

**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, 2015

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)

001-35727
(I.R.S. Employer
Identification Number)

100 Winchester Circle, Los Gatos, California 95032
(Address and zip code of principal executive offices)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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, 2015, there were 60,620,721 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, 2015	March 31, 2014
Revenues	\$ 1,573,129	\$ 1,270,089
Cost of revenues	1,046,401	869,186
Marketing	194,677	137,098
Technology and development	143,106	110,310
General and administrative	91,489	55,900
Operating income	97,456	97,595
Other income (expense):		
Interest expense	(26,737)	(10,052)
Interest and other income (expense)	(32,293)	1,401
Income before income taxes	38,426	88,944
Provision for income taxes	14,730	35,829
Net income	\$ 23,696	\$ 53,115
Earnings per share:		
Basic	\$ 0.39	\$ 0.89
Diluted	\$ 0.38	\$ 0.86
Weighted-average common shares outstanding:		
Basic	60,518	59,817
Diluted	61,973	61,548

See accompanying notes to the consolidated financial statements.

NETFLIX, INC.**Consolidated Statements of Comprehensive Income**
(unaudited)
(in thousands)

	Three Months Ended	
	March 31, 2015	March 31, 2014
Net income	\$ 23,696	\$ 53,115
Other comprehensive income (loss):		
Foreign currency translation adjustments	(39,490)	461
Change in unrealized gains on available-for-sale securities, net of tax of \$133 and \$291, respectively	782	467
Total other comprehensive (loss) income	(38,708)	928
Comprehensive (loss) income	<u>\$ (15,012)</u>	<u>\$ 54,043</u>

See accompanying notes to the consolidated financial statements.

NETFLIX, INC.

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

	Three Months Ended	
	March 31, 2015	March 31, 2014
Cash flows from operating activities:		
Net income	\$ 23,696	\$ 53,115
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Additions to streaming content library	(1,611,925)	(749,399)
Change in streaming content liabilities	626,325	42,244
Amortization of streaming content library	749,518	600,735
Amortization of DVD content library	21,185	16,121
Depreciation and amortization of property, equipment and intangibles	15,167	12,382
Stock-based compensation expense	27,441	25,825
Excess tax benefits from stock-based compensation	(29,001)	(32,732)
Other non-cash items	6,306	2,196
Deferred taxes	(37,042)	(13,103)
Changes in operating assets and liabilities:		
Other current assets	23,109	35,066
Accounts payable	(10,625)	22,812
Accrued expenses	35,922	(442)
Deferred revenue	10,754	14,248
Other non-current assets and liabilities	21,788	7,291
Net cash (used in) provided by operating activities	(127,382)	36,359
Cash flows from investing activities:		
Acquisition of DVD content library	(22,906)	(14,914)
Purchases of property and equipment	(13,036)	(13,334)
Other assets	225	295
Purchases of short-term investments	(90,940)	(60,546)
Proceeds from sale of short-term investments	51,948	143,048
Proceeds from maturities of short-term investments	31,887	3,090
Net cash (used in) provided by investing activities	(42,822)	57,639
Cash flows from financing activities:		
Proceeds from issuance of common stock	10,916	32,448
Proceeds from issuance of debt	1,500,000	400,000
Issuance costs	(17,232)	(6,727)
Excess tax benefits from stock-based compensation	29,001	32,732
Principal payments of lease financing obligations	(251)	(267)
Net cash provided by financing activities	1,522,434	458,186
Effect of exchange rate changes on cash and cash equivalents	(11,061)	301
Net increase in cash and cash equivalents	1,341,169	552,485
Cash and cash equivalents, beginning of period	1,113,608	604,965
Cash and cash equivalents, end of period	\$ 2,454,777	\$ 1,157,450

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, 2015	December 31, 2014
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,454,777	\$ 1,113,608
Short-term investments	502,931	494,888
Current content library, net	2,370,447	2,125,702
Other current assets	210,901	206,271
Total current assets	5,539,056	3,940,469
Non-current content library, net	3,312,353	2,773,326
Property and equipment, net	145,816	149,875
Other non-current assets	243,401	192,981
Total assets	<u>\$ 9,240,626</u>	<u>\$ 7,056,651</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current content liabilities	\$ 2,425,619	\$ 2,117,241
Accounts payable	190,567	201,581
Accrued expenses	107,323	69,746
Deferred revenue	285,340	274,586
Total current liabilities	3,008,849	2,663,154
Non-current content liabilities	1,861,791	1,575,832
Long-term debt	2,400,000	900,000
Other non-current liabilities	60,772	59,957
Total liabilities	7,331,412	5,198,943
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, \$0.001 par value; 160,000,000 shares authorized at March 31, 2015 and December 31, 2014; 60,620,721 and 60,415,841 issued and outstanding at March 31, 2015 and December 31, 2014, respectively	61	60
Additional paid-in capital	1,109,327	1,042,810
Accumulated other comprehensive loss	(43,154)	(4,446)
Retained earnings	842,980	819,284
Total stockholders' equity	1,909,214	1,857,708
Total liabilities and stockholders' equity	<u>\$ 9,240,626</u>	<u>\$ 7,056,651</u>

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 consolidated interim 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, 2014 filed with the Securities and Exchange Commission (the “SEC”) on January 29, 2015. 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 streaming content library amortization policy; the recognition and measurement of income tax assets and liabilities; and the valuation of stock-based compensation. 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 financial statements should be read in conjunction with the audited financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 . Interim results are not necessarily indicative of the results for a full year.

The Company has three reportable segments: Domestic streaming, International streaming and Domestic DVD. A majority of the Company’s revenues are generated in the United States, and substantially all of the Company’s long-lived tangible assets are held in the United States. The Company’s revenues are derived from monthly membership fees.

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, 2014 .

Prior to January 1, 2015, the functional currency of certain of the Company’s European entities was the British pound. The Company changed the functional currency of these entities to the euro effective January 1, 2015 following the redomiciliation of the European headquarters and the launch of the Netflix service in several significant European countries. The change in functional currency was applied prospectively from January 1, 2015. Monetary assets and liabilities have been remeasured to the euro at current exchange rates. Non-monetary assets and liabilities have been remeasured to the euro using the exchange rate effective for the period in which the balance arose. As a result of this change of functional currency, the Company recorded a \$21.8 million cumulative translation adjustment included in other comprehensive loss for the quarter ended March 31, 2015.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)* which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. It is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements, but does not expect the impact to be material.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated balance sheets.

2. 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, 2015	March 31, 2014
	(in thousands, except per share data)	
Basic earnings per share:		
Net income	\$ 23,696	\$ 53,115
Shares used in computation:		
Weighted-average common shares outstanding	60,518	59,817
Basic earnings per share	<u>\$ 0.39</u>	<u>\$ 0.89</u>
Diluted earnings per share:		
Net income	\$ 23,696	\$ 53,115
Shares used in computation:		
Weighted-average common shares outstanding	60,518	59,817
Employee stock options	1,455	1,731
Weighted-average number of shares	61,973	61,548
Diluted earnings per share	<u>\$ 0.38</u>	<u>\$ 0.86</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, 2015	March 31, 2014
	(in thousands)	
Employee stock options	256	41

3. Short-term Investments

The Company's investment policy is consistent with the definition of available-for-sale securities. The Company does not buy and hold securities principally for the purpose of selling them in the near future. The Company's policy is focused on the preservation of capital, liquidity and return. From time to time, the Company may sell certain securities but the objectives are generally not to generate profits on short-term differences in price. The following tables summarize, by major security type, the Company's assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy and where they are classified on the Consolidated Balance Sheets:

As of March 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash	\$ 2,354,639	\$ —	\$ —	\$ 2,354,639
Level 1 securities:				
Money market funds	105,060	—	—	105,060
Level 2 securities:				
Corporate debt securities	270,196	726	(49)	270,873
Government securities	198,815	479	(5)	199,289
Certificate of deposits and commercial paper	6,100	—	—	6,100
Agency securities	26,644	25	—	26,669
Total	\$ 2,961,454	\$ 1,230	\$ (54)	\$ 2,962,630

As of December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash	\$ 1,007,543	\$ —	\$ —	\$ 1,007,543
Level 1 securities:				
Money market funds	111,759	—	—	111,759
Level 2 securities:				
Corporate debt securities	295,500	432	(199)	295,733
Government securities	168,749	120	(95)	168,774
Asset and mortgage-backed securities	112	—	—	112
Certificate of deposits	3,600	—	—	3,600
Agency securities	26,665	5	(1)	26,669
Total	\$ 1,613,928	\$ 557	\$ (295)	\$ 1,614,190

As of			
	March 31, 2015	December 31, 2014	
	(in thousands)		
Cash and cash equivalents	\$ 2,454,777	\$ 1,113,608	
Short-term investments	502,931	494,888	
Other non-current assets (1)	4,922	5,694	
Total	\$ 2,962,630	\$ 1,614,190	

(1) Primarily restricted cash that is related to workers compensation deposits.

Fair value is a market-based measurement that is determined based on the assumptions that market participants would use in pricing an asset or liability. The hierarchy level assigned to each security in the Company's available-for-sale portfolio and cash equivalents is based on its assessment of the transparency and reliability of the inputs used in the valuation of such instrument at the measurement date. The fair value of available-for-sale securities and cash equivalents included in the Level 1 category is based on quoted prices that are readily and regularly available in an active market. The fair value of available-for-sale securities 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. These values were obtained from an independent pricing service and were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well-established independent pricing vendors and broker-dealers. The Company's procedures include controls to ensure that appropriate fair values are recorded, such as comparing prices obtained from multiple independent sources. See Note 5 to the consolidated financial statements for further information regarding the fair value of the Company's debt instruments.

There were no investments in a material unrealized loss position as of March 31, 2015 or December 31, 2014. There were no material other-than-temporary impairments or credit losses related to available-for-sale securities in the three months ended March 31, 2015 and 2014. In addition, there were no material gross realized gains or losses in the three months ended March 31, 2015 and 2014.

The estimated fair value of short-term investments by contractual maturity as of March 31, 2015 is as follows:

	(in thousands)
Due within one year	\$ 168,017
Due after one year and through five years	334,914
Total short-term investments	<u>\$ 502,931</u>

4. Balance Sheet Components

Content Library

Content library consisted of the following:

	As of	
	March 31, 2015	December 31, 2014
	(in thousands)	
Total content library, gross	\$ 9,239,372	\$ 8,497,403
Accumulated amortization	(3,556,572)	(3,598,375)
Total content library, net	<u>5,682,800</u>	<u>4,899,028</u>
Current content library, net	<u>2,370,447</u>	<u>2,125,702</u>
Non-current content library, net	<u>\$ 3,312,353</u>	<u>\$ 2,773,326</u>

Content library includes costs capitalized for licensed streaming content, for production of original content and for DVD content.

Property and Equipment, Net

Property and equipment and accumulated depreciation consisted of the following:

	As of		Estimated Useful Lives
	March 31, 2015	December 31, 2014	
	(in thousands)		
Information technology assets	\$ 189,059	\$ 189,274	3 years
Furniture and fixtures	26,707	25,758	3 years
Building	40,681	40,681	30 years
Leasehold improvements	59,830	57,339	Over life of lease
DVD operations equipment	89,137	89,144	5 years
Capital work-in-progress	17,641	12,495	
Property and equipment, gross	<u>423,055</u>	<u>414,691</u>	
Less: Accumulated depreciation	<u>(277,239)</u>	<u>(264,816)</u>	
Property and equipment, net	<u>\$ 145,816</u>	<u>\$ 149,875</u>	

5. Long-term Debt

As of March 31, 2015, the Company had aggregate outstanding principal of \$2.4 billion in long-term notes with varying maturities (the "Notes"). Each of the Notes were issued at par and are senior unsecured obligations of the Company. Interest is payable semi-annually at fixed rates.

The following table provides a summary of the Company's long-term debt as of March 31, 2015 and December 31, 2014:

	Principal Amount at Par (in millions)	Issuance Date	Maturity	Interest Due Dates	Level 2 Fair Value (1) as of	
					March 31, 2015	December 31, 2014
5.375% Senior Notes	\$ 500.0	February 2013	2021	February 1 and August 1	\$ 510.0	\$ 520.0
5.750% Senior Notes	400.0	February 2014	2024	March 1 and September 1	407.5	416.0
5.50% Senior Notes (2)	700.0	February 2015	2022	April 15 and October 15	715.8	—
5.875% Senior Notes (2)	800.0	February 2015	2025	April 15 and October 15	821.0	—

(1) Based on quoted market prices in less active markets

(2) The net proceeds to the Company for the 5.50% and 5.875% Senior Notes issued in the first quarter of 2015 were an aggregate \$1,482.4 million. Debt issuance costs of \$17.6 million (of which \$0.4 million were unpaid as of March 31, 2015) were recorded in "Other non-current assets" on the Consolidated Balance Sheets and are amortized over the term of the notes as "Interest expense" on the Consolidated Statements of Operations.

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, 2015 and December 31, 2014, the Company was in compliance with all related covenants.

6. Stockholders' Equity

Stock Option Plan

In June 2011, the Company adopted the 2011 Stock Plan. The 2011 Stock Plan 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. As of March 31, 2015, 2.7 million shares were reserved for future grants under the 2011 Stock Plan.

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

	Shares Available for Grant	Options Outstanding		Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in Thousands)
		Number of Shares	Weighted-Average Exercise Price		
Balances as of December 31, 2014	2,860,744	3,263,631	\$ 151.53		
Granted	(148,156)	148,156	417.43		
Exercised		(204,880)	50.12		
Balances as of March 31, 2015	2,712,588	3,206,907	\$ 170.29	6.30	\$ 801,626
Vested and exercisable as of March 31, 2015		3,206,907	\$ 170.29	6.30	\$ 801,626

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the first quarter of 2015 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 2015. This amount changes based on the fair market value of the Company's common stock. The total intrinsic value of options exercised for the three months ended March 31, 2015 and 2014 was \$80.8 million and \$101.5 million, respectively.

Cash received from option exercises for the three months ended March 31, 2015 and 2014 was \$10.9 million and \$32.4 million, respectively.

Stock-based Compensation

The following table summarizes the assumptions used to value stock option grants using the lattice-binomial model and the valuation data:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Dividend yield	—%	—%
Expected volatility	36%	48%
Risk-free interest rate	2.03%	2.83%
Suboptimal exercise factor	2.48	2.66 - 4.07
Valuation data:		
Weighted-average fair value (per share)	\$ 185.22	\$ 221.79
Total stock-based compensation expense (in thousands)	\$ 27,441	\$ 25,825
Total income tax benefit related to stock options (in thousands)	\$ 10,392	\$ 9,899

The Company considers several factors in determining the suboptimal exercise factor, including the historical and estimated option exercise behavior and the employee groupings. Prior to January 1, 2015, the Company bifurcated its option grants into two employee groupings (executive and non-executive) to determine the suboptimal exercise factor. Beginning on January 1, 2015, the Company began aggregating employee groupings for its determination of the suboptimal exercise factor as the previous bifurcation into two groupings did not have a material impact on the fair value of the options granted.

Prior to January 1, 2015, the Company's computation of expected volatility was based on a blend of historical volatility of its common stock and implied volatility of tradable forward call options to purchase shares of its common stock, as low trade volume of its tradable forward call options prior to 2011 precluded sole reliance on implied volatility. Beginning on January 1, 2015, expected volatility is 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.

7. Accumulated Other Comprehensive Loss

The following table summarizes the changes in the accumulated balance of other comprehensive loss, net of tax, for the three months ended March 31, 2015 :

	Foreign currency	Change in unrealized gains on available- for-sale securities	Total
		(in thousands)	
Balance as of December 31, 2014	\$ (4,615)	\$ 169	\$ (4,446)
Other comprehensive (loss) income before reclassifications	(39,490)	846	(38,644)
Amounts reclassified from accumulated other comprehensive loss	—	(64)	(64)
Net increase (decrease) in other comprehensive (loss) income	(39,490)	782	(38,708)
Balance as of March 31, 2015	\$ (44,105)	\$ 951	\$ (43,154)

As discussed in Note 1, other comprehensive loss for the three months ended March 31, 2015 includes the impact of the change in functional currency for certain of the Company's European entities.

All amounts reclassified from accumulated other comprehensive loss were related to realized gains on available-for-sale securities. These reclassifications impacted "Interest and other income (expense)" on the Consolidated Statements of Operations.

8. Income Taxes

The effective tax rates for the three months ended March 31, 2015 and 2014 were 38% and 40% , respectively. The effective tax rates for the three months ended March 31, 2015 differed from the federal statutory rate primarily due to state taxes, foreign taxes and non-deductible expenses, partially offset by the California R&D credit. The effective tax rates for the three months ended March 31, 2014 differed from the federal statutory rate primarily due to state taxes, foreign taxes and non-deductible expenses, partially offset by the California R&D credit.

The decrease in the Company's effective tax rates for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 was primarily attributable to lower tax reserves on uncertain tax positions following an IRS Appeals settlement in the fourth quarter of 2014.

Gross unrecognized tax benefits were \$38.2 million and \$34.8 million as of March 31, 2015 and December 31, 2014, respectively. The gross unrecognized tax benefits, if recognized by the Company, will result in a reduction of approximately \$31.8 million to the provision for income taxes thereby favorably impacting the Company's effective tax rate. The Company's unrecognized tax benefits are classified as "Other non-current liabilities" on 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. As of March 31, 2015 , the total amount of gross interest and penalties accrued was \$0.5 million , and is classified as "Other non-current liabilities" on the Consolidated Balance Sheets.

Deferred tax assets include \$14.0 million and \$13.4 million classified as "Other current assets" and \$143.3 million and \$106.9 million classified as "Other non-current assets" on the Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014 , 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. As of March 31, 2015 and December 31, 2014 , it was considered more likely than not that all deferred tax assets would be realized.

Income tax benefits attributable to the exercise of employee stock options of \$28.8 million and \$32.5 million , during the three months ended March 31, 2015 and 2014 , respectively, were recorded directly to "Additional paid-in capital" on the Consolidated Balance Sheets.

The Company files U.S. federal, state and foreign tax returns. The Company is currently under examination by the IRS for the years 2010 through 2013.

The Company is also currently under examination by the state of California for the years 2006 and 2007. California has completed its Field Exam of the 2006 and 2007 California tax returns and has issued a Notice of Proposed Assessment primarily related to the Company's R&D Credits claimed in those years. The Company has filed a protest against the proposed assessment and is currently in the midst of the Franchise Tax Board Protest process. The years 1997 through 2005, as well as 2008 through 2013 remain subject to examination by the state of California.

The Company has no significant foreign jurisdiction audits underway. The years 2010 through 2014 remain subject to examination by foreign jurisdictions.

Given the potential outcome of the current examinations, as well as the impact of the current examination 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. However, at this time, an estimate of the range of reasonably possible adjustments to the balance of unrecognized tax benefits cannot be made.

9. Commitments and Contingencies

Streaming Content

As of March 31, 2015 , the Company had \$9.8 billion of obligations comprised of \$2.4 billion included in "Current content liabilities" and \$1.9 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and \$5.5 billion of obligations that are not reflected on the Consolidated Balance Sheets.

As of December 31, 2014 , the Company had \$9.5 billion of obligations comprised of \$2.1 billion included in "Current content liabilities" and \$1.6 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and \$5.8 billion of obligations that are not reflected on the Consolidated Balance Sheets.

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

	As of	
	March 31, 2015	December 31, 2014
	(in thousands)	
Less than one year	\$ 4,016,950	\$ 3,747,648
Due after one year and through three years	4,634,792	4,495,103
Due after three years and through five years	1,071,291	1,164,308
Due after five years	57,229	44,053
Total streaming content obligations	<u>\$ 9,780,262</u>	<u>\$ 9,451,112</u>

A streaming content obligation is incurred at the time the Company enters into an agreement to obtain future titles. Once a title becomes available, a content liability is generally 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. 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 and the expected timing of payments could range from less than one year to more than five years.

The Company has entered into certain licenses with performing rights organizations ("PROs"), and is currently involved in negotiations with other PROs, that hold certain rights to music and other entertainment works "publicly performed" in connection with streaming content into various territories. Accruals for estimated license fees are recorded and then adjusted based on any change in estimates. These amounts are included in the streaming content obligations. The results of these negotiations are uncertain and may be materially different from management's estimates.

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.

On January 13, 2012, the first of three purported shareholder class action lawsuits was filed in the United States District Court for the Northern District of California against the Company and certain of its officers and directors. Two additional purported shareholder class action lawsuits were filed in the same court on January 27, 2012 and February 29, 2012 alleging substantially similar claims. These lawsuits were consolidated into *In re Netflix, Inc., Securities Litigation*, Case No. 3:12-cv-00225-SC, and the Court selected lead plaintiffs. On June 26, 2012, lead plaintiffs filed a consolidated complaint which alleged violations of the federal securities laws. The Court dismissed the consolidated complaint with leave to amend on February 13, 2013. Lead plaintiffs filed a first amended consolidated complaint on March 22, 2013. The Court dismissed the first amended consolidated complaint with prejudice on August 20, 2013, and judgment was entered on September 27, 2013. Lead plaintiffs filed a motion to alter or amend the judgment and requested leave to file a second amended complaint on October 25, 2013. On January 17, 2014, the Court denied that motion. On February 18, 2014, lead plaintiffs appealed that decision to the United States Court of Appeals for the Ninth Circuit. Management has determined a potential loss is reasonably possible however, based on its current knowledge, management does not believe that the amount of such possible loss or a range of potential loss is reasonably estimable.

On November 23, 2011, the first of six purported shareholder derivative suits was filed in the Superior Court of California, Santa Clara County, against the Company and certain of its officers and directors. Five additional purported shareholder derivative suits were subsequently filed: two in the Superior Court of California, Santa Clara County on February 9, 2012 and May 2, 2012; and three in the United States District Court for the Northern District of California on February 13, 2012, February 24, 2012 and April 2, 2012. The purported shareholder derivative suits filed in the Northern District of California have been voluntarily dismissed. On July 5, 2012, the purported shareholder derivative suits filed in Santa Clara County were consolidated into *In re Netflix, Inc. Shareholder Derivative Litigation*, Case No. 1-12-cv-218399, and lead counsel was appointed. A consolidated complaint was filed on December 4, 2012, with plaintiffs seeking compensatory damages and other relief. The consolidated complaint alleges, among other things, that certain of the Company's current and former officers and directors breached their fiduciary duties, issued false and misleading statements primarily regarding the Company's streaming business, violated accounting rules concerning segment reporting, violated provisions of the California Corporations Code, and wasted corporate assets. The consolidated complaint further alleges that the defendants caused the Company to buy back stock at artificially inflated prices to the detriment of the Company and its shareholders while contemporaneously selling personally held Company stock. The Company filed a demurrer to the consolidated complaint and a motion to stay the derivative litigation in favor of the related federal securities class action on February 4, 2013. On June 21, 2013, the Court granted the motion to stay the derivative litigation pending resolution of the related federal securities class action. Management has determined a potential loss is reasonably possible however, based on its current knowledge, management does not believe that the amount of such possible loss or a range of potential loss is reasonably estimable.

The Company is involved in other litigation matters not listed above 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.

10. Segment Information

The Company has three reportable segments: Domestic streaming, International streaming and Domestic DVD. Segment information is presented in the same manner that the Company's chief operating decision maker ("CODM") reviews the operating results in assessing performance and allocating resources. The Company's CODM reviews revenues and contribution profit (loss) for each of the reportable segments. Contribution profit (loss) is defined as revenues less cost of revenues and marketing expenses directly incurred by the segment. The Company has aggregated the results of the International operating segments into one reportable segment because these operating segments share similar long-term economic and other qualitative characteristics.

The Domestic and International streaming segments derive revenues from monthly membership fees for services consisting solely of streaming content. The Domestic DVD segment derives revenues from monthly membership fees for services consisting solely of DVD-by-mail. Revenues and the related payment card fees are attributed to the operating segment based on the nature of the underlying membership (streaming or DVD) and the geographic region from which the membership originates. There are no internal revenue transactions between the Company's segments.

Cost of revenues are primarily attributed to the operating segment based on the amounts directly incurred by the segment to obtain content and deliver it to the specific region. Content rights increasingly include multiple geographies as the Company aspires to obtain global content rights to support global expansion. The Company allocates this content between the International and Domestic segments based on estimated fair market value. Marketing expenses are primarily comprised of advertising expenses which are generally included in the segment in which the expenditures are directly incurred.

The Company's long-lived tangible assets were located as follows:

	As of	
	March 31, 2015	December 31, 2014
	(in thousands)	
United States	\$ 135,080	\$ 138,704
International	10,736	11,171

The following table represents segment information for the quarter ended March 31, 2015 :

	As of/ Three months ended March 31, 2015			
	Domestic Streaming	International Streaming	Domestic DVD	Consolidated
	(in thousands)			
Total memberships at end of period (1)	41,397	20,877	5,564	—
Revenues	\$ 984,532	\$ 415,397	\$ 173,200	\$ 1,573,129
Cost of revenues	582,529	375,278	88,594	1,046,401
Marketing	89,551	105,126	—	194,677
Contribution profit (loss)	<u>\$ 312,452</u>	<u>\$ (65,007)</u>	<u>\$ 84,606</u>	<u>\$ 332,051</u>
Other operating expenses				234,595
Operating income				97,456
Other income (expense)				(59,030)
Provision for income taxes				14,730
Net income				<u>\$ 23,696</u>

The following table represents segment information for the quarter ended March 31, 2014 :

	As of/ Three months ended March 31, 2014			
	Domestic Streaming	International Streaming	Domestic DVD	Consolidated
	(in thousands)			
Total memberships at end of period (1)	35,674	12,683	6,652	—
Revenues	\$ 798,617	\$ 267,118	\$ 204,354	\$ 1,270,089
Cost of revenues	517,094	245,267	106,825	869,186
Marketing	80,258	56,840	—	137,098
Contribution profit (loss)	<u>\$ 201,265</u>	<u>\$ (34,989)</u>	<u>\$ 97,529</u>	<u>\$ 263,805</u>
Other operating expenses				166,210
Operating income				97,595
Other income (expense)				(8,651)
Provision for income taxes				35,829
Net income				<u>\$ 53,115</u>

The following table represents the amortization of the content library:

	Domestic Streaming	International Streaming	Domestic DVD	Consolidated
Three months ended March 31,	(in thousands)			
2015	\$ 431,989	\$ 317,529	\$ 21,185	\$ 770,703
2014	386,315	214,420	16,121	616,856

The following table represents total content library, net:

	Domestic Streaming	International Streaming	Domestic DVD	Consolidated
	(in thousands)			
As of March 31, 2015	\$ 3,966,867	\$ 1,685,671	\$ 30,262	\$ 5,682,800
As of December 31, 2014	3,476,226	1,392,701	30,101	4,899,028

- (1) A membership (also referred to as a subscription or member) is defined as the right to receive either the Netflix streaming service or Netflix DVD service. 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. The Company offers free-trial memberships to new and certain rejoining members. For inclusion in the definition of a membership in the above metrics, a method of payment is required to be provided even during the free-trial period. Total memberships therefore include those who are on a free-trial and have provided a method of payment. A membership is canceled and ceases to be reflected in the above metrics as of the effective cancellation date. Voluntary cancellations become effective at the end of the prepaid membership period, while involuntary cancellation of the service, as a result of a failed method of payment, becomes effective immediately.

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; the impact of new accounting standards; investments in marketing and content, including original content; international expansion and investments related thereto; cash use in connection with content acquisitions and licensing and international expansion; contribution margin and free cash flow trends; deferred tax assets; accessing and obtaining additional capital and future contractual obligations. 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, 2014 filed with the Securities and Exchange Commission ("SEC") on January 29, 2015, in particular the risk factors discussed under the heading "Risk Factors" in Part I, Item 1A.

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 (<http://ir.netflix.com>), SEC filings, press releases, public conference calls and webcasts. We use these channels, as well as social media, 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 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 United States ("U.S.") social media channels listed on our investor relations website.

Overview

We are the world's leading Internet television network with over 62 million memberships in over 50 countries enjoying more than 100 million hours of TV shows and movies per day, including original series, documentaries and feature films. Members can watch as much as they want, anytime, anywhere, on nearly any Internet-connected screen. Members can play, pause and resume watching, all without commercials or commitments. Additionally, in the U.S., our members can receive DVDs delivered quickly to their homes.

We are a pioneer in the Internet delivery of TV shows and movies, launching our streaming service in 2007. Since this launch, we have developed an ecosystem for Internet-connected screens and have licensed and acquired increasing amounts of content that enable consumers to enjoy TV shows and movies directly on their TVs, computers and mobile devices. As a result of these efforts, we have experienced growing consumer acceptance of, and interest in, the delivery of TV shows and movies directly over the Internet. Historically, our acquisition of new memberships has been seasonal with the first and fourth quarters representing our strongest net membership additions and our second quarter representing the lowest net membership additions in a calendar year.

Our core strategy is to grow our streaming membership business globally within the parameters of our consolidated net income and contribution profit (loss) targets. We are continuously improving our members' experience by expanding our streaming content with a focus on a programming mix of content that delights our members. In addition, we are perpetually enhancing our user interface and expanding our streaming service to more Internet-connected screens.

Results of Operations

The following represents our consolidated performance highlights:

	Three Months Ended		Change
	March 31, 2015	March 31, 2014	Q1'15 vs. Q1'14
	(in thousands, except percentages)		
Global streaming memberships	62,274	48,357	29 %
Revenues	\$ 1,573,129	\$ 1,270,089	24 %
Operating income	97,456	97,595	— %
Net income	23,696	53,115	(55)%

Consolidated revenues for the three months ended March 31, 2015 increased \$303.0 million as compared to the three months ended March 31, 2014 due to growth in global streaming memberships, as well as increases in average monthly revenue per paying streaming membership resulting from the introduction of higher priced plans, partially offset by the impacts of foreign currency exchange rate fluctuations. Cost of revenues and operating expenses increased in line with the increase in revenue resulting in a flat operating income year over year. Net income decreased \$29.4 million in the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 as a result of a \$16.3 million increase in interest expense primarily related to our additional debt issued in February 2015, as well as a \$33.7 million foreign exchange loss.

We offer three types of streaming membership plans. In the U.S. our basic plan is priced at \$7.99 per month and includes access to standard definition quality streaming on a single screen at a time. Our most popular streaming plan, which includes access to high definition quality streaming on two screens concurrently, is priced at \$8.99 per month for memberships which commenced after the second quarter of 2014 when we had increased the membership fee from \$7.99 per month. Existing memberships were grandfathered in at \$7.99 for two years, as long as they remain a member. Our premium plan, which we introduced in the second quarter of 2013, is priced at \$11.99 per month and includes access to high definition and ultra-high definition quality content on four screens concurrently. Internationally, pricing for the three types of membership plans is structured similar to the U.S. and ranges from the U.S. dollar equivalent of approximately \$5.00 per month to \$19.00 per month.

The following represents the key elements to our segment results of operations:

- We define contribution profit as revenues less cost of revenues and marketing expenses. We believe this is an important measure of our operating segment performance as it represents each segment's performance before global corporate costs.
- For the Domestic and International streaming segments, content expenses, which include the amortization of the streaming content library and other expenses associated with the licensing and acquisition of streaming content, represent the vast majority of cost of revenues. Streaming content rights are generally specific to a geographic region, but increasingly include multiple geographies as we aspire to obtain global content rights to support our global expansion. We allocate these content rights between the International and Domestic segments based on estimated fair market value. Our international expansion will require us to obtain additional streaming content to support new international markets. Other cost of revenues such as streaming delivery expenses, customer service and payment processing fees tend to be lower as a percentage of total cost of revenues as compared to content licensing expenses. We utilize both our own and third-party content delivery networks to help us efficiently stream a high volume of content to our members over the Internet. Streaming delivery expenses, therefore, also include equipment costs related to our content delivery network ("Open Connect") and all third-party costs associated with delivering streaming content over the Internet. Cost of revenues in the Domestic DVD segment consist primarily of delivery expenses, content expenses, including amortization of DVD content library and revenue sharing expenses, and other expenses associated with our DVD processing and customer service centers. Delivery expenses for the Domestic DVD segment consist of the postage costs to mail DVDs to and from our members and the packaging and label costs for the mailers.
- For the Domestic and International streaming segments, marketing expenses consist primarily of advertising expenses and payments made to our affiliates and device partners. Advertising expenses include promotional activities such as online and television advertising. Payments to our affiliates and device partners include fixed fee and/or revenue sharing payments. Marketing expenses are primarily incurred by our Domestic and International streaming segments given our focus on building consumer awareness of the streaming offerings. Marketing expenses incurred by our International streaming segment have been significant and will fluctuate dependent upon the number of international territories in which our streaming service is offered and the timing of the launch of new territories. We do not incur marketing expenses for the Domestic DVD segment.
- We have demonstrated our ability to grow domestic streaming contribution margin as evidenced by the increase in contribution margin from 12% when we first began separately reporting Domestic streaming results in the fourth quarter of 2011 to 32% in the first quarter of 2015. As a result of our focus on growing the streaming segments, contribution margins for the Domestic and International streaming segments are lower than for our Domestic DVD segment. Investments in content and marketing associated with the International streaming segment will continue to fluctuate dependent upon the number of international territories in which our streaming service is offered and the timing of the launch of new territories.

Domestic Streaming Segment

Three months ended March 31, 2015 as compared to the three months ended March 31, 2014

	As of/ Three Months Ended		Change	
	March 31, 2015	March 31, 2014	Q1'15 vs. Q1'14	
	(in thousands, except revenue per membership and percentages)			
Memberships:				
Net additions	2,283	2,254	29	1%
Memberships at end of period	41,397	35,674	5,723	16%
Paid memberships at end of period	40,315	34,377	5,938	17%
Average monthly revenue per paying membership	\$ 8.41	\$ 8.06	\$ 0.35	4%
Contribution profit:				
Revenues	\$ 984,532	\$ 798,617	\$ 185,915	23%
Cost of revenues	582,529	517,094	65,435	13%
Marketing	89,551	80,258	9,293	12%
Contribution profit	312,452	201,265	111,187	55%
Contribution margin	32%	25%		

In the Domestic streaming segment, we derive revenues from monthly membership fees for services consisting solely of streaming content. The increase in our domestic streaming revenues was primarily due to the 18% growth in the average number of paid memberships, as well as the 4% increase in average monthly revenue per paying membership resulting from our price increase and introduction of higher priced plans. Our two-screen high-definition plan continues to be the most popular plan choice for new memberships.

The increase in domestic streaming cost of revenues was primarily due to a \$49.2 million increase in content expenses relating to our existing and new streaming content, including more exclusive and original programming. In addition, streaming delivery expenses increased by \$8.5 million and other costs, such as payment processing fees and customer service call centers, increased \$7.7 million due to our growing member base.

Domestic marketing expenses increased primarily due to an increase in advertising and public relations spending.

Our Domestic streaming segment had a contribution margin of 32% for the three months ended March 31, 2015, which increased as compared to the contribution margin of 25% for the three months ended March 31, 2014 due to growth in paid memberships and revenue which continued to outpace content and marketing spending.

International Streaming Segment

Three months ended March 31, 2015 as compared to the three months ended March 31, 2014

	As of /Three Months Ended		Change		
	March 31, 2015	March 31, 2014	Q1'15 vs. Q1'14		
	(in thousands, except revenue per membership and percentages)				
Memberships:					
Net additions	2,600	1,753	847	48 %	
Memberships at end of period	20,877	12,683	8,194	65 %	
Paid memberships at end of period	19,304	11,755	7,549	64 %	
Average monthly revenue per paying membership	\$ 7.68	\$ 8.29	\$ (0.61)	(7)%	
Contribution profit (loss):					
Revenues	\$ 415,397	\$ 267,118	\$ 148,279	56 %	
Cost of revenues	375,278	245,267	130,011	53 %	
Marketing	105,126	56,840	48,286	85 %	
Contribution loss	(65,007)	(34,989)	(30,018)	86 %	
Contribution margin	(16)%	(13)%			

In the International streaming segment, we derive revenues from monthly membership fees for services consisting solely of streaming content. We launched our streaming service in Canada in September 2010 and have continuously expanded our services internationally with launches in Latin America in September 2011, the U.K. and Ireland in January 2012, Finland, Denmark, Sweden and Norway in October 2012, the Netherlands in September 2013, and Germany, Austria, Switzerland, France, Belgium and Luxembourg in September 2014. In the first quarter of 2015, we launched our service in Australia and New Zealand. Later this year, in keeping with our global strategy, we expect to launch in additional markets, including Japan.

The increase in our international revenues was due to the 68% growth in the average number of paid international memberships offset partially by a 7% decrease in average monthly revenue per paying membership. The decrease in average monthly revenue per paying membership was due to the impact of exchange rate fluctuations and to a lesser extent the impact of absorbing higher VAT rates across our European markets beginning January 1, 2015. These decreases were partially offset by the price increase on our most popular streaming plan and the introduction of the premium plan in 2014. We believe international revenues would have been approximately \$48 million higher if foreign exchange rates had remained consistent with the foreign exchange rates from the first quarter of 2014. Average paid international streaming memberships account for 32% of global average paid streaming memberships as of March 31, 2015, as compared to 25% of global average paid streaming memberships as of March 31, 2014.

The increase in international cost of revenues was primarily due to a \$106.4 million increase in content expenses relating to expenses for territories launched in the last twelve months, coupled with existing and new streaming content, including more exclusive and original programming. Other costs increased \$23.6 million primarily due to increases in our streaming delivery expenses, costs associated with our customer service call centers and payment processing fees, all driven by our growing member base. The increases in content and other costs were partially offset by a decrease resulting from exchange rate fluctuations.

International marketing expenses for the three months ended March 31, 2015 increased as compared to the three months ended March 31, 2014 mainly due to expenses for territories launched in the last twelve months.

International contribution losses increased for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014, due to our increased spending for our international expansion and due to the impact of foreign currency exchange rate fluctuations. Had foreign exchange rates remained consistent with foreign exchange rates from the first quarter of 2014, we believe international contribution losses would have been approximately \$15 million lower year over year. Our International streaming segment does not benefit from the established member base that exists for the Domestic streaming segment. Investments in streaming content and marketing programs for our International segment are larger initially relative to revenues, in particular as new territories are launched. The contribution losses for our International segment have been significant due to investments in streaming content and marketing programs to drive membership growth and viewing in our international markets.

Domestic DVD Segment

Three months ended March 31, 2015 as compared to the three months ended March 31, 2014

	As of/ Three Months Ended		Change		
	March 31, 2015	March 31, 2014	Q1'15 vs. Q1'14		
	(in thousands, except revenue per membership and percentages)				
Memberships:					
Net losses	(203)	(278)	75	(27)%	
Memberships at end of period	5,564	6,652	(1,088)	(16)%	
Paid memberships at end of period	5,470	6,509	(1,039)	(16)%	
Average monthly revenue per paying membership	\$ 10.37	\$ 10.26	\$ 0.11	1 %	
Contribution profit:					
Revenues	\$ 173,200	\$ 204,354	\$ (31,154)	(15)%	
Cost of revenues	88,594	106,825	(18,231)	(17)%	
Contribution profit	84,606	97,529	(12,923)	(13)%	
Contribution margin	49%	48%			

In the Domestic DVD segment, we derive revenues from our DVD-by-mail membership services. The price per plan for DVD-by-mail varies from \$4.99 to \$43.99 per month according to the plan chosen by the member. DVD-by-mail plans differ by the number of DVDs that a member may have out at any given point. Members electing access to high definition Blu-ray discs, in addition to standard definition DVDs, pay a surcharge ranging from \$2 to \$4 per month for our most popular plans.

The decrease in our domestic DVD revenues was due to a 16% decrease in the average number of paid memberships.

The decrease in domestic DVD cost of revenues was primarily due to a \$2.4 million decrease in content expenses and a \$12.0 million decrease in delivery expenses resulting from a 24% decrease in the number of DVDs mailed to members. The decrease in shipments was driven by a decline in the number of DVD memberships coupled with a decrease in usage by these members. Other costs, primarily those associated with processing and customer service expenses, decreased \$3.8 million primarily due to a decrease in hub operation expenses resulting from the decline in DVD shipments.

Our Domestic DVD segment had a contribution margin of 49% for the three months ended March 31, 2015, and was flat as compared to the three months ended March 31, 2014.

Consolidated Operating Expenses

Technology and Development

Technology and development expenses consist of payroll and related costs incurred in making improvements to our service offerings, including testing, maintaining and modifying our user interface, our recommendation, merchandising and streaming delivery technology, as well as our telecommunications systems and infrastructures. Technology and development expenses also include costs associated with computer hardware and software.

Three months ended March 31, 2015 as compared to the three months ended March 31, 2014

	Three Months Ended		Change	
	March 31, 2015	March 31, 2014	Q1'15 vs. Q1'14	
	(in thousands, except percentages)			
Technology and development	\$ 143,106	\$ 110,310	\$ 32,796	30%
As a percentage of revenues	9%	9%		

The increase in technology and development expenses was primarily due to a \$27.0 million increase in personnel-related costs, including stock-based compensation expense, resulting from an increase in compensation for our existing employees and a 16% growth in average headcount supporting continued improvements in our streaming service and our international expansion.

General and Administrative

General and administrative expenses consist of payroll and related expenses for corporate personnel, as well as professional fees and other general corporate expenses.

Three months ended March 31, 2015 as compared to the three months ended March 31, 2014

	Three Months Ended		Change	
	March 31,	March 31,	Q1'15 vs. Q1'14	
	2015	2014		
(in thousands, except percentages)				
General and administrative	\$ 91,489	\$ 55,900	\$ 35,589	64%
As a percentage of revenues	6%	4%		

General and administrative expenses increased primarily due to a \$27.5 million increase in personnel-related costs, including stock-based compensation expense, resulting from a 52% increase in average headcount primarily to support our international expansion, and an increase in compensation for existing employees.

Interest Expense

Interest expense consists primarily of the interest associated with our outstanding long-term debt obligations, including the amortization of debt issuance costs, as well as interest on our lease financing obligations.

Three months ended March 31, 2015 as compared to the three months ended March 31, 2014

	Three Months Ended		Change	
	March 31, 2015	March 31, 2014	Q1'15 vs. Q1'14	
	(in thousands, except percentages)			
Interest expense	\$ (26,737)	\$ (10,052)	\$ (16,685)	166%
As a percentage of revenues	2%	1%		

Interest expense for the three months ended March 31, 2015 primarily consisted of \$25.5 million of interest accrued on our notes. The increase in interest expense for the three months ended March 31, 2015 as compared the three months ended March 31, 2014 was due primarily to the higher aggregate principal balance of interest bearing long-term debt outstanding.

Interest and Other Income (Expense)

Interest and other income (expense) consists primarily of interest earned on cash, cash equivalents and short-term investments and foreign exchange gains and losses on foreign currency denominated balances.

Three months ended March 31, 2015 as compared to the three months ended March 31, 2014

	Three Months Ended		Change	
	March 31, 2015	March 31, 2014	Q1'15 vs. Q1'14	
	(in thousands, except percentages)			
Interest and other income (expense)	\$ (32,293)	\$ 1,401	\$ (33,694)	(2,405)%
As a percentage of revenues	2%	NM		

Interest and other income (expense) decreased for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 due to a \$33.7 million foreign exchange loss which resulted primarily from the remeasurement of significant content liabilities denominated in currencies other than functional currencies in our European entities coupled with the strengthening of the U.S. dollar.

Provision for Income Taxes

The effective tax rates for the three months ended March 31, 2015 and 2014 were 38% and 40%, respectively. The effective tax rates for the three months ended March 31, 2015 differed from the federal statutory rate primarily due to state taxes, foreign taxes and non-deductible expenses, partially offset by the California R&D credit. The effective tax rates for the three months ended March 31, 2014 differed from the federal statutory rate primarily due to state taxes, foreign taxes and nondeductible expenses, partially offset by the California R&D credit.

The decrease in our effective tax rates for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 was primarily attributable to lower tax reserves on uncertain tax positions following an IRS Appeals settlement in the fourth quarter of 2014.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments were \$2,957.7 million and \$1,608.5 million as of March 31, 2015 and December 31, 2014, respectively. Long-term debt was \$2,400.0 million and \$900.0 million as of March 31, 2015 and December 31, 2014, respectively. In 2015 we issued \$1,500.0 million of long-term debt, and in February 2014 we issued \$400.0 million of long-term debt. See Note 5 to the consolidated financial statements for additional information.

Our primary uses of cash include content acquisition and licensing, streaming delivery, marketing programs and payroll. Payment terms for certain content agreements require more upfront cash payments relative to the expense and therefore, future investments could impact our liquidity. We expect to significantly increase our investments in international expansion and in streaming content, particularly in original content.

Our ability to obtain any additional financing that we may choose to, or need to, obtain to finance our international expansion, our investment in original content or otherwise, 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.

As of March 31, 2015, \$175.5 million of cash and cash equivalents were held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. income taxes and foreign withholding taxes on the amount associated with undistributed earnings for certain foreign subsidiaries.

Free Cash Flow

We define free cash flow as cash provided by operating and investing activities excluding the non-operational cash flows from purchases, maturities and sales of short-term investments. 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 investments and for certain other activities. 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, cash flow (used in) provided by 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 three major recurring differences are excess content payments over expense, non-cash stock-based compensation expense and other working capital differences. The excess content payments over expense is variable based on the payment terms of our content agreements and is expected to increase as we enter into more agreements with upfront cash payments, such as original content licenses and production of original content. Working capital differences include deferred revenue, taxes and semi-annual interest payments on our outstanding debt. Our receivables from members generally settle quickly and deferred revenue is a source of cash flow.

Three months ended March 31, 2015 as compared to the three months ended March 31, 2014

	Three Months Ended	
	March 31, 2015	March 31, 2014
	(in thousands)	
Net cash (used in) provided by operating activities	\$ (127,382)	\$ 36,359
Net cash (used in) provided by investing activities	(42,822)	57,639
Net cash provided by financing activities	1,522,434	458,186
Non-GAAP free cash flow reconciliation:		
Net cash (used in) provided by operating activities	(127,382)	36,359
Acquisition of DVD content library	(22,906)	(14,914)
Purchases of property and equipment	(13,036)	(13,334)
Other assets	225	295
Non-GAAP free cash flow	<u>\$ (163,099)</u>	<u>\$ 8,406</u>

Cash used in operating activities increased \$163.7 million, primarily due to increased payments for content other than DVD library of \$302.7 million or 39%, as well as increased payments associated with higher operating expenses. The increased use of cash was partially offset by a \$303.0 million or 24% increase in revenues.

Cash used in investing activities increased \$100.5 million, primarily due to a decrease in the proceeds from the sale of short-term investments, net of maturities and purchases of \$92.7 million coupled with an \$8.0 million increase in acquisition of DVD content library, as more DVDs were obtained through direct purchase than through revenue sharing agreements.

Cash provided by financing activities increased \$1,064.2 million primarily due to the \$1,482.8 million net proceeds from the issuance of the 5.50% Notes and the 5.875% Notes in the three months ended March 31, 2015 compared to the \$393.3 million net proceeds from the issuance of the 5.750% Notes in the three months ended March 31, 2014. This increase was offset by a decrease of \$21.5 million in proceeds from issuance of common stock.

Free cash flow was \$186.8 million lower than net income for the three months ended March 31, 2015 primarily due to \$268.1 million of content cash payments over expense, partially offset by \$53.9 million favorable other working capital differences, and \$27.4 million of non-cash stock-based compensation expense.

Free cash flow was \$44.7 million lower than net income for the three months ended March 31, 2014 primarily due to \$110.6 million of content cash payments over expense, partially offset by \$25.8 million of non-cash stock-based compensation expense and \$40.1 million 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 payment of the obligations discussed below is estimated based on information available to us as of March 31, 2015. 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, 2015 :

Contractual obligations (in thousands):	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Streaming content obligations (1)	\$ 9,780,262	\$ 4,016,950	\$ 4,634,792	\$ 1,071,291	\$ 57,229
Debt (2)	3,510,125	109,250	270,750	270,750	2,859,375
Lease obligations (3)	232,496	39,029	67,011	38,374	88,082
Other purchase obligations (4)	447,056	215,157	226,613	5,016	270
Total	\$ 13,969,939	\$ 4,380,386	\$ 5,199,166	\$ 1,385,431	\$ 3,004,956

- (1) As of March 31, 2015, streaming content obligations were comprised of \$2.4 billion included in "Current content liabilities" and \$1.9 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and \$5.5 billion of obligations that are not reflected on the Consolidated Balance Sheets as they do not yet meet the criteria for asset recognition.

Streaming content obligations increased \$0.3 billion from \$9.5 billion as of December 31, 2014 to \$9.8 billion as of March 31, 2015 primarily due to multi-year commitments primarily associated with the continued expansion of our exclusive and original programming.

A streaming content obligation is incurred at the time we enter into an agreement to obtain future titles. Once a title becomes available, a content liability is generally 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, like the future output deal with Disney, or certain TV series license agreements where the number of seasons to be aired is unknown, are examples of these types of license 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 \$3 billion to \$5 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 streaming content obligations.

- (2) Long-term debt obligations include our Notes consisting of principal and interest payments, see Note 5 to the consolidated financial statements for further details.
- (3) Lease obligations include lease financing obligations of \$9.0 million related to our current Los Gatos, California headquarters for which we are the deemed owner for accounting purposes and commitments of \$223.5 million for facilities under non-cancelable operating leases with various expiration dates through approximately 2025, including commitments of \$148.2 million for facilities lease agreements which will commence after the leased buildings have been constructed.
- (4) Other purchase obligations include all other non-cancelable contractual obligations. These contracts are primarily related to streaming delivery, DVD content acquisition, and miscellaneous open purchase orders for which we have not received the related services or goods.

As of March 31, 2015, we had gross unrecognized tax benefits of \$38.2 million and an additional \$0.5 million for gross interest and penalties classified as "Other non-current liabilities" on the Consolidated Balance Sheets. At this time, we are not able to make a reasonably reliable estimate of the timing of payments in individual years due to uncertainties in the timing of tax audit outcomes; therefore, such amounts are not included in the above contractual obligation table.

Off-Balance Sheet Arrangements

We do not have any 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 9 in the notes 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 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.

Streaming Content

We license and acquire rights to stream TV shows, movies, and original content to members for unlimited viewing. These rights are for a fixed fee and specific windows of availability. Payment terms for certain content agreements require more upfront cash payments relative to the expense.

We capitalize the fee per title and record a corresponding liability at the gross amount of liabilities when the license period begins, the cost of the title is known and the title is accepted and available for streaming. The portion available for streaming within one year is recognized as “Current content library, net” and the remaining portion as “Non-current content library, net” on the Consolidated Balance Sheets. The acquisition of streaming content rights and the changes in related liabilities are classified within (cash used) provided by in operating activities on the Consolidated Statements of Cash Flows.

We also capitalize costs associated with the production of original content and include these amounts in “Non-current content library, net” on the Consolidated Balance Sheets. Capitalized production costs and other expenses associated with our originals such as participations and residuals have not been material to date.

We amortize the content library in “Cost of revenues” on a straight line or on an accelerated basis, as appropriate:

- For content that does not premiere on the Netflix service (representing the vast majority of content), we amortize on a straight-line basis over the shorter of each title's contractual window of availability or estimated period of use, beginning with the month of first availability. The amortization period typically ranges from six months to five years.
- For content that premieres on the Netflix service, we expect more upfront viewing due to the additional merchandising and marketing efforts for this original content available only on Netflix. Hence, we amortize on an accelerated basis over the amortization period, which is the shorter of four years or the license period, beginning with the month of first availability. If a subsequent season is added, the amortization period is extended by a year.
- If the cost per title cannot be reasonably estimated, the license fee is not capitalized and costs are expensed on a straight line basis over the license period. This typically occurs when the license agreement does not specify the number of titles, the license fee per title or the windows of availability per title.

We review factors impacting the amortization of the content library, including historical and estimated viewing patterns, on a regular basis. Our estimates related to these factors require considerable management judgment. Changes in our estimates could have a significant impact on our future results of operations.

The content library is stated at the lower of unamortized cost or net realizable value. Streaming content (whether capitalized or not) is reviewed in aggregate at the geographic region level for impairment when an event or change in circumstances indicates a change in the expected usefulness of the content. Currently the level of geographic aggregation is determined based on the streaming content rights which are generally specific to a geographic region inclusive of several countries (such as Latin America). Increasingly our streaming content rights include multiple geographies as we aspire to obtain global content rights to support our global expansion. No material write-down from unamortized cost to a lower net realizable value was recorded in any of the periods presented.

We have entered into certain licenses with performing rights organizations (“PROs”), and are currently involved in negotiations with other PROs, that hold certain rights to music and other entertainment works “publicly performed” in connection with streaming content into various territories. Accruals for estimated license fees are recorded and then adjusted based on any changes in estimates. These amounts are included

in the streaming content obligations. The results of these negotiations are uncertain and may be materially different from management's estimates.

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 substantially all deferred tax assets recorded on our Consolidated Balance Sheets will ultimately be realized. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such determination.

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, 2015, our estimated gross unrecognized tax benefits were \$38.2 million of which \$31.8 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 8 to the consolidated financial statements for further information regarding income taxes.

Stock-Based Compensation

Stock-based compensation expense at the grant date is based on the total number of options granted and an estimate of the fair value of the awards.

We calculate the fair value of our stock option grants using a lattice-binomial model. This model requires the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the estimate of fair value of options granted and our results of operations could be impacted.

- **Expected Volatility:** Prior to January 1, 2015, our computation of expected volatility was based on a blend of historical volatility of our common stock and implied volatility of tradable forward call options to purchase shares of our common stock, as low trade volume of our tradable forward call options prior to 2011 precluded sole reliance on implied volatility. Beginning on January 1, 2015, expected volatility is based solely on implied volatility. We believe that implied volatility of publicly traded options in our 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 our common stock. An increase/decrease of 10% in our computation of expected volatility would increase/decrease the total stock-based compensation expense by approximately \$3.1 million for the three months ended March 31, 2015.
- **Suboptimal Exercise Factor:** Our computation of the suboptimal exercise factor is based on historical and estimated option exercise behavior. Prior to January 1, 2015, the Company bifurcated its option grants into two employee groupings (executive and non-executive) to determine the suboptimal exercise factor. Beginning on January 1, 2015, the Company began aggregating employee groupings for its determination of the suboptimal exercise factor as the previous bifurcation into two groupings did not have a material impact on the fair value of the options granted. An increase/decrease in the suboptimal exercise factor of 10% would increase/decrease the total stock-based compensation expense by approximately \$0.7 million for the three months ended March 31, 2015.

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, 2014 . Our exposure to market risk has not changed significantly since December 31, 2014 .

Foreign Currency Risk

International revenues and cost of revenues account for 26% and 36%, respectively of consolidated amounts. The majority of international revenues and a smaller portion of expenses are denominated in currencies other than the U.S. dollar and we therefore have foreign currency risk related these currencies, which are primarily the euro, the British pound, the Canadian dollar, and the Brazilian real.

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 contribution profit (loss) of our International streaming segment as expressed in U.S. dollars. In the first quarter of 2015, we believe our international revenues would have been approximately \$48 million higher and our international contribution loss would have been approximately \$15 million lower had foreign currency exchange rates been consistent with those in the first quarter of 2014.

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 first quarter of 2015, we recognized a \$33.7 million foreign exchange loss which resulted primarily from the remeasurment of significant content liabilities denominated in currencies other than functional currencies in our European entities coupled with the strengthening of the U.S. dollar.

We do not use foreign exchange contracts 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 Chief Executive Officer 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 Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer 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 Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Our management, including our Chief Executive Officer 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, 2015 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 9 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 as previously disclosed under the heading “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 .

Item 6. Exhibits

(a) Exhibits:

ExhibitNumber	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation	10-Q	000-49802	3.1	August 2, 2004	
3.2	Amended and Restated Bylaws	8-K	000-49802	3.1	March 20, 2009	
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation	10-Q	000-49802	3.3	August 2, 2004	
4.1	Form of Common Stock Certificate	S-1/A	333-83878	4.1	April 16, 2002	
4.2	Indenture, dated as of February 1, 2013, by and between the Company and Wells Fargo Bank, National Association, as Trustee.	8-K	001-35727	4.1	February 1, 2013	
4.3	Indenture, dated as of February 19, 2014, by and between the Company and Wells Fargo Bank, National Association, as Trustee.	8-K	001-35727	4.1	February 19, 2014	
4.4	Indenture, dated as of February 5, 2015, by and between the Company and Wells Fargo Bank, National Association, as Trustee.	8-K	001-35727	4.1	February 5, 2015	
4.5	Indenture, dated as of February 5, 2015, by and between the Company and Wells Fargo Bank, National Association, as Trustee.	8-K	001-35727	4.2	February 5, 2015	
10.1†	Form of Indemnification Agreement entered into by the registrant with each of its executive officers and directors	S-1/A	333-83878	10.1	March 20, 2002	
10.2†	Amended and Restated 2002 Stock Plan	Def 14A	000-49802	A	March 31, 2006	
10.3†	2011 Stock Plan	Def 14A	000-49802	A	April 20, 2011	
10.4†	Amended and Restated Executive Severance and Retention Incentive Plan	10-K	001-35727	10.7	January 31, 2013	
10.5	Registration Rights Agreement, dated as of February 19, 2014, by and among the Company and Morgan Stanley & Co. LLC, as representative of the Initial Purchasers listed in Schedule 1 thereto	8-K	001-35727	10.1	February 19, 2014	
10.6†	Performance Bonus Plan	Def 14A	001-35727	A	April 28, 2014	
10.7	Registration Rights Agreement, dated as of February 5, 2015, by and among the Company and Morgan Stanley & Co. LLC, as representative of the Initial Purchasers listed in Schedule 1 thereto	8-K	001-35727	10.1	February 5, 2015	
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10.9	Purchase Agreement between Morgan Stanley & Co. LLC, as representative of several initial purchasers, and Netflix, Inc. dated February 2, 2015	X
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X
101	The following financial information from Netflix, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 filed with the SEC on April 17, 2015, formatted in XBRL includes: (i) Consolidated Statements of Operations for the Three Months Ended March 31, 2015 and 2014, (ii) Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014 (iii) Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014, (iv) Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014 and (v) the Notes to the Consolidated Financial Statements.	X

* These certifications are not deemed filed by the SEC and are not to be incorporated by reference in any filing we make under the Securities Act of 1933 or the Securities Exchange Act of 1934, irrespective of any general incorporation language in any filings.

† Indicates a management contract or compensatory plan.

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 thereunto duly authorized.

Dated: April 17, 2015

NETFLIX, INC.

By: _____ /s/ R EED H ASTINGS

Reed Hastings
Chief Executive Officer
(Principal executive officer)

Dated: April 17, 2015

By: /s/ DAVID WELLS

David Wells
Chief Financial Officer
(Principal financial and accounting officer)

EXHIBIT INDEX

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† Indicates a management contract or compensatory plan.

NETFLIX, INC.

\$700,000,000 5.500% Senior Notes due 2022
\$800,000,000 5.875% Senior Notes due 2025

Purchase Agreement

February 2, 2015

Morgan Stanley & Co. LLC

As Representative of the
several Initial Purchasers listed
in Schedule 1 hereto

c/o Morgan Stanley & Co. LLC
1585 Broadway
New York, New York 10036

Ladies and Gentlemen:

Netflix, Inc., a Delaware corporation (the "Company"), proposes to issue and sell to the several initial purchasers listed in Schedule 1 hereto (the "Initial Purchasers"), for whom you are acting as representative (the "Representative"), \$700,000,000 principal amount of its 5.500% Senior Notes due 2022 (the "2022 Notes") and \$800,000,000 principal amount of its 5.875% Senior Notes due 2025 (the "2025 Notes" and, together with the 2022 Notes, the "Securities"). The 2022 Notes will be issued pursuant to an Indenture to be dated as of February 5, 2015 (the "2022 Indenture") between the Company and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The 2025 Securities will be issued pursuant to an Indenture to be dated as of February 5, 2015 (the "2025 Indenture" and, together with the 2022 Indenture, the "Indentures") between the Company and the Trustee.

The Securities will be sold to the Initial Purchasers without being registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon an exemption therefrom. The Company has prepared a preliminary offering memorandum dated February 2, 2015 (the "Preliminary Offering Memorandum") and will prepare an offering memorandum dated the date hereof (the "Offering Memorandum") setting forth information concerning the Company and the Securities. Copies of the Preliminary Offering Memorandum have been, and copies of the Offering Memorandum will be, delivered by the Company to the Initial Purchasers pursuant to the terms of this purchase agreement (the "Agreement"). The Company hereby confirms that it has authorized the use of the Preliminary Offering Memorandum, the other Time of Sale Information (as defined below) and the Offering Memorandum in connection with the offering and resale of the Securities by the Initial Purchasers in the manner contemplated by this Agreement. References herein to the Preliminary Offering Memorandum, the Time of Sale

Information and the Offering Memorandum shall be deemed to refer to and include any document incorporated by reference therein.

At or prior to the time when sales of the Securities by an Initial Purchaser were first made (the “Time of Sale”), the Company has prepared the following information (collectively, the “Time of Sale Information”): the Preliminary Offering Memorandum, as supplemented and amended by the written communications listed on Annex A hereto including the term sheet substantially in the form of Annex B hereto.

Holders of the Securities (including the Initial Purchasers and their direct and indirect transferees) will be entitled to the benefits of a registration rights agreement relating to such series of Securities (each, a “Registration Rights Agreement” and together, the “Registration Rights Agreements”), to be dated the Closing Date (as defined below). Pursuant to each Registration Rights Agreement, the Company will agree, in certain limited circumstances, to file one or more registration statements with the Securities and Exchange Commission (the “Commission”) providing for the registration under the Securities Act of the resale of the applicable series of Securities or the Exchange Securities referred to (and as defined) in and as required by such Registration Rights Agreement.

The Company hereby confirms its agreement with the several Initial Purchasers concerning the purchase and resale of the Securities, as follows:

1. Purchase and Resale of the Securities.

(a) The Company agrees to issue and sell the Securities to the several Initial Purchasers as provided in this Agreement, and each Initial Purchaser, on the basis of the representations, warranties and agreements set forth herein and subject to the conditions set forth herein, agrees, severally and not jointly, (x) to purchase from the Company the respective principal amount of 2022 Notes set forth opposite such Initial Purchaser’s name in Schedule 1 hereto at a price equal to 99.00% of the principal amount thereof (the “2022 Purchase Price”) plus accrued interest, if any, from February 5, 2015 to the Closing Date and (y) to purchase from the Company the respective principal amount of 2025 Notes set forth opposite such Initial Purchaser’s name in Schedule 1 hereto at a price equal to 99.00% of the principal amount thereof (the “2025 Purchase Price”) plus accrued interest, if any, from February 5, 2015 to the Closing Date. The Company will not be obligated to deliver any of the 2022 Notes except upon payment for all the 2022 Notes to be purchased as provided herein, and the Company will not be obligated to deliver any of the 2025 Notes except upon payment for all the 2025 Notes to be purchased as provided herein.

(b) The Company understands that the Initial Purchasers intend to offer the Securities for resale on the terms set forth in the Time of Sale Information. Each Initial Purchaser, severally and not jointly, represents, warrants and agrees that:

(i) it is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act (a “QIB”) and an accredited investor within the meaning of Rule 501(a) of Regulation D under the Securities Act (“Regulation D”);

(ii) it has not solicited offers for, or offered or sold, and will not solicit offers for, or offer or sell, the Securities by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) of Regulation D under the Securities Act or in any manner involving a public offering within the meaning of Section 4(a)(2) of the Securities Act; and

(iii) it has not solicited offers for, or offered or sold, and will not solicit offers for, or offer or sell, the Securities as part of their initial offering except:

(A) within the United States to persons whom it reasonably believes to be QIBs in transactions pursuant to Rule 144A under the Securities Act ("Rule 144A") and in connection with each such sale, it has taken or will take reasonable steps to ensure that the purchaser of the Securities is aware that such sale is being made in reliance on Rule 144A; or

(B) outside the United States in accordance with the restrictions set forth in Annex C hereto.

(c) Each Initial Purchaser acknowledges and agrees that the Company and, for purposes of the "no registration" opinions to be delivered to the Initial Purchasers pursuant to Sections 6(f) and 6(g), counsel for the Company and counsel for the Initial Purchasers, respectively, may rely upon the accuracy of the representations and warranties of the Initial Purchasers, and compliance by the Initial Purchasers with their agreements, contained in paragraph (b) above (including Annex C hereto), and each Initial Purchaser hereby consents to such reliance.

(d) The Company acknowledges and agrees that the Initial Purchasers may offer and sell Securities to or through any affiliate of an Initial Purchaser and that any such affiliate may offer and sell Securities purchased by it to or through any Initial Purchaser; provided that such offers and sales shall be made in accordance with the provisions of this Agreement.

(e) The Company acknowledges and agrees that the Initial Purchasers are acting solely in the capacity of an arm's length contractual counterparty to the Company with respect to the offering of Securities contemplated hereby (including in connection with determining the terms of the offering) and not as financial advisors or fiduciaries to, or agents of, the Company or any other person. Additionally, neither the Representative nor any other Initial Purchaser is advising the Company or any other person as to any legal, tax, investment, accounting or regulatory matters in any jurisdiction. The Company shall consult with its own advisors concerning such matters and shall be responsible for making its own independent investigation and appraisal of the transactions contemplated hereby, and neither the Representative nor any other Initial Purchaser shall have any responsibility or liability to the Company with respect thereto. Any review by the Representative or any Initial Purchaser of the Company and the transactions contemplated hereby or other matters relating to such transactions will be performed solely for the benefit of the Representative or such Initial Purchaser, as the case may be, and shall not be on behalf of the Company or any other person.

2. Payment and Delivery.

(a) Payment for and delivery of the Securities will be made at the offices of Cahill Gordon & Reindel LLP, 80 Pine Street, New York, New York 10005 at 10:00 A.M., New York City time, on February 5, 2015, or at such other time or place on the same or such other date, not later than the fifth business day thereafter, as the Representative and the Company may agree upon in writing. The time and date of such payment and delivery is referred to herein as the "Closing Date."

(b) Payment for each series of Securities shall be made by wire transfer in immediately available funds to the account(s) specified by the Company to the Representative in the amount of the 2022 Purchase Price or 2025 Purchase Price, as applicable, against delivery to the nominee of The Depository Trust Company ("DTC"), for the account of the Initial Purchasers, of one or more global notes representing such series of Securities (collectively, the "Global Note"), with any transfer taxes payable in connection with the sale of the Securities duly paid by the Company. Each Global Note will be made available for inspection by the Representative not later than 1:00 P.M., New York City time, on the business day prior to the Closing Date.

3. Representations and Warranties of the Company. The Company represents and warrants to each Initial Purchaser that:

(a) *Preliminary Offering Memorandum, Time of Sale Information and Offering Memorandum* . The Preliminary Offering Memorandum, as of its date, did not, the Time of Sale Information, at the Time of Sale, did not, and at the Closing Date, will not, and the Offering Memorandum, in the form first used by the Initial Purchasers to confirm sales of the Securities and as of the Closing Date, will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that the Company makes no representation or warranty with respect to any statements or omissions made in reliance upon and in conformity with information relating to any Initial Purchaser furnished to the Company in writing by such Initial Purchaser through the Representative expressly for use in the Preliminary Offering Memorandum, the Time of Sale Information or the Offering Memorandum.

(b) *Additional Written Communications* . The Company (including its agents and representatives, other than the Initial Purchasers in their capacity as such) has not prepared, made, used, authorized, approved or referred to and will not prepare, make, use, authorize, approve or refer to any written communication that constitutes an offer to sell or solicitation of an offer to buy the Securities (each such communication by the Company or its agents and representatives (other than a communication referred to in clauses (i), (ii) and (iii) below) an "Issuer Written Communication") other than (i) the Preliminary Offering Memorandum, (ii) the Offering Memorandum, (iii) the documents listed on Annex A hereto, including a term sheet substantially in the form of Annex B hereto, which constitute part of the Time of Sale Information, and (iv) any electronic road show or other written communications, in each case used in accordance with Section 4(c). Each such Issuer Written Communication, when taken together with the Time of Sale Information, did not at the Time of Sale, and at the Closing Date

will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that the Company makes no representation or warranty with respect to any statements or omissions made in each such Issuer Written Communication in reliance upon and in conformity with information relating to any Initial Purchaser furnished to the Company in writing by such Initial Purchaser through the Representative expressly for use in any Issuer Written Communication.

(c) *Incorporated Documents* . The documents incorporated by reference in each of the Time of Sale Information and the Offering Memorandum, when filed with the Commission, conformed or will conform, as the case may be, in all material respects to the requirements of the Exchange Act and the rules and regulations of the Commission thereunder, and did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided , however , that no representation is made as to any statement or omission that shall have been superseded or modified in either (i) a document subsequently filed with the Commission and incorporated by reference in each of the Time of Sale Information and the Offering Memorandum or (ii) each of the Time of Sale Information and the Offering Memorandum.

(d) *Financial Statements* . The financial statements and the related notes thereto included or incorporated by reference in each of the Time of Sale Information and the Offering Memorandum present fairly in all material respects the consolidated financial position of the Company and its subsidiaries as of the dates indicated and the consolidated results of their operations and the consolidated changes in their cash flows for the periods specified; except as set forth therein, such financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods covered thereby; and the other financial information of the Company and its subsidiaries included or incorporated by reference in each of the Time of Sale Information and the Offering Memorandum has been derived from the accounting records of the Company and its subsidiaries and presents fairly in all material respects the information shown thereby.

(e) *No Material Adverse Change* . Except as disclosed in the Time of Sale Information and the Offering Memorandum, since the date of the most recent financial statements of the Company included or incorporated by reference in each of the Time of Sale Information and the Offering Memorandum (i) there has not been any material change in the capital stock (other than the issuance of the shares of common stock, options or restricted stock units to purchase or acquire shares of common stock granted under, or contracts or commitments pursuant to, the Company's previous or currently existing stock option, employee stock purchase and other similar officer, director or employee benefit plans or the issuance of the common stock upon the exercise of outstanding options and warrants) or long-term debt of the Company or its subsidiaries, or any dividend or distribution of any kind declared, set aside for payment, paid or made by the Company on any class of capital stock, or any material adverse change, or any development involving a prospective material adverse change in the business, properties, management, financial position, results of operations or prospects of the Company and its

subsidiaries taken as a whole; (ii) neither the Company nor any of its subsidiaries has entered into any transaction or agreement that is material to the Company and its subsidiaries taken as a whole or incurred any liability or obligation, direct or contingent, that is material to the Company and its subsidiaries taken as a whole; and (iii) neither the Company nor any of its subsidiaries has sustained any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor disturbance or dispute or any action, order or decree of any court or arbitrator or governmental or regulatory authority.

(f) *Organization and Good Standing* . The Company and its subsidiaries have been duly organized and are validly existing and in good standing under the laws of their respective jurisdictions of organization, are duly qualified to do business and are in good standing in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses as currently conducted requires such qualification, and have all power and authority necessary to own or hold their respective properties and to conduct the businesses in which they are currently engaged, except where the failure to be so qualified, in good standing or have such power or authority would not, individually or in the aggregate, have a material adverse effect on the business, properties, financial position, results of operations or prospects of the Company and its subsidiaries taken as a whole or on the performance by the Company of its obligations under this Agreement, the Indentures, the Registration Rights Agreements and the Securities (a “Material Adverse Effect”). The Company does not own or control, directly or indirectly, any corporation, association or other entity that is a “significant subsidiary” as defined in Rule 1-02(w) of Regulation S-X promulgated under the Exchange Act other than the entities listed in Schedule 2 to this Agreement.

(g) *Capitalization* . The Company has the capitalization as set forth in each of the Time of Sale Information and the Offering Memorandum under the heading “Capitalization”; and all the outstanding shares of capital stock or other equity interests of the subsidiaries of the Company have been duly and validly authorized and issued, are, to the extent applicable, fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of any lien, charge, encumbrance, security interest, restriction on voting or transfer or any other claim of any third party.

(h) *Due Authorization* . The Company has full right, power and authority to execute and deliver this Agreement, the Securities, the Indentures, the Exchange Securities and the Registration Rights Agreements (collectively, the “Transaction Documents”) and to perform its obligations hereunder and thereunder; and all action required to be taken by the Company for the due and proper authorization, execution and delivery of each of the Transaction Documents and the consummation of the transactions contemplated thereby has been duly and validly taken.

(i) *The Indentures* . Each Indenture has been duly authorized by the Company and, when duly executed and delivered in accordance with its terms by each of the parties thereto, will constitute a valid and legally binding agreement of the Company enforceable against the Company in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws affecting the enforcement of creditors’ rights generally or by equitable principles relating to

enforceability including principles of good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or equity) (collectively, the “Enforceability Exceptions”); and on the Closing Date, each Indenture will conform in all material respects to the requirements of the Trust Indenture Act of 1939, as amended (the “Trust Indenture Act”), and the rules and regulations of the Commission applicable to an indenture that is qualified thereunder.

(j) *The Securities* . Each series of Securities have been duly authorized by the Company and, when duly executed, authenticated, issued and delivered as provided in the applicable Indenture and paid for as provided herein, will be duly and validly issued and outstanding and will constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their terms, subject to the Enforceability Exceptions, and will be entitled to the benefits of such Indenture.

(k) *The Exchange Securities* . On the Closing Date, the Exchange Securities relating to each series of Securities will have been duly authorized by the Company, and if duly executed, authenticated, issued and delivered as contemplated by the applicable Registration Rights Agreement, will be duly and validly issued and outstanding and will constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the Enforceability Exceptions, and will be entitled to the benefits of the applicable Indenture.

(l) *Purchase and Registration Rights Agreements* . This Agreement has been duly authorized, executed and delivered by the Company. Each Registration Rights Agreement has been duly authorized by the Company and on the Closing Date will be duly executed and delivered by the Company and, when duly executed and delivered in accordance with its terms by each of the parties thereto, will constitute a valid and legally binding agreement of the Company enforceable against the Company in accordance with its terms, subject to the Enforceability Exceptions, and except that rights to indemnity and contribution thereunder may be limited by applicable law and public policy.

(m) *Descriptions of the Transaction Documents* . Each Transaction Document conforms in all material respects to the description thereof contained in each of the Time of Sale Information and the Offering Memorandum.

(n) *No Violation or Default* . Neither the Company nor any of its subsidiaries is (i) in violation of its charter or by-laws or similar organizational documents; (ii) in default, and no event has occurred that, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject; or (iii) in violation of any applicable law or statute or any judgment, order, rule or regulation of any court or arbitrator or governmental or regulatory authority having jurisdiction over the Company or any of its subsidiaries or any of their properties, except, in the case of

clauses (ii) and (iii) above, for any such default or violation that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(o) *No Conflicts* . The execution, delivery and performance by the Company of each of the Transaction Documents, the issuance and sale of the Securities, the issuance of the Exchange Securities and compliance by the Company with the terms thereof and the consummation of the transactions contemplated by the Transaction Documents will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, result in the termination, modification or acceleration of, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, (ii) result in any violation of the provisions of the charter or by-laws or similar organizational documents of the Company or any of its subsidiaries or (iii) assuming the accuracy of the representations and warranties of the Initial Purchasers contained herein and their compliance with their agreements contained herein, result in the violation of any applicable law or statute or any judgment, order, rule or regulation of any court or arbitrator or governmental or regulatory authority having jurisdiction over the Company or any of its subsidiaries or any of their properties, except in the case of clauses (i) and (iii) above, for any such conflict, breach, violation, default, lien, charge or encumbrance that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(p) *No Consents Required* . Assuming the accuracy of the representations and warranties of the Initial Purchasers contained herein and their compliance with their agreements contained herein, no consent, approval, authorization, order, registration or qualification of or with any court or arbitrator or governmental or regulatory authority is required on the part of the Company for the execution, delivery and performance by the Company of each of the Transaction Documents, the issuance and sale of the Securities, the issuance of the Exchange Securities and compliance by the Company with the terms thereof and the consummation of the transactions contemplated by the Transaction Documents, except for (i) such consents, approvals, authorizations, orders and registrations or qualifications as have been obtained, (ii) such consents, approvals, authorizations, orders and registrations or qualifications as may be required (1) under applicable state and foreign securities laws in connection with the purchase and resale of the Securities by the Initial Purchasers or (2) with respect to the Securities and/or the Exchange Securities (including the related guarantees) under the Securities Act, the Trust Indenture Act and applicable state securities laws as contemplated by the Registration Rights Agreements or (iii) such consents, approvals, authorizations, orders and registrations or qualifications as are expressly contemplated by the Transaction Documents.

(q) *Legal Proceedings* . Except as described in each of the Time of Sale Information and the Offering Memorandum, there are no legal, governmental or regulatory investigations, actions, demands, claims, suits, arbitrations, inquiries or proceedings ("Actions") pending to which the Company or any of its subsidiaries is a party or to which any property of the Company or any of its subsidiaries is to, the knowledge of the Company, the subject that, individually or in

the aggregate, would reasonably be expected to have a Material Adverse Effect; and to the Company's knowledge, no such Actions are threatened or contemplated by any governmental or regulatory authority.

(r) *Independent Accountants* . Ernst & Young LLP, who has certified certain financial statements of the Company and its subsidiaries, are independent public accountants with respect to the Company and its subsidiaries within the applicable rules and regulations adopted by the Commission and the Public Company Accounting Oversight Board (United States) and as required by the Securities Act.

(s) *Title to Real and Personal Property* . Except as disclosed in each of the Time of Sale Information and the Offering Memorandum, the Company and its subsidiaries have good and marketable title in fee simple to, or have valid rights to lease or otherwise use, all items of real and personal property that are material to the respective businesses of the Company and its subsidiaries, in each case free and clear of all liens, encumbrances, claims and defects and imperfections of title except those that (i) do not materially interfere with the use made and proposed to be made of such property by the Company and its subsidiaries or (ii) would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

(t) *Title to Intellectual Property* . Except as would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect or as set forth in the Time of Sale Information and the Offering Memorandum: (i) the Company and its subsidiaries own or possess adequate rights to use all material patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights, licenses and know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures, necessary for the conduct of their respective businesses; and (ii) the conduct of their respective businesses will not infringe, violate or conflict in any material respect with any such rights of others, and the Company and its subsidiaries have not received any notice of any claim of infringement or violation of or conflict with any such rights of others.

(u) *No Undisclosed Relationships* . No relationship, direct or indirect, exists between or among the Company or any of its subsidiaries, on the one hand, and the directors, officers, stockholders or other affiliates of the Company or any of its subsidiaries, on the other, that would be required by the Securities Act to be described pursuant to Item 404 of Regulation S-K in a registration statement on Form S-1 to be filed with the Commission and that is not so described in each of the Time of Sale Information and the Offering Memorandum.

(v) *Investment Company Act* . The Company is not, and after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in each of the Time of Sale Information and the Offering Memorandum will not be an "investment company" or an entity "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder (collectively, the "Investment Company Act").

(w) *Taxes* . Except, in each case, for (i) any such taxes or tax deficiencies that are currently being contested in good faith by appropriate proceedings and for which the Company has established adequate reserves in accordance with generally accepted accounting principles or (ii) would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect, (1) the Company and its subsidiaries have paid all federal, state, local and foreign taxes (including any interest and penalties) and filed all tax returns required to be paid or filed through the date hereof and (2) there is no tax deficiency that has been, or could reasonably be expected to be, asserted against the Company or any of its subsidiaries or any of their respective properties or assets.

(x) *Licenses and Permits* . The Company and its subsidiaries possess all licenses, certificates, permits and other authorizations issued by, and have made all declarations and filings with, the appropriate federal, state, local or foreign governmental or regulatory authorities that are necessary for the ownership or lease of their respective properties or the conduct of their respective businesses as described in each of the Time of Sale Information and the Offering Memorandum, except where the failure to possess or make the same would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and except as described in each of the Time of Sale Information and the Offering Memorandum, neither the Company nor any of its subsidiaries has received notice of any revocation or modification of any such license, certificate, permit or authorization or has any reason to believe that any such license, sub-license, certificate, permit or authorization will not be renewed in the ordinary course except where such revocation, modification or non-renewal would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

(y) *No Labor Disputes* . No labor disturbance by or dispute with employees of the Company or any of its subsidiaries exists or, to the knowledge of the Company, is contemplated or threatened and the Company is not aware of any existing or imminent labor disturbance by, or dispute with, the employees of any of the Company's or the Company's subsidiaries' principal suppliers, except, in each case, as would not reasonably be expected to have a Material Adverse Effect.

(z) *Compliance With Environmental Laws* . (i) The Company and its subsidiaries (x) are in compliance with any and all applicable federal, state, local and foreign laws, rules, regulations, requirements, decisions and orders relating to the protection of human health or safety, the environment, natural resources, hazardous or toxic substances or wastes, pollutants or contaminants (collectively, "Environmental Laws"), (y) have received and are in compliance with all permits, licenses, certificates or other authorizations or approvals required of them under applicable Environmental Laws to conduct their respective businesses, and (z) have not received notice of any actual or potential liability under or relating to any Environmental Laws, including for the investigation or remediation of any disposal or release of hazardous or toxic substances or wastes, pollutants or contaminants, and have no knowledge of any event or condition that would reasonably be expected to result in any such notice, and (ii) there are no costs or liabilities associated with Environmental Laws of or relating to the Company or any of its subsidiaries; except in the case of each of (i) and (ii) above, for any such failure to comply, or failure to receive required permits, licenses or approvals, or cost or liability, as would not, individually or

in the aggregate, have a Material Adverse Effect. Except as described in each of the Time of Sale Information and the Offering Memorandum, (x) there are no proceedings that are pending, or that are known by the Company to be contemplated, against the Company or any of its subsidiaries under any Environmental Laws in which a governmental entity is also a party, other than such proceedings regarding which it is reasonably believed no monetary sanctions of \$5.0 million or more will be imposed on the Company or any of its subsidiaries and (y) the Company and its subsidiaries are not aware of any noncompliance by them with Environmental Laws, or liabilities or other obligations of them under Environmental Laws or laws concerning hazardous or toxic substances or wastes, pollutants or contaminants, that could reasonably be expected to have a Material Adverse Effect.

(aa) *Compliance With ERISA* . Except as disclosed in each of the Time of Sale Information and Offering Memorandum or as would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect (i) each employee benefit plan, within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), for which the Company or any member of its “Controlled Group” (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the “Code”)) would have any liability (each, a “Plan”) has been maintained in compliance with its terms and the requirements of any applicable statutes, orders, rules and regulations, including but not limited to ERISA and the Code; (ii) no prohibited transaction, within the meaning of Section 406 of ERISA or Section 4975 of the Code, has occurred with respect to any Plan excluding transactions effected pursuant to a statutory or administrative exemption; (iii) for each Plan that is subject to the funding rules of Section 412 of the Code or Section 302 of ERISA, no failure to satisfy the minimum funding standards under Section 412 of the Code or Section 302 of ERISA, whether or not waived, has occurred or is reasonably expected to occur; (iv) no “reportable event” (within the meaning of Section 4043(c) of ERISA) has occurred or is reasonably expected to occur; and (v) neither the Company nor any member of the Controlled Group has incurred any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the Pension Benefit Guarantee Corporation, in the ordinary course and without default) in respect of a Plan (including a “multiemployer plan”, within the meaning of Section 4001(a)(3) of ERISA.

(bb) *Disclosure Controls* . The Company maintains an effective system of “disclosure controls and procedures” (as defined in Rule 13a-15(e) of the Exchange Act) that is designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, including controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company has carried out evaluations of the effectiveness of its disclosure controls and procedures as required by Rule 13a-15 of the Exchange Act.

(cc) *Accounting Controls* . The Company maintains systems of “internal control over financial reporting” (as defined in Rule 13a-15(f) of the Exchange Act) that comply with the requirements of the Exchange Act and have been designed by, or under the supervision of, its

principal executive and principal financial officers, or persons performing similar functions, 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. The Company maintains internal accounting controls sufficient to provide reasonable assurance that (i) the maintenance of records is in reasonable detail that accurately and fairly reflects the transactions and disposition of assets; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and receipts and expenditures are being made only in accordance with the authorizations of management and directors; (iii) regarding prevention or timely detection of unauthorized acquisitions, the use or disposition of the Company's assets that could have a material effect on financial statements; and (iv) interactive data in eXtensible Business Reporting Language included or incorporated by reference in each of the Preliminary Offering Memorandum, the Time of Sale Information and the Offering Memorandum is prepared in accordance with the Commission's rules and guidelines applicable thereto. Except as disclosed in each of the Time of Sale Information and the Offering Memorandum, there are no material weaknesses or significant deficiencies in the Company's internal controls.

(dd) *Insurance* . The Company and its subsidiaries have insurance covering their respective properties, operations, personnel and businesses which insurance is in amounts and insures against such losses and risks as are adequate in the reasonable judgment of the Company to protect the Company and its subsidiaries and their respective businesses; and neither the Company nor any of its subsidiaries has (i) received notice from any insurer or agent of such insurer that capital improvements or other expenditures are required or necessary to be made in order to continue such insurance or (ii) any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage at reasonable cost from similar insurers as may be necessary to continue its business.

(ee) *No Unlawful Payments* . Neither the Company nor any of its subsidiaries or affiliates, nor any director, officer, or employee of the Company or any of its subsidiaries, nor, to the Company's knowledge, any agent, affiliate, representative or other person associated with or acting on behalf of the Company or any of its subsidiaries or affiliates, has (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (ii) made or taken an act in furtherance of an offer, promise or authorization of any direct or indirect unlawful payment or benefit to any foreign or domestic government official or employee , including of any government-owned or controlled entity or of a public international organization, or any person acting in an official capacity for or on behalf of any of the foregoing, or any political party or party official or candidate for political office; (iii) violated or is in violation of any provision of the Foreign Corrupt Practices Act of 1977, as amended, or any applicable law or regulation implementing the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, or committed an offence under the Bribery Act 2010 of the United Kingdom, or any other applicable anti-bribery or anti-corruption law; or (iv) made, offered, agreed, requested or taken an act in furtherance of any unlawful bribe or other unlawful benefit, including, without limitation, any rebate, payoff, influence payment, kickback or other unlawful or improper payment or benefit. The Company and its subsidiaries and affiliates have conducted their businesses in compliance with applicable

anti-corruption laws and have instituted, maintain and enforce and will continue to maintain and enforce policies and procedures designed to promote and ensure compliance with all applicable anti-bribery and anti-corruption laws and with the representation and warranty contained herein.

(ff) *Compliance with Money Laundering Laws* . The operations of the Company and its subsidiaries are and have been conducted at all times in compliance with all applicable financial recordkeeping and reporting requirements, including those of the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), and the applicable anti-money laundering statutes of jurisdictions where the Company and its subsidiaries conduct business, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "Anti-Money Laundering Laws"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Anti-Money Laundering Laws is pending or, to the best knowledge of the Company, threatened.

(gg) *No Conflicts with Sanctions Laws* . (i) Neither the Company nor any of its subsidiaries, nor any director, officer, or employee thereof, nor, to the Company's knowledge, any agent, affiliate or representative of the Company or any of its subsidiaries, is an individual or entity ("Person") that is, or is owned or controlled by a Person that is:

(A) the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC") , the United Nations Security Council ("UNSC"), the European Union ("EU"), Her Majesty's Treasury ("HMT"), or other relevant sanctions authority (collectively, "Sanctions"), nor

(B) located, organized or resident in a country or territory that is the subject of Sanctions (including, without limitation, Cuba, Iran, North Korea, Sudan and Syria).

(ii) The Company represents and covenants that it will not, directly or indirectly, use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person:

(A) except as detailed in Schedule 3, to fund or facilitate any activities or business of or with any Person or in any country or territory that, at the time of such funding or facilitation, is the subject of Sanctions; or

(B) in any manner that will result in a violation of Sanctions by any Person (including any Person participating in the offering, whether as underwriter, advisor, investor or otherwise).

(iii) Except as detailed in Schedule 3, for the past 5 years, the Company and its subsidiaries have not knowingly engaged in, are not now knowingly engaged in, and will

not engage in, any dealings or transactions with any Person, or in any country or territory, that at the time of the dealing or transaction is or was the subject of Sanctions.

(hh) *Solvency* . On and immediately after the Closing Date, the Company (after giving effect to the issuance and sale of the Securities and the other transactions related thereto as described in each of the Time of Sale Information and the Offering Memorandum) will be Solvent. As used in this paragraph, the term “Solvent” means, with respect to a particular date, that on such date (i) the present fair market value (or present fair saleable value) of the assets of the Company is not less than the total amount required to pay the probable liabilities of the Company on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) the Company is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) assuming consummation of the issuance and sale of the Securities as contemplated by this Agreement, the Time of Sale Information and the Offering Memorandum, the Company is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; and (iv) the Company is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital.

(ii) *No Restrictions on Subsidiaries* . Except as is not material to the Company's ability to make payments on the Securities when due, no subsidiary of the Company is currently prohibited, directly or indirectly, under any agreement or other instrument to which it is a party or is subject, from paying any dividends to the Company, from making any other distribution on the subsidiary's capital stock or similar ownership interest, from repaying to the Company any loans or advances to the subsidiary from the Company or from transferring any of such subsidiary's properties or assets to the Company, except for any such restrictions that will be permitted by the Indentures.

(jj) *No Broker's Fees* . Neither the Company nor any of its subsidiaries is a party to any contract, agreement or understanding with any person (other than this Agreement) that would give rise to a valid claim against any of them or any Initial Purchaser for a brokerage commission, finder's fee or like payment in connection with the offering and sale of the Securities.

(kk) *Rule 144A Eligibility* . On the Closing Date, the Securities will not be of the same class as securities listed on a national securities exchange registered under Section 6 of the Exchange Act or quoted in an automated inter-dealer quotation system; and each of the Preliminary Offering Memorandum and the Offering Memorandum, as of its respective date, contains or will contain all the information that, if requested by a prospective purchaser of the Securities, would be required to be provided to such prospective purchaser pursuant to Rule 144A(d)(4) under the Securities Act.

(ll) *No Integration* . Neither the Company nor any of its affiliates (as defined in Rule 501(b) of Regulation D) has, directly or through any agent, sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any security (as defined in the Securities Act), that is

or will be integrated with the sale of the Securities in a manner that would require registration of the Securities under the Securities Act.

(mm) *No General Solicitation or Directed Selling Efforts* . None of the Company or any of its affiliates (as defined in Rule 501 (b) of Regulation D) or any other person acting on its or their behalf (other than the Initial Purchasers or persons acting on their behalf, as to which no representation is made) has (i) solicited offers for, or offered or sold, the Securities by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) of Regulation D or in any manner involving a public offering within the meaning of Section 4(a)(2) of the Securities Act or (ii) engaged in any directed selling efforts within the meaning of Regulation S under the Securities Act ("Regulation S"), and all such persons have complied with the offering restrictions requirement of Regulation S.

(nn) *Securities Law Exemptions* . Assuming the accuracy of the representations and warranties of the Initial Purchasers contained in Section 1(b) (including Annex C hereto) and their compliance with their agreements set forth herein, it is not necessary, in connection with the issuance and sale of the Securities to the Initial Purchasers and the offer, resale and delivery of the Securities by the Initial Purchasers in the manner contemplated by this Agreement, the Time of Sale Information and the Offering Memorandum, to register the Securities under the Securities Act or to qualify the Indentures under the Trust Indenture Act.

(oo) *No Stabilization* . The Company has not taken, directly or indirectly, any action designed to or that could reasonably be expected to cause or result in any stabilization or manipulation of the price of the Securities.

(pp) *Forward-Looking Statements* . No forward-looking statement (within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act) contained or incorporated by reference in any of the Time of Sale Information or the Offering Memorandum has been made or reaffirmed without a reasonable basis or has been disclosed other than in good faith.

(qq) *Statistical and Market Data* . Nothing has come to the attention of the Company that has caused the Company to believe that the statistical and market-related data included or incorporated by reference in each of the Time of Sale Information and the Offering Memorandum is not based on or derived from sources that are reliable and accurate in all material respects.

(rr) *Margin Rules* . Neither the issuance, sale and delivery of the Securities nor the application of the proceeds thereof by the Company as described in each of the Time of Sale Information and the Offering Memorandum will violate Regulation T, U or X of the Board of Governors of the Federal Reserve System or any other regulation of such Board of Governors.

(ss) *Sarbanes-Oxley Act* : There is and has been no failure on the part of the Company or any of the Company's directors or officers, in their capacities as such to comply in all material respects with any provision of the Sarbanes-Oxley Act of 2002, as amended, and the rules and

regulations promulgated in connection therewith (the “Sarbanes-Oxley Act”), including Section 402 related to loans and Sections 302 and 906 related to certifications.

(tt) *Interactive Data* . The interactive data in eXtensible Business Reporting Language included or incorporated by reference in the Preliminary Offering Memorandum, the Time of Sale Information or the Offering Memorandum fairly presents the information called for in all material respects and has been prepared in accordance with the Commission’s rules and guidelines applicable thereto.

4. Further Agreements of the Company . The Company covenants and agrees with each Initial Purchaser that:

(a) *Delivery of Copies* . Until the earlier to occur of (i) the completion of the initial resale of the Securities by the Initial Purchasers and (ii) the one year anniversary of the Closing Date, the Company will deliver, without charge, to the Initial Purchasers as many copies of the Preliminary Offering Memorandum, any other Time of Sale Information, any Issuer Written Communication and the Offering Memorandum (including all amendments and supplements thereto) as the Representative may reasonably request.

(b) *Offering Memorandum, Amendments or Supplements* . During the period beginning the date hereof and the ending upon the earlier to occur of (i) the completion of the initial resale of the Securities by the Initial Purchasers and (ii) the one year anniversary of the Closing Date, before finalizing the Offering Memorandum or making or distributing any amendment or supplement to any of the Time of Sale Information or the Offering Memorandum or filing with the Commission any document that will be incorporated by reference therein, the Company will furnish to the Representative and counsel for the Initial Purchasers a copy of the proposed Offering Memorandum or such amendment or supplement or document to be incorporated by reference therein for review, and will not distribute any such proposed Offering Memorandum, amendment or supplement or file any such document with the Commission to which the Representative reasonably objects; provided, however, that the Representative shall not object to any such filing if the Company obtains advice of outside counsel that such filing is required under the rules and regulations of the Securities Act or Exchange Act; provided further that the Company shall have the right to file with the Commission any report required to be filed by the Company under the Exchange Act (based on the advice of the Company’s internal or external counsel) no later than the time period required by the Exchange Act.

(c) *Additional Written Communications* . Before making, preparing, using, authorizing, approving or referring to any Issuer Written Communication, the Company will furnish to the Representative and counsel for the Initial Purchasers a copy of such written communication for review and will not make, prepare, use, authorize, approve or refer to any such written communication to which the Representative reasonably objects.

(d) *Notice to the Representative* . The Company will advise the Representative promptly, and confirm such advice in writing, (i) of the issuance by any governmental or regulatory authority of any order preventing or suspending the use of any of the Time of Sale Information, any Issuer Written Communication or the Offering Memorandum or the initiation or

threatening of any proceeding for that purpose; (ii) of the occurrence of any event at any time prior to the completion of the initial offering of the Securities as a result of which any of the Time of Sale Information, any Issuer Written Communication or the Offering Memorandum as then amended or supplemented would include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing when such Time of Sale Information, Issuer Written Communication or the Offering Memorandum is delivered to a purchaser, not misleading; and (iii) of the receipt by the Company of any notice with respect to any suspension of the qualification of the Securities for offer and sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and the Company will use its commercially reasonable efforts to prevent the issuance of any such order suspending any such qualification of the Securities and, if any such order is issued, will use commercially reasonable efforts to obtain as soon as possible the withdrawal thereof.

(e) *Time of Sale Information* . If at any time prior to the Closing Date (i) any event shall occur or condition shall exist as a result of which any of the Time of Sale Information as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading or (ii) it is necessary to amend or supplement any of the Time of Sale Information to comply with applicable law, the Company will promptly notify the Initial Purchasers thereof and forthwith prepare and, subject to paragraph (b) above, furnish to the Initial Purchasers such amendments or supplements to any of the Time of Sale Information (or any document to be filed with the Commission and incorporated by reference therein) as may be necessary so that the statements in any of the Time of Sale Information as so amended or supplemented (including such documents to be incorporated by reference therein) will not, in light of the circumstances under which they were made, be misleading or so that any of the Time of Sale Information will comply with applicable law.

(f) *Ongoing Compliance of the Offering Memorandum* . If at any time prior to the earlier of (i) the completion of the initial resale of the Securities and (ii) the one year anniversary of the Closing Date, (i) any event shall occur or condition shall exist as a result of which the Offering Memorandum as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances existing when the Offering Memorandum is delivered to a purchaser, not misleading or (ii) it is necessary to amend or supplement the Offering Memorandum to comply with applicable law, the Company will promptly notify the Initial Purchasers thereof and forthwith prepare and, subject to paragraph (b) above, furnish to the Initial Purchasers such amendments or supplements to the Offering Memorandum (or any document to be filed with the Commission and incorporated by reference therein) as may be necessary so that the statements in the Offering Memorandum as so amended or supplemented (including such document to be incorporated by reference therein) will not, in the light of the circumstances existing when the Offering Memorandum is delivered to a purchaser, be misleading or so that the Offering Memorandum will comply with applicable law.

(g) *Blue Sky Compliance* . The Company will qualify the Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions (including Canada) as the Representative shall reasonably request and will continue such qualifications in effect so long as required for the initial offering and resale of the Securities by the Initial Purchasers; provided that the Company shall not be required to (i) qualify as a foreign corporation or other entity or as a dealer in securities in any such jurisdiction where it would not otherwise be required to so qualify, (ii) file any general consent to service of process in any such jurisdiction or (iii) subject itself to taxation in any such jurisdiction if it is not otherwise so subject.

(h) *Clear Market* . During the period from the date hereof through and including the date that is 90 days after the date hereof, the Company will not, without the prior written consent of the Representative, offer, sell, contract to sell or otherwise dispose of any debt securities issued or guaranteed by the Company and having a tenor of more than one year; provided that the foregoing shall not apply to the sale of Securities under this Agreement or the Exchange Securities.

(i) *Use of Proceeds* . The Company will apply the net proceeds from the sale of the Securities as described in each of the Time of Sale Information and the Offering Memorandum under the heading "Use of proceeds."

(j) *Supplying Information* . While the Securities remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which the Company is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act, furnish to holders of the Securities and prospective purchasers of the Securities designated by such holders, upon the request of such holders or such prospective purchasers, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(k) *DTC* . The Company will use commercially reasonable efforts to assist the Initial Purchasers in arranging for the Securities to be eligible for clearance and settlement through The Depository Trust Company ("DTC").

(l) *No Resales by the Company* . Until the earlier of the one year anniversary of the Closing Date and the completion of the exchange offer contemplated by the applicable Registration Rights Agreement, the Company will not, and will not permit any of its affiliates (as defined in Rule 144 under the Securities Act) to, resell any of the Securities of the applicable series that have been acquired by any of them, except for sales of Securities purchased by the Company or any of its affiliates and resold in a transaction registered under the Securities Act or pursuant to any exemption under the Securities Act that results in such Securities not being "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

(m) *No Integration* . Neither the Company nor any of its affiliates (as defined in Rule 501(b) of Regulation D) will, directly or through any agent, sell, offer for sale, solicit offers to buy or otherwise negotiate in respect of, any security (as defined in the Securities Act), that is or will be integrated with the sale of the Securities in a manner that would require registration of the Securities under the Securities Act.

(n) *No General Solicitation or Directed Selling Efforts* . None of the Company or any of its affiliates or any other person acting on its or their behalf (other than the Initial Purchasers and persons acting on their behalf, as to which no covenant is given) will (i) solicit offers for, or offer or sell, the Securities by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) of Regulation D or in any manner involving a public offering within the meaning of Section 4(a)(2) of the Securities Act or (ii) engage in any directed selling efforts within the meaning of Regulation S, and all such persons will comply with the offering restrictions requirement of Regulation S.

(o) *No Stabilization* . The Company will not take, directly or indirectly, any action designed to or that could reasonably be expected to cause or result in any stabilization or manipulation of the price of the Securities.

5. Certain Agreements of the Initial Purchasers . Each Initial Purchaser hereby represents and agrees that it has not and will not use, authorize use of, refer to, or participate in the planning for use of, any written communication that constitutes an offer to sell or the solicitation of an offer to buy the Securities other than (i) the Preliminary Offering Memorandum and the Offering Memorandum, (ii) any written communication that contains either (a) no “issuer information” (as defined in Rule 433(h)(2) under the Securities Act) or (b) “issuer information” that was included (including through incorporation by reference) in the Time of Sale Information or the Offering Memorandum, (iii) any written communication listed on Annex A or prepared pursuant to Section 4(c) above (including any electronic road show), (iv) any written communication prepared by such Initial Purchaser and approved by the Company in advance in writing or (v) any written communication relating to or that contains the terms of the Securities and/or other information that was included (including through incorporation by reference) in the Time of Sale Information or the Offering Memorandum.

6. Conditions of Initial Purchasers' Obligations . The obligation of each Initial Purchaser to purchase Securities on the Closing Date as provided herein is subject to the performance in all material respects by the Company of its covenants and other obligations hereunder and to the following additional conditions:

(a) *Representations and Warranties* . The representations and warranties of the Company contained herein shall be true and correct on the date hereof and on and as of the Closing Date; and the statements of the Company and its officers made in any certificates delivered pursuant to this Agreement shall be true and correct on and as of the Closing Date.

(b) *No Downgrade* . Subsequent to the earlier of (A) the Time of Sale and (B) the execution and delivery of this Agreement, (i) no downgrading shall have occurred in the rating accorded the Company or any of its subsidiaries, the Securities or any other debt or preferred stock issued or guaranteed by the Company or any of its subsidiaries by any “nationally recognized statistical rating organization”, registered under Section 15E of the Exchange Act; and (ii) no such organization shall have publicly announced that it has under surveillance or review, or has changed its outlook with respect to, its rating of the Securities or of any other debt securities or preferred stock issued or guaranteed by the Company or any of its subsidiaries (other than an announcement with positive implications of a possible upgrading).

(c) *No Material Adverse Change* . No event or condition of a type described in Section 3(e) hereof shall have occurred or shall exist, which event or condition is not described in each of the Time of Sale Information (excluding any amendment or supplement thereto) and the Offering Memorandum (excluding any amendment or supplement thereto) the effect of which in the reasonable judgment of the Representative makes it impracticable or inadvisable to proceed with the offering, sale or delivery of the Securities on the terms and in the manner contemplated by this Agreement, the Time of Sale Information and the Offering Memorandum.

(d) *Officer's Certificate* . The Representative shall have received on and as of the Closing Date a certificate of an executive officer of the Company who has specific knowledge of the Company's financial matters and is reasonably satisfactory to the Representative (i) confirming that such officer has reviewed the Time of Sale Information and the Offering Memorandum and, to the knowledge of such officer, the representations set forth in Sections 3(a) and 3(b) hereof are true and correct, (ii) confirming that the other representations and warranties of the Company in this Agreement are true and correct and that the Company has complied in all material respects with all agreements and satisfied all conditions on their part to be performed or satisfied hereunder at or prior to the Closing Date and (iii) to the effect set forth in paragraphs (b) and (c) above.

(e) *Comfort Letters* . On the date of this Agreement and on the Closing Date, Ernst & Young LLP shall have furnished to the Representative, at the request of the Company, a letter, dated the respective dates of delivery thereof and addressed to the Initial Purchasers, in form and substance reasonably satisfactory to the Representative, containing statements and information of the type customarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained or incorporated by reference in each of the Time of Sale Information and the Offering Memorandum ; provided that the letter delivered on the Closing Date shall use a "cut-off" date no more than three business days prior to the Closing Date.

(f) *Opinion and 10b-5 Statement of Counsel for the Company* . Wilson Sonsini Goodrich & Rosati, Professional Corporation, counsel for the Company, shall have furnished to the Representative, at the request of the Company, their written opinion and 10b-5 statement, dated the Closing Date and addressed to the Initial Purchasers, in form and substance reasonably satisfactory to the Representative, substantially to the effect set forth in Annex D hereto.

(g) *Opinion and 10b-5 Statement of Counsel for the Initial Purchasers* . The Representative shall have received on and as of the Closing Date an opinion and 10b-5 statement of Cahill Gordon & Reindel LLP, counsel for the Initial Purchasers, with respect to such matters as the Representative may reasonably request, and such counsel shall have received such documents and information as they may reasonably request to enable them to pass upon such matters.

(h) *No Legal Impediment to Issuance* . No action shall have been taken and no statute, rule, regulation or order shall have been enacted, adopted or issued by any federal, state or foreign governmental or regulatory authority that would, as of the Closing Date, prevent the issuance or sale of the Securities; and no injunction or order of any federal, state or foreign court

shall have been issued that would, as of the Closing Date, prevent the issuance or sale of the Securities.

(i) *Good Standing* . The Representative shall have received on and as of the Closing Date satisfactory evidence of the good standing of the Company in its jurisdiction of organization and its good standing in such other jurisdictions as the Representative may reasonably request, in each case in writing or any standard form of telecommunication, from the appropriate governmental authorities of such jurisdictions.

(j) *Registration Rights Agreements* . The Initial Purchasers shall have received a counterpart of each Registration Rights Agreement that shall have been executed and delivered by a duly authorized officer of the Company.

(k) *DTC* . The Securities shall be eligible for clearance and settlement through DTC.

(l) *Indentures and Securities* . Each Indenture shall have been duly executed and delivered by a duly authorized officer of the Company and the Trustee, and each series of Securities shall have been duly executed and delivered by a duly authorized officer of the Company and, immediately following the payment for the Securities pursuant to Section 2(b), duly authenticated by the Trustee.

(m) *Additional Documents* . On or prior to the Closing Date, the Company and the Guarantor shall have furnished to the Representative such further certificates and documents as the Representative may reasonably request.

(n) *CFO Certificate*. On the date hereof, the Representative shall have received from the Chief Financial Officer of the Company a certificate dated the date hereof addressed to the Initial Purchasers, in form and substance reasonably satisfactory to the Representative and on the Closing Date, the Representative shall have received from the Chief Financial Officer of the Company a certificate dated such date in form and substance reasonably satisfactory to the Representative, in each case, to the effect that such officer reaffirms the statements made in the certificate furnished by him pursuant to the previous certificate delivered pursuant to this subsection (n).

All opinions, letters, certificates and evidence mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Initial Purchasers.

7. Indemnification and Contribution.

(a) *Indemnification of the Initial Purchasers* . The Company agrees to indemnify and hold harmless each Initial Purchaser, its affiliates, directors and officers and each person, if any, who controls such Initial Purchaser within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, reasonable legal fees and other reasonable expenses incurred in connection with any suit, action or proceeding or any claim asserted, as

such fees and expenses are incurred), joint or several, that arise out of, or are based upon, any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Offering Memorandum, any of the other Time of Sale Information, any Issuer Written Communication or the Offering Memorandum (or any amendment or supplement thereto) or any omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, in each case except insofar as such losses, claims, damages or liabilities (including such legal fees and expenses) arise out of, or are based upon, any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with any information relating to any Initial Purchaser furnished to the Company in writing by such Initial Purchaser through the Representative expressly for use therein.

(b) *Indemnification of the Company* . Each Initial Purchaser agrees, severally and not jointly, to indemnify and hold harmless the Company and its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the indemnity set forth in paragraph (a) above, but only with respect to any losses, claims, damages or liabilities (including, without limitation, reasonable legal fees and other reasonable expenses incurred in a connection with any suit, action or proceeding or any claim asserted, as such fees and expenses are incurred) that arise out of, or are based upon, any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with any information relating to such Initial Purchaser furnished to the Company in writing by such Initial Purchaser through the Representative expressly for use in the Preliminary Offering Memorandum, any of the other Time of Sale Information, any Issuer Written Communication or the Offering Memorandum (or any amendment or supplement thereto), it being understood and agreed that the only such information consists of the following: the fourth sentence of the eighth paragraph and the ninth paragraph, each under the heading “Plan of Distribution” in the Preliminary Offering Memorandum and the Offering Memorandum.

(c) *Notice and Procedures* . If any suit, action, proceeding (including any governmental or regulatory investigation), claim or demand shall be brought or asserted against any person in respect of which indemnification may be sought pursuant to either paragraph (a) or (b) above, such person (the “Indemnified Person”) shall promptly notify the person against whom such indemnification may be sought (the “Indemnifying Person”) in writing; provided that the failure to notify the Indemnifying Person shall not relieve it from any liability that it may have under paragraph (a) or (b) above except to the extent that it has been materially prejudiced (through the forfeiture of substantive rights or defenses) by such failure; and provided, further, that the failure to notify the Indemnifying Person shall not relieve it from any liability that it may have to an Indemnified Person otherwise than under paragraph (a) or (b) above. If any such proceeding shall be brought or asserted against an Indemnified Person and it shall have notified the Indemnifying Person thereof, the Indemnifying Person shall retain counsel reasonably satisfactory to the Indemnified Person (who shall not, without the consent of the Indemnified Person, be counsel to the Indemnifying Person) to represent the Indemnified Person and any others entitled to indemnification pursuant to this Section 7 that the Indemnifying Person may designate in such proceeding and shall pay the fees and expenses of such proceeding and shall

pay the fees and expenses of such counsel related to such proceeding, as incurred. In any such proceeding, any Indemnified Person shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person unless (i) the Indemnifying Person and the Indemnified Person shall have mutually agreed to the contrary; (ii) the Indemnifying Person has failed within a reasonable time to retain counsel reasonably satisfactory to the Indemnified Person; (iii) the Indemnified Person shall have reasonably concluded that there may be legal defenses available to it that are different from or in addition to those available to the Indemnifying Person; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the Indemnifying Person and the Indemnified Person and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood and agreed that the Indemnifying Person shall not, in connection with any proceeding or related proceeding in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate firm (in addition to any local counsel) for all Indemnified Persons, and that all such fees and expenses shall be reimbursed as they are incurred. Any such separate firm for any Initial Purchaser, its affiliates, directors and officers and any control persons of such Initial Purchaser shall be designated in writing by Morgan Stanley & Co. LLC and any such separate firm for the Company, its directors and officers and any control persons of the Company shall be designated in writing by the Company. The Indemnifying Person shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the Indemnifying Person agrees to indemnify each Indemnified Person from and against any loss or liability by reason of such settlement or judgment. No Indemnifying Person shall, without the written consent of the Indemnified Person, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Person is or could have been a party and indemnification could have been sought hereunder by such Indemnified Person, unless such settlement (x) includes an unconditional release of such Indemnified Person, in form and substance reasonably satisfactory to such Indemnified Person, from all liability on claims that are the subject matter of such proceeding and (y) does not include any statement as to or any admission of fault, culpability or a failure to act by or on behalf of any Indemnified Person.

(d) *Contribution* . If the indemnification provided for in paragraph (a) or (b) above is unavailable to an Indemnified Person or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each Indemnifying Person under such paragraph, in lieu of indemnifying such Indemnified Person thereunder, shall contribute to the amount paid or payable by such Indemnified Person as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Initial Purchasers on the other from the offering of the Securities or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative fault of the Company on the one hand and the Initial Purchasers on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Initial Purchasers on the other shall be deemed to be in the same respective proportions as the net proceeds (before deducting expenses) received by the Company from the

sale of the Securities and the total discounts and commissions received by the Initial Purchasers in connection therewith, as provided in this Agreement, bear to the aggregate offering price of the Securities. The relative fault of the Company on the one hand and the Initial Purchasers on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the Initial Purchasers and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(e) *Limitation on Liability*. The Company and the Initial Purchasers agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Initial Purchasers were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (d) above. The amount paid or payable by an Indemnified Person as a result of the losses, claims, damages and liabilities referred to in paragraph (d) above shall be deemed to include, subject to the limitations set forth above, any reasonable legal or other reasonable expenses incurred by such Indemnified Person in connection with any such action or claim. Notwithstanding the provisions of this Section 7, in no event shall an Initial Purchaser be required to contribute any amount in excess of the amount by which the total discounts and commissions received by such Initial Purchaser with respect to the offering of the Securities exceeds the amount of any damages that such Initial Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Initial Purchasers' obligations to contribute pursuant to this Section 7 are several in proportion to their respective purchase obligations hereunder and not joint.

(f) *Non-Exclusive Remedies*. The remedies provided for in this Section 7 are not exclusive and shall not limit any rights or remedies that may otherwise be available to any Indemnified Person at law or in equity.

8. Termination. This Agreement may be terminated in the absolute discretion of the Representative, by notice to the Company, if after the execution and delivery of this Agreement and on or prior to the Closing Date (i) trading generally shall have been suspended or materially limited on the New York Stock Exchange or the Nasdaq Global Select Market; (ii) trading of any securities issued or guaranteed by the Company shall have been suspended on any exchange or in any over-the-counter market; (iii) a general moratorium on commercial banking activities shall have been declared by federal or New York State authorities; or (iv) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis, either within or outside the United States, that, in the judgment of the Representative, is material and adverse and makes it impracticable or inadvisable to proceed with the offering, sale or delivery of the Securities on the terms and in the manner contemplated by this Agreement, the Time of Sale Information and the Offering Memorandum.

9. Defaulting Initial Purchaser.

(a) If, on the Closing Date, any Initial Purchaser defaults on its obligation to purchase the Securities that it has agreed to purchase hereunder, the non-defaulting Initial Purchasers may in their discretion arrange for the purchase of such Securities by other persons satisfactory to the Company on the terms contained in this Agreement. If, within 36 hours after any such default by any Initial Purchaser, the non-defaulting Initial Purchasers do not arrange for the purchase of such Securities, then the Company shall be entitled to a further period of 36 hours within which to procure other persons satisfactory to the non-defaulting Initial Purchasers to purchase such Securities on such terms. If other persons become obligated or agree to purchase the Securities of a defaulting Initial Purchaser, either the non-defaulting Initial Purchasers or the Company may postpone the Closing Date for up to five full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the Initial Purchasers may be necessary in the Time of Sale Information, the Offering Memorandum or in any other document or arrangement, and the Company agrees to promptly prepare any amendment or supplement to the Time of Sale Information or the Offering Memorandum that effects any such changes. As used in this Agreement, the term "Initial Purchaser" includes, for all purposes of this Agreement unless the context otherwise requires, any person not listed in Schedule 1 hereto that, pursuant to this Section 9, purchases Securities that a defaulting Initial Purchaser agreed but failed to purchase.

(b) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Initial Purchaser or Initial Purchasers by the non-defaulting Initial Purchasers and the Company as provided in paragraph (a) above, the aggregate principal amount of such Securities that remains unpurchased does not exceed one-eleventh of the aggregate principal amount of all the Securities, then the Company shall have the right to require each non-defaulting Initial Purchaser to purchase the principal amount of Securities that such Initial Purchaser agreed to purchase hereunder plus such Initial Purchaser's pro rata share (based on the principal amount of Securities that such Initial Purchaser agreed to purchase hereunder) of the Securities of such defaulting Initial Purchaser or Initial Purchasers for which such arrangements have not been made.

(c) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Initial Purchaser or Initial Purchasers by the non-defaulting Initial Purchasers and the Company as provided in paragraph (a) above, the aggregate principal amount of such Securities that remains unpurchased exceeds one-eleventh of the aggregate principal amount of all the Securities, or if the Company shall not exercise the right described in paragraph (b) above, then this Agreement shall terminate without liability on the part of the non-defaulting Initial Purchasers. Any termination of this Agreement pursuant to this Section 9 shall be without liability on the part of the Company, except that the Company will continue to be liable for the payment of expenses as set forth in Section 10 hereof and except that the provisions of Section 7 hereof shall not terminate and shall remain in effect.

(d) Nothing contained herein shall relieve a defaulting Initial Purchaser of any liability it may have to the Company or any non-defaulting Initial Purchaser for damages caused by its default.

10. Payment of Expenses.

(a) Whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, the Company agrees to pay or cause to be paid all costs and expenses incident to the performance of its obligations hereunder, including without limitation, (i) the costs incident to the authorization, issuance, sale, preparation and delivery of the Securities and any taxes payable by it in that connection; (ii) the costs incident to the preparation and printing of the Preliminary Offering Memorandum, any other Time of Sale Information, any Issuer Written Communication and the Offering Memorandum (including any amendment or supplement thereto) and the distribution thereof; (iii) the costs of reproducing and distributing each of the Transaction Documents; (iv) the reasonable fees and expenses of the Company's counsel and independent accountants; (v) the fees and expenses incurred in connection with the registration or qualification and determination of eligibility for investment of the Securities under the laws of such jurisdictions (including Canada) as the Representative may designate and the preparation, printing and distribution of a Blue Sky Memorandum (including the related fees and expenses of counsel for the Initial Purchasers); (vi) any fees charged by rating agencies for rating the Securities; (vii) the fees and expenses of the Trustee and any paying agent (including related fees and expenses of any counsel to such parties as may be agreed by the Company, the Trustee, and the paying agent); (viii) all expenses and application fees incurred in connection with the application for the approval of the Securities for book-entry transfer by DTC; and (ix) all expenses incurred by the Company in connection with any "road show" presentation to potential investors (except that, subject to Section 10(b), the Initial Purchasers shall pay 100% of the cost of any aircraft used in connection with the "road show").

(b) If (i) this Agreement is terminated pursuant to Section 8(ii) (other than as the result of an event of the type described in Section 8(i)), (ii) the Company for any reason fails to tender the Securities for delivery to the Initial Purchasers or (iii) the Initial Purchasers decline to purchase the Securities for any reason permitted under this Agreement, the Company agrees to reimburse the Initial Purchasers for all out-of-pocket costs and expenses (including the reasonable fees and expenses of their counsel and the full cost of any aircraft used in connection with the "road show")) reasonably incurred by the Initial Purchasers in connection with this Agreement and the offering contemplated hereby.

11. Persons Entitled to Benefit of Agreement. This Agreement shall inure to the benefit of and be binding upon the parties hereto, and to the benefit of the indemnified parties referred to in Section 7 hereof, and in each case their respective successors. Nothing in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein. No purchaser of Securities from any Initial Purchaser shall be deemed to be a successor merely by reason of such purchase.

12. Survival. The respective indemnities, rights of contribution, representations, warranties (it being understood that such representations and warranties are made only as of the date hereof and as of the date of any officer's certificate delivered pursuant to Section 6(d)) and agreements of the Company and the Initial Purchasers contained in this Agreement or made by or on behalf of the Company or the Initial Purchasers pursuant to this Agreement or any certificate delivered pursuant hereto shall survive the delivery of and payment for the Securities and shall remain in full force and effect, regardless of any termination of this Agreement or any investigation made by or on behalf of the Company or the Initial Purchasers.

13. Certain Defined Terms. For purposes of this Agreement, (a) except where otherwise expressly provided, the term "affiliate" has the meaning set forth in Rule 405 under the Securities Act; (b) the term "business day" means any day other than a day on which banks are permitted or required to be closed in New York City; (c) the term "Exchange Act" means the Securities Exchange Act of 1934, as amended; (d) the term "subsidiary" has the meaning set forth in Rule 405 under the Securities Act; and (e) the term "written communication" has the meaning set forth in Rule 405 under the Securities Act.

14. Compliance with USA Patriot Act. In accordance with the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), the Initial Purchasers are required to obtain, verify and record information that identifies their respective clients, including the Company, which information may include the name and address of their respective clients, as well as other information that will allow the Initial Purchasers to properly identify their respective clients.

15. Miscellaneous.

(a) *Authority of the Representative*. Any action by the Initial Purchasers hereunder may be taken by Morgan Stanley & Co. LLC on behalf of the Initial Purchasers, and any such action taken by Morgan Stanley & Co. LLC shall be binding upon the Initial Purchasers.

(b) *Notices*. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted and confirmed by any standard form of telecommunication. Notices to the Initial Purchasers shall be given to the Representative c/o Morgan Stanley & Co. LLC, 1585 Broadway, New York, New York 10036, Attention: High Yield Syndicate Desk, with a copy to the Legal Department. Notices to the Company shall be given to it at Netflix, Inc., 100 Winchester Circle, Los Gatos, California 95032 (fax: (408) 317-0414); Attention: David Wells with a copy to Wilson Sonsini Goodrich Rosati, Professional Corporation, 650 Page Mill Road, Palo Alto, California 94304 (fax: (650) 493-6811); Attention John A. Fore.

(c) *Governing Law*. This Agreement and any claim, controversy or dispute arising under or related to this Agreement shall be governed by and construed in accordance with the laws of the State of New York.

(d) *Waiver of Jury Trial* . Each of the parties hereto hereby waives any right to trial by jury in any suit or proceeding arising out of or relating to this Agreement.

(e) *Counterparts* . This Agreement may be signed in counterparts (which may include counterparts delivered by any standard form of telecommunication), each of which shall be an original and all of which together shall constitute one and the same instrument.

(f) *Amendments or Waivers* . No amendment or waiver of any provision of this Agreement, nor any consent or approval to any departure therefrom, shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

(g) *Headings* . The headings herein are included for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

[Remainder of page intentionally left blank]

If the foregoing is in accordance with your understanding, please indicate your acceptance of this Agreement by signing in the space provided below.

Very truly yours,
NETFLIX, INC.

By: /s/David Wells
Name: David Wells
Title: Chief Financial Officer

Accepted: February 2, 2015

MORGAN STANLEY & CO. LLC

For itself and on behalf of the
several Initial Purchasers listed
in Schedule 1 hereto.

By: /s/ Jonathan Rauen
Authorized Signatory

<u>Initial Purchaser</u>	<u>Principal Amount of 2022 Notes to be Purchased</u>	<u>Principal Amount of 2025 Notes to be Purchased</u>
Morgan Stanley & Co. LLC	\$420,000,000	\$480,000,000
J. P. Morgan Securities LLC	\$175,000,000	\$200,000,000
Goldman, Sachs & Co.	\$70,000,000	\$80,000,000
Allen & Company LLC	\$35,000,000	\$40,000,000
	Total <u>\$700,000,000</u>	<u>\$800,000,000</u>

Netflix Streaming Services, Inc.
Netflix Entretenimento Brasil Ltda.

The Company may begin, after the date hereof, to make its services available in Cuba.

a. **Additional Time of Sale Information**

1. Term sheet containing the terms of the Securities, substantially in the form of Annex B.
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[See attached]



\$700,000,000 5.500% Senior Notes due 2022 \$800,000,000 5.875% Senior Notes due 2025

Pricing term sheet dated February 2, 2015 to Preliminary Offering Memorandum dated February 2, 2015 of Netflix, Inc. (the “Company”)

This pricing term sheet is qualified in its entirety by reference to the Preliminary Offering Memorandum. The information in this pricing term sheet supplements the Preliminary Offering Memorandum and supersedes the information in the Preliminary Offering Memorandum to the extent inconsistent with the information in the Preliminary Offering Memorandum . **Other information (including financial information) presented in the Preliminary Offering Memorandum is deemed to have changed to the extent affected by the changes described herein .**

The notes have not been registered under the Securities Act of 1933 , as amended , or the securities laws of any other jurisdiction and are being offered only to (1) “qualified institutional buyers” as defined in Rule 144A under the Securities Act and (2) outside the United States to non - U . S . persons in compliance with Regulation S under the Securities Act.

Terms Applicable to the 5.500% Senior Notes due 2022

Issuer:	Netflix, Inc.
Guarantees:	The notes generally are not required to be guaranteed by any subsidiaries in the future, the notes may be guaranteed on a senior unsecured basis by certain subsidiaries.
Security Description:	Senior Unsecured Notes
Distribution:	144A/RegS with Contingent Registration Rights
Face:	\$700,000,000
Gross Proceeds:	\$700,000,000
Coupon:	5.500%
Maturity:	February 15, 2022
Offering Price:	100.000%
Yield to Maturity:	5.500%
Spread to Treasury:	+404 basis points
Benchmark:	UST 2.000% due February 15, 2022
Interest Pay Dates:	April 15 and October 15
Record Dates:	April 1 and October 1
Beginning:	October 15, 2015
Optional Redemption:	Make-whole call at T+50bps prior to maturity
Change of Control:	Put @ 101% of principal plus accrued interest
Trade Date:	February 2, 2015
Settlement Date:	(T+3) February 5, 2015
CUSIP:	144A: 64110L AH9 Reg S: U74079 AD3
ISIN:	144A: US64110LAH96 Reg S: USU74079AD33
Denominations:	2,000x1,000
Joint-Lead Bookrunners:	Morgan Stanley & Co. LLC J.P. Morgan Securities LLC Goldman, Sachs & Co.
Co - Manager:	Allen & Company LLC

Terms Applicable to the 5 . 875% Senior Notes due 2025

Issuer:	Netflix, Inc.
Guarantees:	The notes generally are not required to be guaranteed by any subsidiaries. In the future, the notes may be guaranteed on a senior unsecured basis by certain domestic subsidiaries.
Security Description:	Senior Unsecured Notes
Distribution:	144A/RegS with Contingent Registration Rights
Face:	\$800,000,000
Gross Proceeds:	\$800,000,000
Coupon:	5.875%
Maturity:	February 15, 2025
Offering Price:	100%
Yield to Maturity:	5.875%
Spread to Treasury:	+426 basis points
Benchmark:	UST 7.625% due February 15, 2025
Interest Pay Dates:	April 15 and October 15
Record Dates:	April 1 and October 1
Beginning:	October 15, 2015
Optional Redemption:	Make-whole call at T+50bps prior to maturity
Change of Control:	Put @ 101% of principal plus accrued interest
Trade Date:	February 2, 2015
Settlement Date:	(T+3) February 5, 2015
CUSIP:	144A: 64110L AK2 Reg S: U74079 AE1
ISIN:	144A: US64110LAK26 Reg S: USU74079AE16
Denominations:	2,000x1,000
Joint-Lead Bookrunners:	Morgan Stanley & Co. LLC J.P. Morgan Securities LLC Goldman, Sachs & Co.
Co-Manager:	Allen & Company LLC

This material is confidential and is for your information only and is not intended to be used by anyone other than you . This information does not purport to be a complete description of the notes or the offering . Please refer to the Preliminary Offering Memorandum for a complete description .

This communication is being distributed in the United States solely to qualified institutional buyers, as defined in Rule 144A under the Securities Act , and outside the United States solely to non-U.S . persons, as defined under Regulation S .

This communication does not constitute an offer to sell the notes and is not a solicitation of an offer to buy the notes in any jurisdiction where the offer or sale is not permitted .

Any disclaimer or other notice that may appear below is not applicable to this communication and should be disregarded . Such disclaimer or notice was automatically generated as a result of this communication being sent via Bloomberg or another communication system.

Restrictions on Offers and Sales Outside the United States

In connection with offers and sales of Securities outside the United States:

(a) Each Initial Purchaser acknowledges that the Securities have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act.

(b) Each Initial Purchaser, severally and not jointly, represents, warrants and agrees that:

(i) Such Initial Purchaser has offered and sold the Securities, and will offer and sell the Securities, (A) as part of their distribution at any time and (B) otherwise until 40 days after the later of the commencement of the offering of the Securities and the Closing Date, only in accordance with Regulation S under the Securities Act (“Regulation S”) or Rule 144A or any other available exemption from registration under the Securities Act.

(ii) None of such Initial Purchaser or any of its affiliates or any other person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Securities, and all such persons have complied and will comply with the offering restrictions requirement of Regulation S.

(iii) At or prior to the confirmation of sale of any Securities sold in reliance on Regulation S, such Initial Purchaser will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration that purchases Securities from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Securities and the date of original issuance of the Securities, except in accordance with Regulation S or Rule 144A or any other available exemption from registration under the Securities Act. Terms used above have the meanings given to them by Regulation S.”

(iv) Such Initial Purchaser has not and will not enter into any contractual arrangement with any distributor with respect to the distribution of the Securities, except with its affiliates or with the prior written consent of the Company.

Terms used in paragraph (a) and this paragraph (b) and not otherwise defined in this Agreement have the meanings given to them by Regulation S.

(c) Each Initial Purchaser, severally and not jointly, represents, warrants and agrees that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

(d) Each Initial Purchaser acknowledges that no action has been or will be taken by the Company that would permit a public offering of the Securities, or possession or distribution of any of the Time of Sale Information, the Offering Memorandum, any Issuer Written Communication or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required.

(e) Each Initial Purchaser severally and not jointly, represents, warrants and agrees that, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), it has not made and will not make an offer of the Securities to the public in that Relevant Member State other than:

(i) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the initial purchaser; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of the Securities to the public” in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus

Directive in that Relevant Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

1. The Company has been duly incorporated and is an existing corporation in good standing under the laws of the State of Delaware with corporate power and authority to own its properties and conduct its business as described in the Disclosure Package and the Final Offering Memorandum.
 2. The Company is duly qualified as a foreign corporation for the transaction of business and is in good standing in the State of California.
 3. The Company has all requisite corporate power to execute and deliver the Purchase Agreement, the Registration Rights Agreements, the Indentures and the Securities and to perform its obligations under the terms of the Purchase Agreement, the Registration Rights Agreements, the Indentures and the Securities.
 4. The Purchase Agreement has been duly authorized, executed and delivered by the Company.
 5. The Securities have been duly authorized by the Company and, when executed by the Company and authenticated by the applicable Trustee in the manner provided for in the applicable Indenture and issued and delivered to the Initial Purchasers against payment of the purchase price therefor specified in the Purchase Agreement in accordance with the terms of the Purchase Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms and will be entitled to the benefits of the applicable Indenture.
 6. Each of the Registration Rights Agreements and the Indentures has been duly authorized, executed and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its respective terms.
 7. The issuance and sale of the Securities and the execution, delivery and performance by the Company of its obligations under the Purchase Agreement, the Registration Rights Agreements, the Indentures and the Securities and the consummation of the transactions therein contemplated do not (i) violate the Certificate of Incorporation or the Bylaws, (ii) violate any U.S. federal or New York or California state law, rule or regulation that in our experience is normally applicable to general business corporations in relation to transactions of the type contemplated by the Purchase Agreement or the DGCL, (iii) violate any order or judgment known to us of any U.S. federal or New York or California state court or governmental agency or body having jurisdiction over the Company or any of its properties or any Delaware state court or governmental agency or body
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pursuant to the DGCL or (iv) violate or constitute a default under any Reviewed Agreement.

8. No consent, approval, authorization, order, registration or qualification of or with any U.S. federal or New York or California state court or governmental agency or body that in our experience is normally applicable to general business corporations in relation to transactions of the type contemplated by the Purchase Agreement or any Delaware state court or governmental agency or body pursuant to the DGCL is required for the issue and sale of the Securities or the consummation by the Company of the transactions contemplated by the Purchase Agreement, the Registration Rights Agreements or the Indentures, except (i) as may be expressly contemplated by the Purchase Agreement, the Registration Rights Agreements, the Indentures or the Securities and (ii) such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Securities by the Initial Purchasers (as to which we express no opinion).
9. The statements set forth in the Disclosure Package and the Final Offering Memorandum under the captions "Description of Notes" and "Exchange Offer; Registration Rights," insofar as such statements purport to constitute summaries of the legal matters, documents or proceedings referred to therein, accurately summarize in all material respects the matters referred to therein.
10. The Company is not, and upon the issuance of the Securities and the application of the net proceeds therefrom, will not be, required to register as an "investment company," as such term is defined in the Investment Company Act of 1940, as amended.
11. No registration of the Securities under the Act and no qualification of an indenture under the Trust Indenture Act with respect thereto, is required for the offer, sale and delivery of the Securities by the Company to the Initial Purchasers pursuant to the Purchase Agreement and the initial resale of the Securities by the Initial Purchasers in the manner contemplated by the Purchase Agreement and the Final Offering Memorandum (it being understood that no opinion is expressed as to any subsequent resale of the Securities).
12. The statements set forth in the Disclosure Package and the Final Offering Memorandum under the caption "Certain U.S. Federal Income Tax Considerations," insofar as they purport to summarize matters of United States federal income tax laws or legal conclusions with respect thereto, accurately summarize in all material respects the matters referred to therein.

We have participated in conferences with certain officers and other representatives of the Company, representatives of the Initial Purchasers, counsel for the Initial Purchasers and

representatives of the current independent certified public accountants of the Company at which the contents of the Disclosure Package, the Final Offering Memorandum and related matters were reviewed and discussed and, although we do not assume any responsibility for the accuracy, completeness or fairness of the Disclosure Package or the Final Offering Memorandum (except to the extent of our statements in paragraphs 9 and 12 above), and we have made no independent check or verification thereof, no facts have come to our attention in the course of such review and discussions that have caused us to believe that:

(i) the Disclosure Package, as of 4:39 p.m.. New York time on February 2, 2015 (the “Applicable Time”), contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading (it being understood that we are not called upon to and do not comment on the financial statements and the notes thereto and financial statement schedules and other financial data derived from such financial statements or schedules included therein or omitted therefrom); or

(ii) the Final Offering Memorandum, as of its date or as of the date hereof, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (it being understood that we are not called upon to and do not comment on the financial statements and the notes thereto and financial statement schedules and other financial data derived from such financial statements or schedules included therein or omitted therefrom).

We also advise you that, on the basis of the foregoing, to our knowledge, except as set forth in the Disclosure Package and the Final Offering Memorandum, there are no pending or threatened actions, suits or proceedings against the Company that we believe would have a material adverse effect on the business, results of operations, or financial condition of the Company and its subsidiaries, taken as a whole, or would materially and adversely affect the ability of the Company to perform its obligations under the Purchase Agreement, the Registration Rights Agreement, the Indenture and the Securities.

Such opinion and statement may include customary assumptions, qualifications, limitations and exceptions (which shall be substantially consistent with drafts of such opinion and statement delivered to counsel for the Initial Purchasers prior to the date of the Purchase Agreement).

**CERTIFICATION OF 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 officer 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 officer 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 17, 2015

By:

/ s / R E E D H A S T I N G S

Reed Hastings
Chief Executive Officer

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 officer 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 officer 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.

By: _____ / s/ D AVID W ELLS
David Wells
Chief Financial Officer

Dated: April 17, 2015

Dated: April 17, 2015

By: _____ / s/ D AVID W ELLS
David Wells
Chief Financial Officer