subscriber acquisition cost as well as the cost of content delivered to our subscribers; fluctuations in consumer usage of our service; the continued availability of content on terms and conditions acceptable to us; maintenance and expansion of device platforms for instant streaming; continued weakness in the U.S. economy and its affect on online commerce or the filmed entertainment industry; conditions that effect our delivery through the U.S. Postal Service, including regulatory changes and postal rate increases; changes in the costs of acquiring DVDs or electronic content; consumer spending on DVDs and related products; disruption in service on our website or with our computer systems; competition and widespread consumer adoption of different modes of viewing in-home filmed entertainment. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2010. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this press release.

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

	Three Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009
Revenues	\$493,665	\$ 444,542	\$394,098
Cost of revenues:			
Subscription	259,560	231,598	217,456
Fulfillment expenses *	47,602	43,888	41,812
Total cost of revenues	<u>307,162</u>	<u>275,486</u>	<u>259,268</u>
Gross profit	186,503	169,056	134,830
Operating expenses:			
Technology and development *	37,399	33,209	24,200
Marketing *	75,219	70,715	62,242
General and administrative *	17,193	13,524	13,014
Gain on disposal of DVDs	(1,653)	(1,741)	(1,097)
Total operating expenses	<u>128,158</u>	<u>115,707</u>	<u>98,359</u>
Operating income	58,345	53,349	36,471
Other income (expense):			
Interest expense	(4,959)	(4,457)	(670)
Interest and other income	972	2,444	1,610
Income before income taxes	54,358	51,336	37,411
Provision for income taxes	22,086	20,423	15,048
Net income	<u>\$ 32,272</u>	<u>\$ 30,913</u>	<u>\$ 22,363</u>
Net income per share:			
Basic	\$ 0.61	\$ 0.58	\$ 0.38
Diluted	\$ 0.59	\$ 0.56	\$ 0.37
Weighted average common shares outstanding:			
Basic	52,911	53,609	58,734
Diluted	54,775	55,479	60,709
*Stock-based compensation included in expense line items:			
Fulfillment expenses	\$ 176	\$ 59	\$ 120
Technology and development	1,869	1,023	1,071
Marketing	643	433	443
General and administrative	2,814	1,461	1,498
Reconciliation of Non-GAAP Financial Measures (unaudited)			
Non-GAAP net income reconciliation:			
GAAP net income	\$ 32,272	\$ 30,913	\$ 22,363
Stock-based compensation	5,502	2,976	3,132
Income tax effect of stock-based compensation	(2,234)	(1,184)	(1,259)
Non-GAAP net income	<u>\$ 35,540</u>	<u>\$ 32,705</u>	<u>\$ 24,236</u>
Non-GAAP net income per share:			
Basic	\$ 0.67	\$ 0.61	\$ 0.41
Diluted	\$ 0.65	\$ 0.59	\$ 0.40
Weighted average common shares outstanding:			
Basic	52,911	53,609	58,734
Diluted	54,775	55,479	60,709

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

	As of	
	March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 79,861	\$ 134,224
Short-term investments	186,469	186,018
Current content library, net	55,566	37,329
Prepaid content	31,704	26,741
Prepaid and other current assets	25,938	26,701
Total current assets	379,538	411,013
Content library, net	109,431	108,810
Property and equipment, net	127,165	131,653
Deferred tax assets	18,791	15,958
Other non-current assets	13,368	12,300
Total assets	<u>\$ 648,293</u>	<u>\$ 679,734</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 102,703	\$ 91,475
Accrued expenses	38,718	33,387
Current portion of lease financing obligations	1,917	1,410
Deferred revenue	100,109	100,097
Total current liabilities	243,447	226,369
Long-term debt	200,000	200,000
Lease financing obligations, excluding current portion	35,704	36,572
Other non-current liabilities	22,407	17,650
Total liabilities	501,558	480,591
Stockholders' equity:		
Common stock, \$0.001 par value; 160,000,000 shares authorized at March 31, 2010 and December 31, 2009; 52,261,855 and 53,440,073 issued and outstanding at March 31, 2010 and December 31, 2009, respectively	52	53
Accumulated other comprehensive income, net	487	273
Retained earnings	146,196	198,817
Total stockholders' equity	146,735	199,143
Total liabilities and stockholders' equity	<u>\$ 648,293</u>	<u>\$ 679,734</u>

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

	Three Months Ended		
	March 31,	December 31,	March 31,
	2010	2009	2009
Cash flows from operating activities:			
Net income	\$ 32,272	\$ 30,913	\$ 22,363
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, equipment and intangibles	10,859	10,238	9,175
Amortization of content library	62,292	60,261	49,304
Amortization of discounts and premiums on investments	234	168	194
Amortization of debt issuance costs	98	1,124	—
Stock-based compensation expense	5,502	2,976	3,132
Excess tax benefits from stock-based compensation	(7,424)	(3,584)	(3,684)
Loss on disposal of property and equipment	—	—	144
Gain on sale of short-term investments	(264)	(54)	(572)
Gain on disposal of DVDs	(3,228)	(2,607)	(2,033)
Gain on sale of investment in business	—	(1,783)	—
Deferred taxes	(2,761)	1,789	(1,344)
Changes in operating assets and liabilities:			
Prepaid content and other current assets	(4,415)	(9,390)	(391)
Content library	(50,475)	(22,785)	(22,091)
Accounts payable	16,878	8,894	8,572
Accrued expenses	11,953	7,506	2,945
Deferred revenue	12	20,974	(2,504)
Other assets and liabilities	3,879	1,177	2,423
Net cash provided by operating activities	75,412	105,817	65,633
Cash flows from investing activities:			
Purchases of short-term investments	(34,202)	(125,841)	(52,384)
Proceeds from sale of short-term investments	30,770	36,037	36,933
Proceeds from maturities of short-term investments	4,013	4,688	1,330
Purchases of property and equipment	(6,393)	(22,433)	(6,572)
Acquisitions of intangible asset	(130)	—	(200)
Acquisitions of content library	(36,902)	(57,048)	(46,499)
Proceeds from sale of DVDs	3,984	3,934	2,726
Proceeds from sale of investment in business	—	7,483	—
Other assets	(172)	(72)	(2)
Net cash used in investing activities	(39,032)	(153,252)	(64,668)
Cash flows from financing activities:			
Principal payments of lease financing obligations	(361)	(300)	(269)
Proceeds from issuance of common stock	9,918	9,182	13,589
Excess tax benefits from stock-based compensation	7,424	3,584	3,684
Borrowings on line of credit, net of issuance costs	—	18,978	—
Payments on line of credit	—	(20,000)	—
Proceeds from issuance of debt, net of issuance costs	—	193,917	—
Repurchases of common stock	(107,724)	(79,419)	(42,719)
Net cash provided by (used in) financing activities	(90,743)	125,942	(25,715)
Net increase (decrease) in cash and cash equivalents	(54,363)	78,507	(24,750)
Cash and cash equivalents, beginning of period	134,224	55,717	139,881
Cash and cash equivalents, end of period	<u>\$ 79,861</u>	<u>\$ 134,224</u>	<u>\$115,131</u>

	Three Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009
Non-GAAP free cash flow reconciliation:			
Net cash provided by operating activities	\$ 75,412	\$ 105,817	\$ 65,633
Purchases of property and equipment	(6,393)	(22,433)	(6,572)
Acquisitions of intangible asset	(130)	—	(200)
Acquisitions of content library	(36,902)	(57,048)	(46,499)
Proceeds from sale of DVDs	3,984	3,934	2,726
Other assets	(172)	(72)	(2)
Non-GAAP free cash flow	\$ 35,799	\$ 30,198	\$ 15,086
	Twelve Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009
Non-GAAP free cash flow reconciliation:			
Net cash provided by operating activities	\$ 334,842	\$ 325,063	\$ 285,608
Purchases of property and equipment	(45,753)	(45,932)	(37,931)
Acquisitions of intangible asset	(130)	(200)	(1,262)
Acquisitions of content library	(183,447)	(193,044)	(158,032)
Proceeds from sale of DVDs	12,422	11,164	16,587
Other assets	(99)	71	(11)
Non-GAAP free cash flow	\$ 117,835	\$ 97,122	\$ 104,959

Netflix, Inc.
Consolidated Other Data

(unaudited)

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

	As of / Three Months Ended		
	March 31,	December 31,	March 31,
	2010	2009	2009
Subscriber information:			
Subscribers: beginning of period	12,268	11,109	9,390
Gross subscriber additions: during period	3,492	2,803	2,413
Gross subscriber additions year-to-year change	44.7%	34.4%	29.6%
Gross subscriber additions quarter-to-quarter sequential change	24.6%	28.6%	15.7%
Less subscriber cancellations: during period	(1,793)	(1,644)	(1,493)
Subscribers: end of period	13,967	12,268	10,310
Subscribers year-to-year change	35.5%	30.6%	25.1%
Subscribers quarter-to-quarter sequential change	13.8%	10.4%	9.8%
Free subscribers: end of period	345	376	194
Free subscribers as percentage of ending subscribers	2.5%	3.1%	1.9%
Paid subscribers: end of period	13,622	11,892	10,116
Paid subscribers year-to-year change	34.7%	29.8%	24.9%
Paid subscribers quarter-to-quarter sequential change	14.5%	9.8%	10.4%
Average monthly revenue per paying subscriber	\$ 12.90	\$ 13.04	\$ 13.63
Average monthly gross profit per paying subscriber	\$ 4.87	\$ 4.96	\$ 4.66
Percentage of subscribers who watched instantly more than 15 minutes of a TV episode or movie	55%	48%	36%
Household penetration - Bay Area	24%	23%	20%
Household penetration - Rest of Country	12%	11%	9%
Churn	3.8%	3.9%	4.2%
Subscriber acquisition cost	\$ 21.54	\$ 25.23	\$ 25.79
Margins:			
Gross margin	37.8%	38.0%	34.2%
Operating margin	11.8%	12.0%	9.2%
Net margin	6.5%	7.0%	5.7%
Expenses as percentage of revenues:			
Technology and development	7.6%	7.5%	6.1%
Marketing	15.2%	15.9%	15.8%
General and administrative	3.5%	3.0%	3.3%
Gain on disposal of DVDs	(0.3%)	(0.4%)	(0.2%)
Total operating expenses	26.0%	26.0%	25.0%
Year-to-year change:			
Total revenues	25.3%	23.6%	20.8%
Cost of subscription	19.4%	19.6%	16.2%
Fulfillment expenses	13.8%	11.9%	17.3%
Technology and development	54.5%	38.1%	19.4%
Marketing	20.8%	27.1%	13.4%
General and administrative	32.1%	25.7%	(5.3%)
Gain on disposal of DVDs	50.7%	8.6%	31.7%
Total operating expenses	30.3%	30.3%	11.7%

Safe Harbor Statement

Today's management commentary contains forward-looking statements relating to future events or future financial performance that involve risks and uncertainties. Actual results may differ materially from those anticipated in these statements based on a number of factors, including those identified in the company's annual report on Form 10-K filed with the SEC on February 22, 2010.

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

Reed Hastings, CEO, Netflix

Our goal, as always, is to grow subscribers, revenue and earnings, while expanding into streaming. We delivered on our goals with the huge success in Q1, and, as our guidance implies, we expect continued success.

Our results reflect the increasing popularity of our \$9 a month plan as streaming becomes more central to our service. This plan hits the sweet spot of astounding value and high convenience for subscribers. We believe it expands the size of our available market, and the ability to grow earnings on such low prices deepens our competitive moat.

In the first quarter the percentage of our subscribers that were actively streaming increased from 48% to 55%, and part of the reason we accomplished this was our improved streaming content. We continue to license more content for streaming from a wide range of providers, including all of the major film studios. Recently, for example, we announced a major expansion of our streaming license with Fox. In addition, over the last two years we have steadily broadened our selection of TV shows, and now TV shows represent a significant percentage of our weekly viewing hours. TV shows are not a replacement for movies, but prior-season viewing is a great extension for Netflix. By expanding our content proposition to include TV shows as a first-class part of our service we not only make our subscribers happier, but we also significantly broaden the number of companies from which we can license content. This gives us increased flexibility in where we spend and what we license.

We plan to continue to build on the success we have had with NBC, ABC and most recently with Fox, and do it in a way that is not detrimental to broadcast and cable networks' revenue streams. Our positioning is to offer complete previous seasons of shows, just as we do with TV on DVD. When a network like ABC has a hot show like "Lost," they understandably want to monetize the most current episodes themselves. Netflix represents a new way to monetize previous seasons of shows in addition to the syndication market, which can be lucrative but only for a few shows, and DVD box sales, which is a shrinking source of revenue for studios and networks. Just as we have with movies and TV shows on DVD, we are using personalization and superior user interface to find audiences for a very broad selection of shows. We now feature the full catalog of great TV shows from Fox's "24" and NBC's "30 Rock" to Discovery's "Deadliest Catch" and The Disney Channel's "Wizard's of Waverly Place."

Increased streaming viewing was driven not only by our enhanced content but also by our expanded breadth of devices and improving user interface.

Our first-generation TV user interface was a single row of movies and TV shows which the consumer had earlier chosen from a laptop. Then nine months ago, the Xbox 360 team used our APIs to pioneer a second generation user interface that enables consumers to select content from a set of personalized lists directly from their TV. Not surprisingly, consumers watch more and retain better when they can choose their content directly from the TV. We quickly adapted this second generation user interface to many of our more recent devices including Vizio TVs, Insignia Blu-ray players, Sony Playstation3 (PS3), and Nintendo Wii. Roku will also soon update their entire installed base with a custom version of this new high-performance second generation user interface.

Our Nintendo Wii application has been very popular with our members and we'll ship millions of free Netflix instant streaming discs for Wii this year. The wow for Wii owners of playing streaming video with a flick of their Wii Remote is palpable. In connection with our Nintendo launch, we'll be starting a Wii-specific TV ad campaign in a few weeks that will draw attention to the wow of Netflix on Wii.

Finally, on the iPad, I have to say I'm stunned by the accomplishments of our team. In less than 60 days they created an amazing iPad application and it is only a beginning. The technical issues to expand from the iPad to the iPhone and iPod Touch are not material, but we'll take a few months to get the user interface right for the smaller screen. Since we don't do new release pay-per-view, there is almost no revenue conflict between iTunes and Netflix streaming, which is probably part of why Apple helped us with the iPad application.

On the DVD side of the business, our disc shipments continued to grow during the first quarter. No doubt this is helped by many video stores closing, and this trend is likely to continue. Given the growth in our DVD shipments, we continue to invest in strengthening our service to achieve more consistent delivery and lower costs, and we are seeing nice improvements. Our big automation project for rental return, which we've talked about in the past, is on track and we'll start the rollout of this equipment in the second half of this year. With the growth of streaming it is easy to overlook the importance of DVD, but most Netflix subscribers watch DVDs from us every quarter. Blu-ray players are selling well, and our percentage of Blu-ray enabled subscribers continues to climb.

As I mentioned last quarter, we signed an innovative deal with Warner Bros., which provides us with lots of discs 28 days after the retail window availability. This helps Warner Bros. increase DVD sales, pay-per-view transactions, and premium \$4-5 rentals, where the studios can collect a few dollars per transaction. The deal helps Netflix because we save money on discs and reinvest those savings into more streaming content. We now have similar deals in place with Universal, Fox and HBO. As these four suppliers show increased profits, we think it is likely that the model will spread to other studios over the coming years. The fact that pay-per-view, premium rental, and DVD sales gain their own window doesn't trouble us much; our value proposition of \$9 per month is very strong, and new release has always been a relatively small percent of what we rent.

The \$1 DVD rental kiosks continue to grow rapidly in their segment. They focus on top new releases only and have had a significant impact on stores. In the Salt Lake City area, which Redbox identifies as their most penetrated market, we are growing faster than our national average. Interestingly, of the few subscribers in Salt Lake City that leave Netflix, about three times more name kiosks as their next source for movies as name video stores, which suggests that as kiosks grow in the rest of the nation to match Salt Lake City levels, the relevance to us of video stores will continue to shrink. In the long term, kiosks and by-mail will be the majority of DVD rental.

In other news, Wal*mart recently purchased a streaming pay-per-view service called Vudu. Presumably, Vudu will be built into CE devices that are sold at Wal*mart. Similarly, Best Buy has a streaming pay-per-view service called Blu Sky, and Amazon has Unbox. We are committed to stay out of the pay-per-view segment and that is probably one of the reasons these retailers tolerate us also being on devices such as Xbox, PS3, Wii, and Samsung and other Blu-ray players that they sell. As with iTunes, there is almost no revenue conflict between the content viewed through Netflix streaming and the content viewed through these pay-per-view services. Pay-per-view for new releases will be quite successful, without negatively impacting Netflix.

In terms of subscription, we hear speculation that Hulu may be expanding from ad-supported to directly competing with us in subscription. Since they are flash-video based, and haven't had as stringent DRM restrictions as we have had, Hulu would be playable from the Wii Internet Browser and the Sony PS3 Internet browser at launch, and could rapidly be on all the major devices. Our core advantages against new direct competitors like Hulu are our scale, which results in lower subscriber acquisition costs (SAC), and our integration with DVD rental.

In regards to international, we don't have anything new to report – our plan remains to launch in a single foreign country with a streaming-only service later this year.

To wrap up, we had another great quarter and we are well positioned to continue to prosper as Internet video grows.

Barry McCarthy, CFO, Netflix

On last quarter's earnings call I talked about our expectations for 2010. In particular I talked about substantial year-over-year growth in streamed content spending and the returns we expected to realize on that spending in the form of faster subscriber growth, lower SAC, lower churn, and faster EPS growth.

Fast forward ninety days, and last quarter's comments accurately describe the Q1 results we reported today. The entire business performed well, including the lowest SAC and the lowest churn in our history. We posted terrific results.

Q1 Results

Turning first to Q1 results, gross margin improved 360 basis points on a year-over-year basis to 37.8%. Sequentially gross margin declined 20 basis points reflecting a seasonal increase in DVD usage. The year-over-year increase in gross margin is primarily related to the increased popularity of our \$8.99 plan, which is primarily related to the broad-based appeal of watch instantly. The decline in SAC and churn, and the growth in lifetime value that results from lower churn, are also primarily related to the increased popularity of watch instantly.

Blu-ray enabled subscribers also contributed to margin expansion on a year-over-year basis in Q1. The impact on gross margin will diminish in Q2 when we begin to comp off of last year's Q2 Blu-ray price increase.

We achieved record low churn of 3.8% in the quarter, an improvement of 40 basis points on a year-over-year basis. This is the fourth consecutive quarter of sequentially lower churn and a significant trend in the business. The principal driver of lower churn appears to be increased subscriber engagement with streaming. As Reed pointed out in his comments, we're working hard to continue to make streaming a better value and a better user experience than it is today. If we continue to improve the service in the current competitive environment, then churn should continue to move lower, which would increase the lifetime value of our subscribers.

SAC declined 16% on a year-over-year basis to a record low of \$21.54, even as gross profit per paid sub increased 5% year-over-year. The consumer appeal of our hybrid service is the primary driver of lower SAC, and we believe that SAC will remain low in the current competitive environment. Meanwhile the growing availability of Netflix on consumer electronic devices continues to stimulate consumer awareness and interest in our hybrid service.

Buyback Update

We were aggressive buyers of Netflix shares in the first quarter, as we have been in past quarters. In total, we spent \$108 million repurchasing 1.67 million shares at an average cost of \$64.51 per share in the first quarter.

Cumulatively, we have returned \$732 million to shareholders by repurchasing 21.1 million Netflix shares at an average cost of \$34.67 per share. This represents 38% of the 56.2 million fully diluted shares outstanding at quarter end. We expect to be active again this quarter repurchasing Netflix shares.

We finished the quarter with \$266.3 million in cash and short-term investments and \$200 million in long term debt, which represents less than one “turn” of debt. The balance sheet remains quite strong.

Free Cash Flow

Free cash flow for the quarter was \$35.8 million, up 137% year-over-year and 19% sequentially. Principal contributors to Q1 free cash flow were growth in profitability coupled with a shift from purchase to revenue sharing agreements with studio partners for DVD content.

Closing Thoughts

Finally, a few thoughts about guidance.

First, a reminder that our goal is to manage the business to an annual operating margin of approximately 11% for the calendar year 2010. The mid-point of our guidance assumes 27% year-over-year growth in EPS which still allows us the operating flexibility to continue to aggressively invest in growing subscribers and our library of licensed content for streaming as well as international expansion.

Second, as you can see from our guidance, we expect our subscriber growth rate to continue to increase in the second quarter. The principal contributors to fast growth include the Wii launch, a large year-over-year increase in marketing expense, and continued strong momentum from word-of-mouth.

In the second half of the year, we plan to increase our spending on content for streaming. We plan to fund the increase with money we would otherwise have spent on marketing. As a result, we expect our marketing spend to decline on a year-over-year basis in Q3 and Q4 and our subscriber growth to be slower than in the first half of the year. You see these assumptions reflected in the guidance we issued in today’s earnings release. If the business outperforms our expectations, you will likely see us invest the upside in marketing to drive faster subscriber growth and future profits.

In summary, our investment in streaming has broadened our available market and accelerated our growth. The competitive environment is relatively benign, and we have our foot firmly planted on the accelerator. The business model is working well. Subscribers, revenue, and earnings per share are all growing fast. The balance sheet is strong. The business is well capitalized, and the future continues to look bright.



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Forward-Looking Statements and Non-GAAP Financial Measurements

This presentation contains forward-looking statements relating to future events or future financial performance that involve risks and uncertainties. Actual results may differ materially from those anticipated in these statements based on a number of factors, including those identified in the company's annual report on Form 10-K filed with the SEC on February 22, 2010.

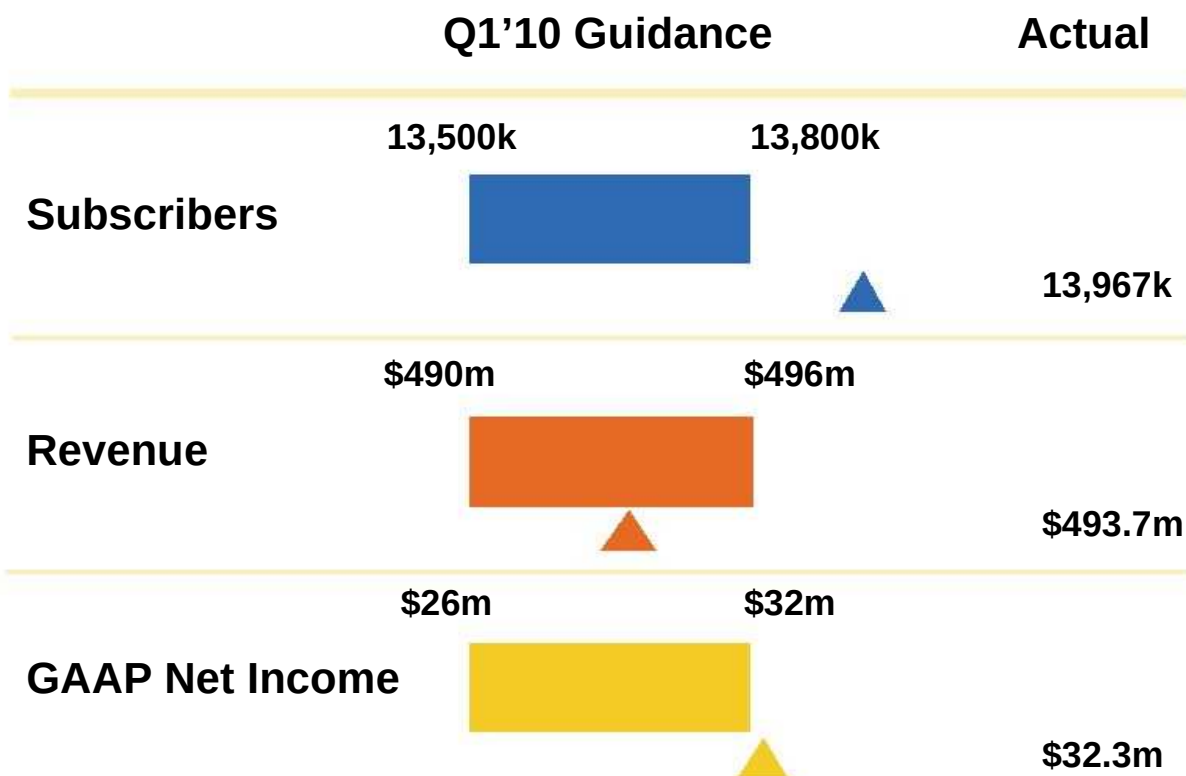
This presentation also contains references to non-GAAP financial measures. A presentation of and reconciliation to the most directly comparable GAAP financial measure, where such can be done without unreasonable effort, can be found on our Web site at <http://ir.netflix.com>.



Netflix Goals

- > Be a great Internet movie and TV show service by **combining Internet streaming with DVD by mail**
- > Materially grow **subscribers** and **EPS** every year

Q1 Results

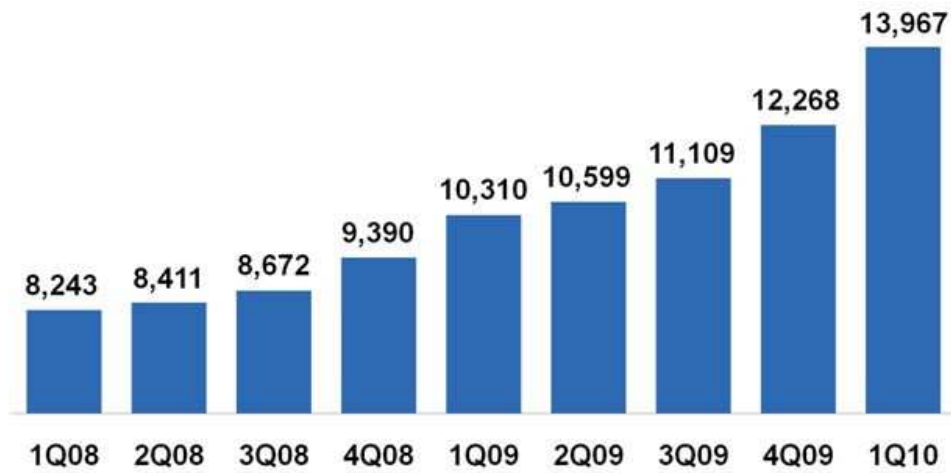


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Subscriber Growth

(in thousands)

Netflix Subscribers

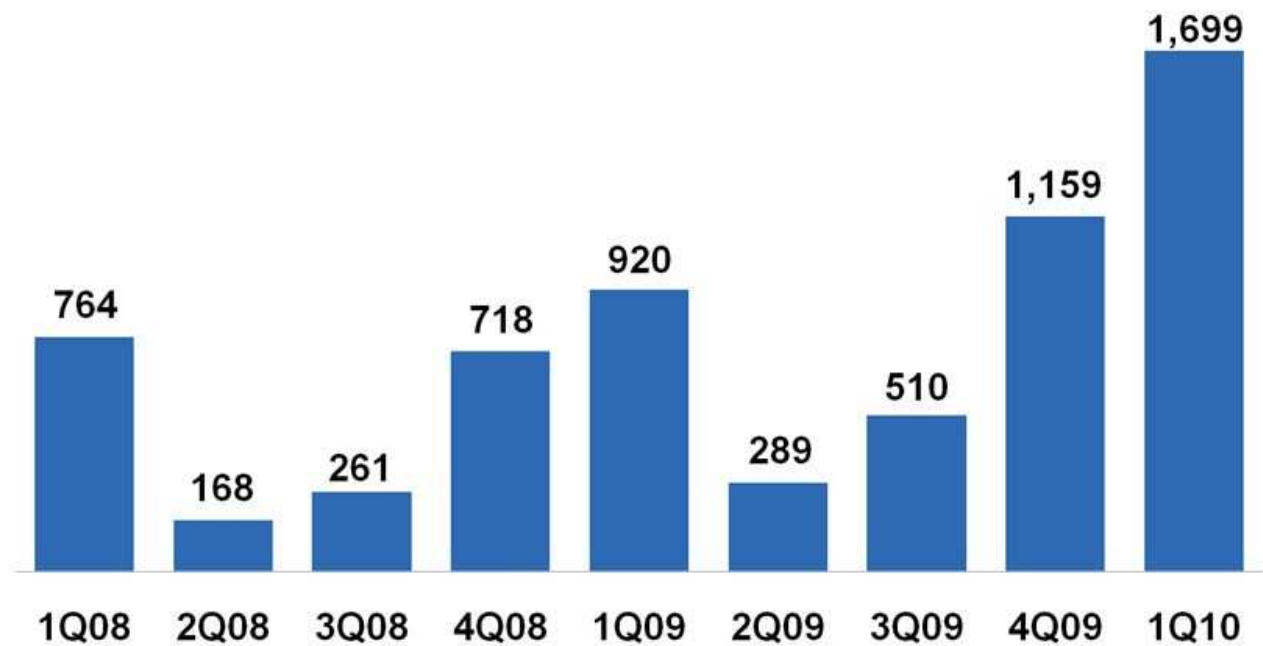


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Record Net Additions

(in thousands)

Net Subscriber Additions

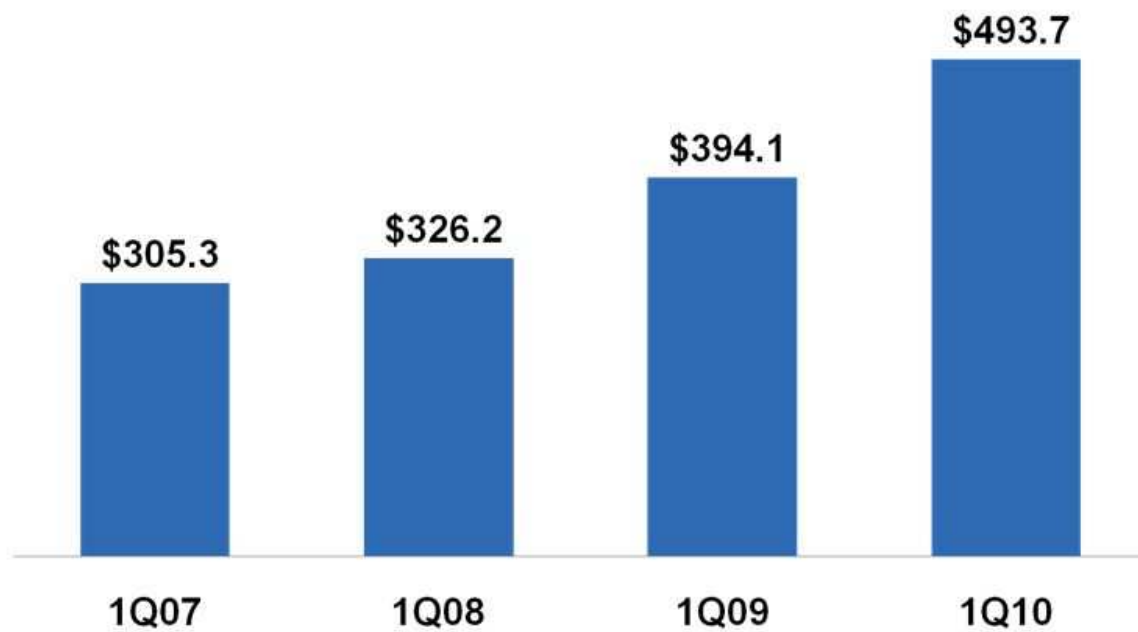


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Q1 Revenue

(in millions)

Total Revenue



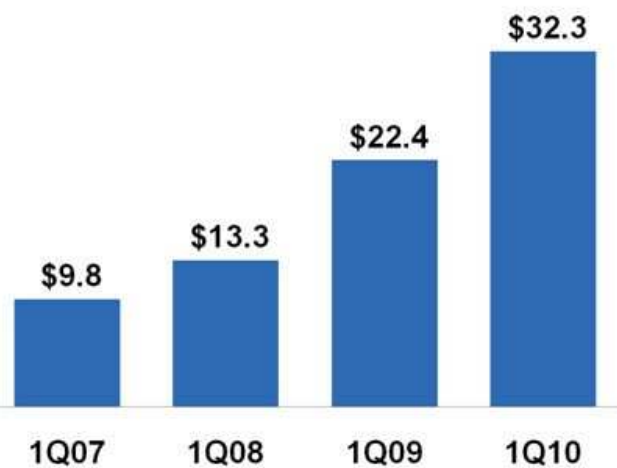
Note: Netflix implemented price reductions in July 2007

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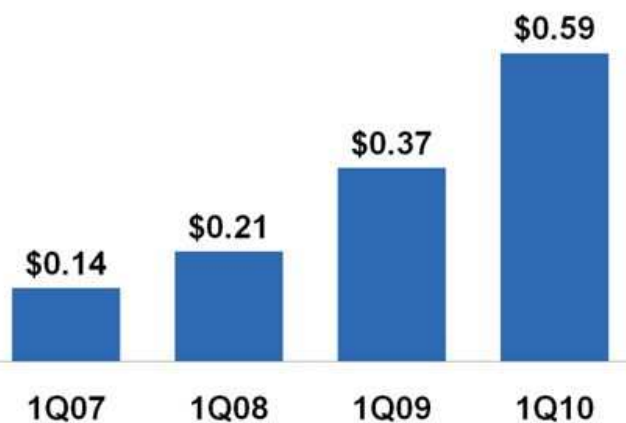
Q1 GAAP Net Income & Fully Diluted EPS

Net Income

(in millions)

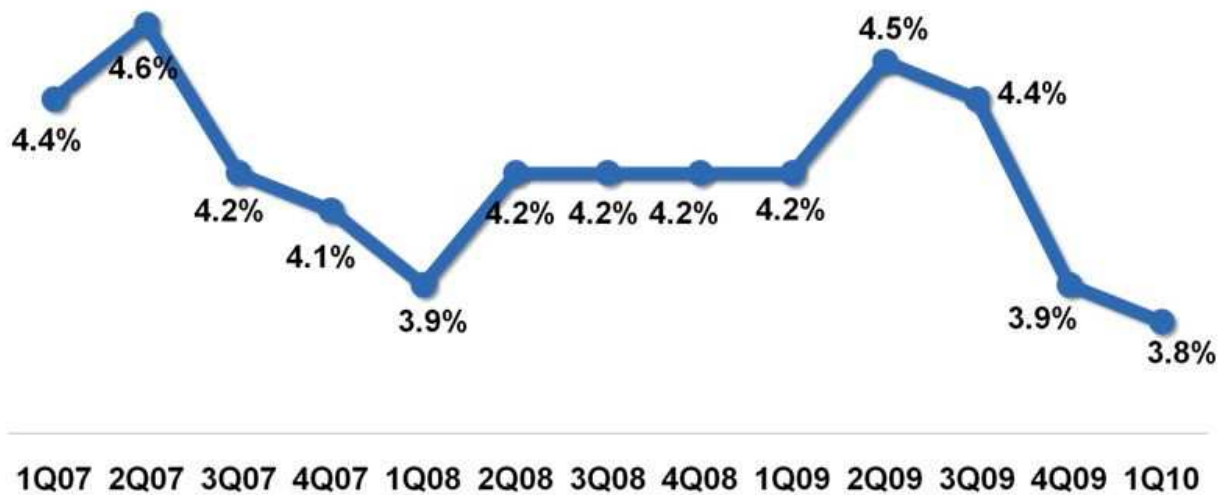


Earnings per Share



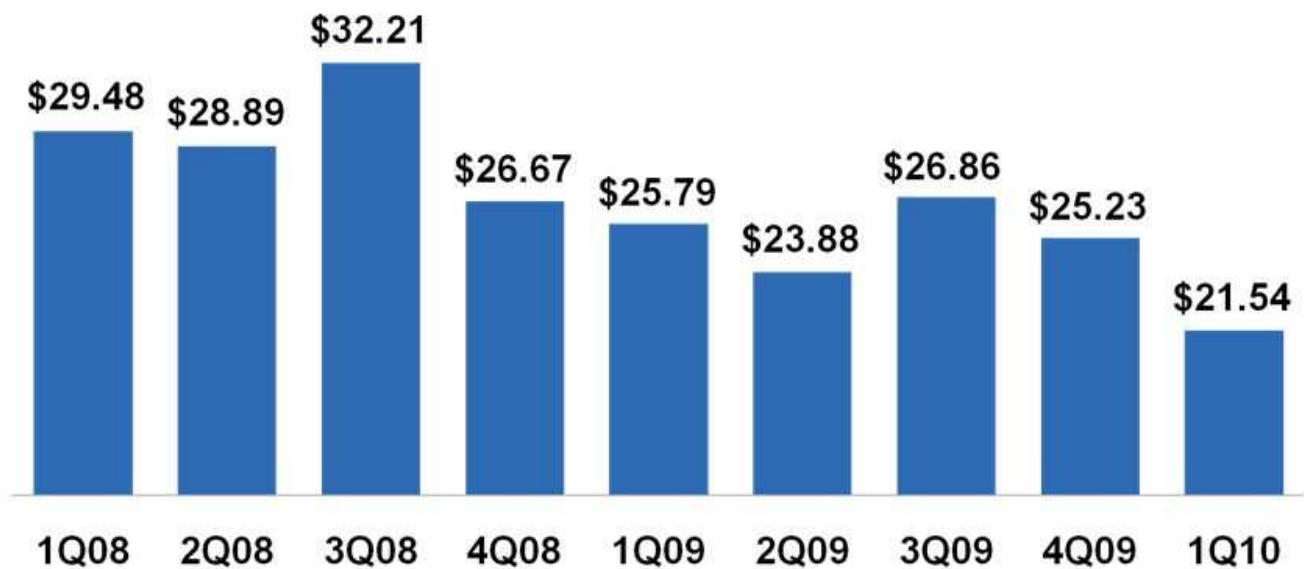
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Subscriber Acquisition Cost



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Free Cash Flow

(in thousands)

	1Q09	2Q09	3Q09	4Q09	1Q10
Non-GAAP Free Cash Flow Reconciliation:					
Net cash provided by operating activities	\$65,633	\$75,302	\$78,311	\$105,817	\$75,412
Purchases of property and equipment	(6,572)	(6,933)	(9,994)	(22,433)	(6,393)
Acquisition of intangible asset	(200)	–	–	–	(130)
Acquisitions of content library	(46,499)	(43,224)	(46,273)	(57,048)	(36,902)
Proceeds from sale of DVDs	2,726	1,159	3,345	3,934	3,984
Other assets	(2)	11	134	(72)	(172)
Non-GAAP Free Cash Flow	\$15,086	\$26,315	\$25,523	\$30,198	\$35,799

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Business Outlook

	2Q10	FY '10
Subscribers	14.7 – 15.0M	16.5 – 17.3M
Revenue	\$517 – 525M	\$2.11 – 2.16B
GAAP Net Income	\$34 – 40M	\$132 – 144M
GAAP EPS*	\$0.62 – 0.73	\$2.41 – 2.63

*Fully Diluted

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Quarterly Summary Financials

	1Q09	2Q09	3Q09	4Q09	1Q10	Mid-point of Guidance 2Q10
Subscribers (M)	10.3	10.6	11.1	12.3	14.0	14.9
<i>Y/Y Change</i>	25%	26%	28%	31%	35%	40%
Revenue (M)	\$394	\$409	\$423	\$445	\$494	\$521
<i>Y/Y Change</i>	21%	21%	24%	24%	25%	28%
Operating Profit (M)	\$36	\$53	\$49	\$53	\$58	--
<i>Y/Y Change</i>	138%	54%	45%	41%	60%	
Net Income (M)	\$22	\$32	\$30	\$31	\$32	\$37
<i>Y/Y Change</i>	68%	22%	48%	36%	44%	14%
EPS*	\$0.37	\$0.54	\$0.52	\$0.56	\$0.59	\$0.68
<i>Y/Y Change</i>	76%	29%	58%	47%	59%	26%
% of Subscribers Watching Instantly > 15 minutes	36%	37%	41%	48%	55%	--

* Fully Diluted

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Fiscal Year Summary Financials

	2005	2006	2007	2008	2009	Mid-point of Guidance 2010
Subscribers (M)	4.2	6.3	7.5	9.4	12.3	16.9
<i>Y/Y Change</i>	60%	51%	18%	26%	31%	38%
Revenue (M)	\$682	\$997	\$1,205	\$1,365	\$1,670	\$2,135
<i>Y/Y Change</i>	36%	46%	21%	13%	22%	28%
Operating Profit (M)	\$3	\$65	\$92	\$122	\$192	--
<i>Y/Y Change</i>	-86%	2387%	41%	32%	58%	
Net Income (M)	\$42	\$49	\$67	\$83	\$116	\$138
<i>Y/Y Change</i>	96%	17%	36%	25%	40%	19%
EPS*	\$0.64	\$0.71	\$0.97	\$1.32	\$1.98	\$2.52
<i>Y/Y Change</i>	94%	11%	37%	36%	50%	27%
% of Subscribers Watching Instantly > 15 minutes	NA	NA	NA	28%	48%	--

* Fully Diluted

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