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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 8-K

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

Date of Report (Date of earliest event reported):  
October 19, 2005

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## NETFLIX, INC.

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction  
of incorporation)

**000-49802**  
(Commission File Number)

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

**970 University Avenue**  
**Los Gatos, CA**  
**95032**  
(Address of principal executive offices)  
(Zip Code)

**(408) 317-3700**  
(Registrant's telephone number, including area code)

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

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

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

On October 19, 2005, Netflix, Inc. announced its financial results for the quarter ended September 30, 2005. The press release, which is attached hereto as Exhibit 99.1 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 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.**

(c) Exhibits

99.1 Press release dated October 19, 2005 by Netflix, Inc.

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## SIGNATURES

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

NETFLIX, INC.

Date: October 19, 2005

/s/ Barry McCarthy

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Barry McCarthy  
Chief Financial Officer

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## EXHIBIT INDEX

| Exhibit No. | Description of Exhibit                                     |
|-------------|------------------------------------------------------------|
| 99.1*       | Press release issued by Netflix, Inc. on October 19, 2005. |

\* This exhibit is intended to be furnished and shall not be deemed “filed” for purposes of the Securities Exchange Act of 1934.



FOR IMMEDIATE RELEASE  
Wednesday, October 19, 2005

IR CONTACT: Deborah Crawford  
Director of Investor Relations  
408 317-3712

PR CONTACT: Ken Ross  
VP, Corporate Communications  
408 317-3931

**Netflix Announces Q3 2005 Financial Results**

**Subscribers - 3.6 million**

**Churn - 4.3%**

**GAAP Net Income - \$6.9 million**

**Non-GAAP Net Income Before Net Settlement Expense - \$13.4 million**

**Los Gatos, Calif. – October 19, 2005** – Netflix (Nasdaq: NFLX) today reported results for the third quarter ended September 30, 2005.

For the third quarter:

- Revenue was \$174.3 million.
- GAAP net income was \$6.9 million. Before net settlement expense, net income was \$10.1 million.
- Non-GAAP net income was \$10.2 million. Non-GAAP net income before net settlement expense was \$13.4 million.
- Subscribers increased 61 percent year-over-year to 3.592 million.
- Churn declined to a record low of 4.3 percent.

“The third quarter provided a good view of the power and potential of the Netflix model, coupling strong subscriber growth with the cost benefits of our increasing scale,” said Reed Hastings, Netflix co-founder and chief executive officer. “Combining the best customer experience with the lowest costs is a powerful formula for success, and we expect that formula to deliver increasingly impressive results in the balance of 2005 and in 2006.”

**Third-Quarter 2005 Financial Highlights**

Revenue for the third quarter of 2005 was a record \$174.3 million, representing 23 percent year-over-year growth from \$141.6 million for the third quarter of 2004, and 6 percent quarter-over-quarter growth from \$164.5 million for the second quarter of 2005.

GAAP net income for the third quarter of 2005 was \$6.9 million, or \$0.11 per diluted share, compared to GAAP net income of \$18.9 million, or \$0.29 per diluted share, for the third quarter of 2004 and GAAP net income of \$5.7 million, or \$0.09 per diluted share, for the second quarter of 2005. Management had guided to GAAP net income of \$2.5 million to \$5.3 million.

GAAP net income included the impact of a net settlement expense in the quarter related to a previously announced lawsuit settlement of \$3.2 million. The settlement remains subject to court approval. Excluding the net settlement expense, net income was \$10.1 million, or \$0.15 per diluted share. Management had guided to net income excluding the net settlement expense of \$6.5 million to \$8.3 million.

Non-GAAP net income was \$10.2 million, or \$0.16 per diluted share, for the third quarter of 2005, compared to non-GAAP net income of \$22.6 million, or \$0.35 per diluted share, for the third quarter of 2004 and non-GAAP net income of \$9.1 million, or \$0.14 per diluted share, for the second quarter of 2005. Non-GAAP net income equals net income on a GAAP basis before stock-based compensation expense. Excluding the net settlement expense in the quarter related to a previously announced lawsuit settlement, non-GAAP net income was \$13.4 million, or \$0.20 per diluted share.

Gross margin for the third quarter of 2005 was 43.2 percent compared to 49.5 percent for the third quarter of 2004 and 39.0 percent for the second quarter of 2005.

Free cash flow<sup>1</sup> for the third quarter of 2005 was \$7.5 million, compared to \$14.1 million in the third quarter of 2004 and \$1.8 million for the second quarter of 2005.

Cash provided by operating activities for the third quarter of 2005 was \$33.3 million, compared to \$49.3 million for the third quarter of 2004 and \$36.5 million for the second quarter of 2005.

Subscriber acquisition cost<sup>2</sup> for the third quarter of 2005 was \$35.69 per gross subscriber addition, compared to \$36.97<sup>3</sup> for the same period of 2004 and \$37.25 for the second quarter of 2005.

Churn<sup>4</sup> for the third quarter of 2005 was 4.3 percent, compared to 5.6 percent for the third quarter of 2004 and 4.7 percent for the second quarter of 2005. Churn includes free subscribers as well as paying subscribers who elect not to renew their monthly subscription service during the quarter.

Subscribers. Netflix ended the third quarter of 2005 with approximately 3,592,000 total subscribers, representing 61 percent year-over-year growth from 2,229,000 total subscribers at the end of the third quarter of 2004 and 12 percent sequential growth from 3,196,000 subscribers at the end of the second quarter of 2005. Net subscriber additions in the quarter were 396,000, compared to 136,000 for the same period of 2004 and 178,000 for the second quarter of 2005.

During the quarter Netflix acquired 921,000 gross subscriber additions, representing 56 percent year-over-year growth from 590,000 gross subscriber additions acquired in the third quarter of 2004 and 30 percent quarter-over-quarter growth from 707,000 gross subscriber additions acquired in the second quarter of 2005.

Of the 3,592,000 total subscribers at quarter end, 95 percent, or 3,423,000, were paid subscribers. The other 5 percent, or 169,000, were free subscribers. Paid subscribers represented 96 percent of total subscribers at the end of the third quarter of 2004 and 97 percent of total subscribers at the end of the second quarter of 2005.

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<sup>1</sup> Free cash flow is defined as cash provided by operating activities less cash used in investing activities excluding purchases and sales of short-term investments.

<sup>2</sup> Subscriber acquisition cost is defined as the total marketing expense on the Company's Statement of Operations divided by total gross subscriber additions during the quarter.

<sup>3</sup> SAC in the third quarter of 2004 excludes costs associated with international operations. Consolidated SAC was \$38.18 for the third quarter of 2004.

<sup>4</sup> Churn is defined as customer cancellations in the quarter divided by the sum of beginning subscribers and gross subscriber additions, divided by three months.

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## Business Outlook

The Company's performance expectations for the fourth quarter of 2005 and the full year of 2006 are as follows:

### Revised Fourth-Quarter 2005

- Ending subscribers of 4.0 million to 4.2 million from 3.85 million to 4.05 million
- Revenue of \$191 million to \$196 million from \$187 million to \$193 million
- GAAP net income of \$4.0 million to \$7.5 million from \$1.0 million to \$6.0 million

### Full-Year 2006

- Ending subscribers of at least 5.65 million
- Revenue of at least \$940 million
- Pretax income of \$50 million to \$60 million <sup>5</sup>

### Float and Trading Plans

The Company estimates the public float at approximately 46,874,645 shares as of September 30, 2005, up 1 percent from 46,279,628 shares as of June 30, 2005, based on registered shares held in street name with the Depository Trust and Clearing Corporation. No outstanding shares are subject to a lock-up agreement of any kind. From time to time executive officers of Netflix may elect to buy or sell stock in Netflix. All open market sales are made pursuant to the terms of 10b5-1 Trading Plans approved by the Company and generally adopted no less than three months prior to the first date of sale under such plan.

### Earnings Call

The Netflix earnings call will be webcast today at 6:00 p.m. Eastern Time / 3:00 p.m. Pacific Time, and may be accessed at <http://ir.netflix.com>. Following the conclusion of the webcast, a replay of the call will be available via Netflix's website at <http://ir.netflix.com>. For those without access to the Internet, a replay of the call will be available from approximately 6:00 p.m. Pacific Time on October 19, 2005 through October 25, 2005. To listen to a replay, call (719) 457-0820, access code 4417528.

### Use of Non-GAAP Measures

Management believes that non-GAAP net income is a useful measure of operating performance because it excludes the non-cash impact of stock option accounting, and, where specified, excludes the net settlement expense related to a previously announced lawsuit settlement. 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 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

Netflix (Nasdaq: NFLX) is the world's largest online movie rental service, providing more than three million subscribers access to over 50,000 DVD titles. Under the company's most popular program, for \$17.99 a month, Netflix subscribers rent as many DVDs as they want and keep them as long as they want, with three movies out at a time. There are no due dates, no late fees and no shipping fees. DVDs are

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<sup>5</sup> Pretax income is defined as income before income taxes as shown on the Company's Statement of Operations, which line item includes stock based compensation expense.

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delivered for free by the USPS from regional shipping centers located throughout the United States. Netflix can reach more than 90 percent of its subscribers with generally one business-day delivery. Netflix offers personalized movie recommendations to its members and has more than 1 billion movie ratings. Netflix also allows members to share and recommend movies to one another through its Friends™ feature. For more information, visit [www.netflix.com](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 and GAAP net income for the fourth quarter of 2005 as well as subscriber growth, revenue and pre-tax income for the full-year 2006. 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: impacts arising out of competition, our ability to manage our growth, in particular, managing our subscriber acquisition cost as well as the mix between revenue sharing titles and titles not subject to revenue sharing that are delivered to our subscribers; our ability to attract new subscribers and retain existing subscribers; changes in pricing, availability and effectiveness of our advertising; fluctuations in consumer usage of our service, customer spending on DVD players, DVDs and related products; disruption in service on our website or with our computer systems; deterioration of the U.S. economy or conditions specific to online commerce or the filmed entertainment industry; conditions that effect our delivery through the U.S. Postal Service, including regulatory changes and increases in first class postage; increases in the costs of acquiring DVDs; 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 March 15, 2005. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this press release.



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

|                                                                     | Three Months Ended |           |               | Nine Months Ended |               |
|---------------------------------------------------------------------|--------------------|-----------|---------------|-------------------|---------------|
|                                                                     | September 30,      | June 30,  | September 30, | September 30,     | September 30, |
|                                                                     | 2004               | 2005      | 2005          | 2004              | 2005          |
| Revenues:                                                           |                    |           |               |                   |               |
| Subscription                                                        | \$ 140,414         | \$164,027 | \$ 172,740    | \$ 359,947        | \$ 489,213    |
| Sales                                                               | 1,230              | 470       | 1,577         | 2,388             | 3,741         |
| Total revenues                                                      | 141,644            | 164,497   | 174,317       | 362,335           | 492,954       |
| Cost of revenues:                                                   |                    |           |               |                   |               |
| Subscription                                                        | 71,130             | 99,957    | 97,878        | 197,178           | 291,821       |
| Sales                                                               | 471                | 354       | 1,189         | 838               | 2,542         |
| Total cost of revenues                                              | 71,601             | 100,311   | 99,067        | 198,016           | 294,363       |
| Gross profit                                                        | 70,043             | 64,186    | 75,250        | 164,319           | 198,591       |
| Operating expenses:                                                 |                    |           |               |                   |               |
| Fulfillment                                                         | 15,013             | 17,560    | 17,544        | 40,176            | 51,798        |
| Technology and development                                          | 6,325              | 7,513     | 8,006         | 17,016            | 22,674        |
| Marketing                                                           | 22,525             | 26,338    | 32,867        | 69,695            | 95,008        |
| General and administrative                                          | 4,122              | 4,898     | 8,020         | 10,538            | 17,925        |
| Stock-based compensation                                            | 3,660              | 3,423     | 3,293         | 12,229            | 10,995        |
| Total operating expenses                                            | 51,645             | 59,732    | 69,730        | 149,654           | 198,400       |
| Operating income                                                    | 18,398             | 4,454     | 5,520         | 14,665            | 191           |
| Other income (expense):                                             |                    |           |               |                   |               |
| Interest and other income                                           | 579                | 1,246     | 1,491         | 1,474             | 3,788         |
| Interest and other expense                                          | (52)               | (3)       | (13)          | (113)             | (54)          |
| Income before income taxes                                          | 18,925             | 5,697     | 6,998         | 16,026            | 3,925         |
| Provision for income taxes                                          | —                  | 13        | 52            | —                 | 109           |
| Net income                                                          | \$ 18,925          | \$ 5,684  | \$ 6,946      | \$ 16,026         | \$ 3,816      |
| Net income per share:                                               |                    |           |               |                   |               |
| Basic                                                               | \$ .36             | \$ .11    | \$ .13        | \$ .31            | \$ .07        |
| Diluted                                                             | \$ .29             | \$ .09    | \$ .11        | \$ .25            | \$ .06        |
| Weighted average common shares outstanding:                         |                    |           |               |                   |               |
| Basic                                                               | 52,211             | 53,190    | 53,693        | 51,798            | 53,237        |
| Diluted                                                             | 64,449             | 64,592    | 66,012        | 64,797            | 64,928        |
| <b>Reconciliation of Non-GAAP Financial Measures</b><br>(Unaudited) |                    |           |               |                   |               |
| <b>Non-GAAP net income reconciliation:</b>                          |                    |           |               |                   |               |
| Net income                                                          | \$ 18,925          | \$ 5,684  | \$ 6,946      | \$ 16,026         | \$ 3,816      |
| Add back:                                                           |                    |           |               |                   |               |
| Stock-based compensation                                            | 3,660              | 3,423     | 3,293         | 12,229            | 10,995        |
| Non-GAAP net income                                                 | \$ 22,585          | \$ 9,107  | \$ 10,239     | \$ 28,255         | \$ 14,811     |
| <b>Non-GAAP net income per share:</b>                               |                    |           |               |                   |               |
| Basic                                                               | \$ .43             | \$ .17    | \$ .19        | \$ .55            | \$ .28        |
| Diluted                                                             | \$ .35             | \$ .14    | \$ .16        | \$ .44            | \$ .23        |
| Weighted average common shares outstanding:                         |                    |           |               |                   |               |
| Basic                                                               | 52,211             | 53,190    | 53,693        | 51,798            | 53,237        |
| Diluted                                                             | 64,449             | 64,592    | 66,012        | 64,797            | 64,928        |

**Netflix, Inc.****Consolidated Balance Sheets**

(unaudited)

(in thousands, except share and par value data)

|                                                                                                                                                                                                                        | As of                |                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|
|                                                                                                                                                                                                                        | December 31,<br>2004 | September 30,<br>2005 |
| <b>Assets</b>                                                                                                                                                                                                          |                      |                       |
| Current assets:                                                                                                                                                                                                        |                      |                       |
| Cash and cash equivalents                                                                                                                                                                                              | \$ 174,461           | \$ 181,886            |
| Prepaid expenses                                                                                                                                                                                                       | 2,741                | 2,918                 |
| Prepaid revenue sharing expenses                                                                                                                                                                                       | 4,695                | 3,710                 |
| Other current assets                                                                                                                                                                                                   | 5,449                | 3,404                 |
| Total current assets                                                                                                                                                                                                   | 187,346              | 191,918               |
| DVD library, net                                                                                                                                                                                                       | 42,158               | 52,735                |
| Intangible assets, net                                                                                                                                                                                                 | 961                  | 469                   |
| Property and equipment, net                                                                                                                                                                                            | 18,728               | 30,415                |
| Deposits                                                                                                                                                                                                               | 1,600                | 1,568                 |
| Other assets                                                                                                                                                                                                           | 1,000                | 1,197                 |
| Total assets                                                                                                                                                                                                           | \$ 251,793           | \$ 278,302            |
| <b>Liabilities and Stockholders' Equity</b>                                                                                                                                                                            |                      |                       |
| Current liabilities:                                                                                                                                                                                                   |                      |                       |
| Accounts payable                                                                                                                                                                                                       | \$ 49,775            | \$ 43,951             |
| Accrued expenses                                                                                                                                                                                                       | 13,131               | 20,404                |
| Deferred revenue                                                                                                                                                                                                       | 31,936               | 34,400                |
| Current portion of capital lease obligations                                                                                                                                                                           | 68                   | —                     |
| Total current liabilities                                                                                                                                                                                              | 94,910               | 98,755                |
| Deferred rent                                                                                                                                                                                                          | 600                  | 875                   |
| Total liabilities                                                                                                                                                                                                      | 95,510               | 99,630                |
| Stockholders' equity:                                                                                                                                                                                                  |                      |                       |
| Common stock, \$0.001 par value; 160,000,000 shares authorized at December 31, 2004 and September 30, 2005; 52,732,025 and 53,961,946 issued and outstanding at December 31, 2004 and September 30, 2005, respectively | 53                   | 54                    |
| Additional paid-in capital                                                                                                                                                                                             | 292,843              | 308,123               |
| Deferred stock-based compensation                                                                                                                                                                                      | (4,693)              | (1,401)               |
| Accumulated other comprehensive loss                                                                                                                                                                                   | (222)                | (222)                 |
| Accumulated deficit                                                                                                                                                                                                    | (131,698)            | (127,882)             |
| Total stockholders' equity                                                                                                                                                                                             | 156,283              | 178,672               |
| Total liabilities and stockholders' equity                                                                                                                                                                             | \$ 251,793           | \$ 278,302            |

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

|                                                                                   | Three Months Ended |                 |                 | Nine Months Ended |               |
|-----------------------------------------------------------------------------------|--------------------|-----------------|-----------------|-------------------|---------------|
|                                                                                   | September 30,      | June 30,        | September 30,   | September 30,     | September 30, |
|                                                                                   | 2004               | 2005            | 2005            | 2004              | 2005          |
| <b>Cash flows from operating activities:</b>                                      |                    |                 |                 |                   |               |
| Net income                                                                        | \$ 18,925          | \$ 5,684        | \$ 6,946        | \$ 16,026         | \$ 3,816      |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                 |                 |                   |               |
| Depreciation of property and equipment                                            | 1,569              | 2,156           | 2,424           | 4,144             | 6,518         |
| Amortization of DVD library                                                       | 20,450             | 25,552          | 24,477          | 59,718            | 72,035        |
| Amortization of intangible assets                                                 | 453                | 380             | 139             | 1,533             | 973           |
| Stock-based compensation expense                                                  | 3,660              | 3,423           | 3,293           | 12,229            | 10,995        |
| Stock option income tax benefits                                                  | —                  | —               | 12              | —                 | 12            |
| Loss on disposal of short-term investments                                        | —                  | —               | —               | 274               | —             |
| Gain on disposal of DVDs                                                          | (941)              | (208)           | (819)           | (1,732)           | (2,156)       |
| Non-cash interest expense                                                         | 11                 | —               | —               | 33                | 11            |
| Changes in operating assets and liabilities:                                      |                    |                 |                 |                   |               |
| Prepaid expenses and other current assets                                         | (3,478)            | (3,219)         | 1,401           | (5,000)           | 2,853         |
| Accounts payable                                                                  | 5,116              | 3,579           | (12,260)        | 15,014            | (5,824)       |
| Accrued expenses                                                                  | 1,988              | (1,979)         | 6,702           | 4,215             | 7,273         |
| Deferred revenue                                                                  | 1,407              | 1,034           | 903             | 8,334             | 2,464         |
| Deferred rent                                                                     | 108                | 92              | 90              | 246               | 275           |
| Net cash provided by operating activities                                         | 49,268             | 36,494          | 33,308          | 115,034           | 99,245        |
| <b>Cash flows from investing activities:</b>                                      |                    |                 |                 |                   |               |
| Purchases of short-term investments                                               | —                  | —               | —               | (586)             | —             |
| Proceeds from sale of short-term investments                                      | —                  | —               | —               | 45,013            | —             |
| Purchases of property and equipment                                               | (4,165)            | (5,931)         | (5,429)         | (8,021)           | (18,205)      |
| Acquisition of intangible asset                                                   | —                  | —               | (481)           | —                 | (481)         |
| Acquisitions of DVD library                                                       | (31,986)           | (29,218)        | (21,939)        | (79,639)          | (84,197)      |
| Proceeds from sale of DVDs                                                        | 1,230              | 470             | 1,577           | 2,388             | 3,741         |
| Deposits and other assets                                                         | (206)              | 22              | (10)            | (393)             | (165)         |
| Net cash used in investing activities                                             | (35,127)           | (34,657)        | (26,282)        | (41,238)          | (99,307)      |
| <b>Cash flows from financing activities:</b>                                      |                    |                 |                 |                   |               |
| Proceeds from issuance of common stock                                            | 373                | 3,313           | 3,888           | 4,497             | 7,566         |
| Principal payments on notes payable and capital lease obligations                 | (100)              | —               | —               | (329)             | (79)          |
| Net cash provided by financing activities                                         | 273                | 3,313           | 3,888           | 4,168             | 7,487         |
| Effect of exchange rate changes on cash and cash equivalents                      | (44)               | —               | —               | (44)              | —             |
| Net increase in cash and cash equivalents                                         | 14,370             | 5,150           | 10,914          | 77,920            | 7,425         |
| Cash and cash equivalents, beginning of period                                    | 153,444            | 165,822         | 170,972         | 89,894            | 174,461       |
| Cash and cash equivalents, end of period                                          | \$ 167,814         | \$170,972       | \$ 181,886      | \$ 167,814        | \$ 181,886    |
| <b>Non-GAAP free cash flow reconciliation:</b>                                    |                    |                 |                 |                   |               |
| Net cash provided by operating activities                                         | \$ 49,268          | \$ 36,494       | \$ 33,308       | \$ 115,034        | \$ 99,245     |
| Purchases of property and equipment                                               | (4,165)            | (5,931)         | (5,429)         | (8,021)           | (18,205)      |
| Acquisitions of DVD library                                                       | (31,986)           | (29,218)        | (21,939)        | (79,639)          | (84,197)      |
| Proceeds from sale of DVDs                                                        | 1,230              | 470             | 1,577           | 2,388             | 3,741         |
| Deposits and other assets                                                         | (206)              | 22              | (10)            | (393)             | (165)         |
| <b>Non-GAAP free cash flow</b>                                                    | <b>\$ 14,141</b>   | <b>\$ 1,837</b> | <b>\$ 7,507</b> | <b>\$ 29,369</b>  | <b>\$ 419</b> |

**Netflix, Inc.****Consolidated Other data**

(unaudited)

(in thousands, except percentages and subscriber acquisition cost)

|                                                                 | As of / Three Months Ended |                  |                  | As of / Nine Months Ended |                  |
|-----------------------------------------------------------------|----------------------------|------------------|------------------|---------------------------|------------------|
|                                                                 | Sept 30,<br>2004           | June 30,<br>2005 | Sept 30,<br>2005 | Sept 30,<br>2004          | Sept 30,<br>2005 |
| <b>Subscriber information:</b>                                  |                            |                  |                  |                           |                  |
| Subscribers: beginning of period                                | 2,093                      | 3,018            | 3,196            | 1,487                     | 2,610            |
| Gross subscribers additions: during period                      | 590                        | 707              | 921              | 1,933                     | 2,573            |
| Gross subscriber additions year-to-year change                  | 54.0%                      | 21.3%            | 56.1%            | 71.5%                     | 33.1%            |
| Gross subscriber additions quarter-to-quarter sequential change | 1.2%                       | (25.2%)          | 30.3%            | —                         | —                |
| Less subscriber cancellations : during period                   | (454)                      | (529)            | (525)            | (1,191)                   | (1,591)          |
| Subscribers: end of period                                      | 2,229                      | 3,196            | 3,592            | 2,229                     | 3,592            |
| Subscribers year-to-year change                                 | 72.7%                      | 52.7%            | 61.1%            | 72.7%                     | 61.1%            |
| Subscribers quarter-to-quarter sequential change                | 6.5%                       | 5.9%             | 12.4%            | —                         | —                |
| Free subscribers: end of period                                 | 94                         | 87               | 169              | 94                        | 169              |
| Free subscribers as percentage of ending subscribers            | 4.2%                       | 2.7%             | 4.7%             | 4.2%                      | 4.7%             |
| Paid subscribers: end of period                                 | 2,135                      | 3,109            | 3,423            | 2,135                     | 3,423            |
| Paid subscribers year-to-year change                            | 71.9%                      | 53.6%            | 60.3%            | 71.9%                     | 60.3%            |
| Paid subscribers quarter-to-quarter sequential change           | 5.5%                       | 7.7%             | 10.1%            | —                         | —                |
| <b>Churn</b>                                                    | 5.6%                       | 4.7%             | 4.3%             | —                         | —                |
| Subscriber acquisition cost - Consolidated                      | \$38.18                    | \$37.25          | \$35.69          | \$ 36.06                  | \$ 36.92         |
| Subscriber acquisition cost - U.S.                              | \$36.97                    | \$37.25          | \$35.69          | \$ 35.69                  | \$ 36.92         |
| <b>Margins:</b>                                                 |                            |                  |                  |                           |                  |
| Gross margin                                                    | 49.5%                      | 39.0%            | 43.2%            | 45.4%                     | 40.3%            |
| Operating margin                                                | 13.0%                      | 2.7%             | 3.2%             | 4.0%                      | 0.1%             |
| Net margin                                                      | 13.4%                      | 3.5%             | 4.0%             | 4.4%                      | 0.8%             |
| <b>Expenses as percentage of revenues:</b>                      |                            |                  |                  |                           |                  |
| Fulfillment                                                     | 10.6%                      | 10.7%            | 10.1%            | 11.1%                     | 10.5%            |
| Technology and development                                      | 4.5%                       | 4.6%             | 4.6%             | 4.7%                      | 4.6%             |
| Marketing                                                       | 15.9%                      | 16.0%            | 18.9%            | 19.2%                     | 19.3%            |
| General and administrative                                      | 2.9%                       | 3.0%             | 4.6%             | 2.9%                      | 3.6%             |
| Operating expenses before stock-based compensation              | 33.9%                      | 34.3%            | 38.2%            | 37.9%                     | 38.0%            |
| Stock-based compensation                                        | 2.6%                       | 2.0%             | 1.8%             | 3.4%                      | 2.2%             |
| Total operating expenses                                        | 36.5%                      | 36.3%            | 40.0%            | 41.3%                     | 40.2%            |
| <b>Year-to-year change:</b>                                     |                            |                  |                  |                           |                  |
| Total revenues                                                  | 96.2%                      | 36.7%            | 23.1%            | 89.6%                     | 36.0%            |
| Fulfillment                                                     | 80.4%                      | 22.2%            | 16.9%            | 83.2%                     | 28.9%            |
| Technology and development                                      | 33.5%                      | 32.9%            | 26.6%            | 30.5%                     | 33.3%            |
| Marketing                                                       | 84.9%                      | 28.6%            | 45.9%            | 97.2%                     | 36.3%            |
| General and administrative                                      | 53.9%                      | 49.3%            | 94.6%            | 50.1%                     | 70.1%            |
| Operating expenses before stock-based compensation              | 71.9%                      | 28.6%            | 38.5%            | 77.7%                     | 36.4%            |
| Stock-based compensation                                        | 31.8%                      | (17.2)%          | (10.0)%          | 77.6%                     | (10.1)%          |
| Total operating expenses                                        | 68.2%                      | 24.7%            | 35.0%            | 77.7%                     | 32.6%            |