# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 8-K

## Current Report

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

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

# NETFLIX, INC.

**(Exact name of registrant as specified in its charter)**

| Delaware | 000-49802 | 77-0467272 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

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

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

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

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

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02 Results of Operations and Financial Condition.**

On July 21, 2010, Netflix, Inc. (the "Company") announced its financial results for the quarter ended June 30, 2010. The press release and management commentary, which is attached hereto as Exhibits 99.1 and 99.2 respectively, and incorporated herein by reference, discloses certain financial measures that may be considered non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the United States. Management believes that non-GAAP net income is a useful measure of operating performance because it excludes the non-cash impact of stock option accounting. In addition, management believes that free cash flow is a useful measure of liquidity because it excludes the non-operational cash flows from purchases and sales of short-term investments, cash flows from investment in business and cash flows from financing activities. However, these non-GAAP measures should be considered in addition to, not as a substitute for, or superior to net income and net cash provided by operating activities, or other financial measures prepared in accordance with GAAP. The non-GAAP information is presented using consistent methodology from quarter-to-quarter and year-to-year.

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

**Item 9.01 Financial Statements and Exhibits.**

***(d) Exhibits***

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

99.2 Management's commentary on financial results for the quarter ended June 30, 2010.

## SIGNATURES

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

NETFLIX, INC.

Date: July 21, 2010

/s/ BARRY MCCARTHY

**Barry McCarthy**
**Chief Financial Officer**

## EXHIBIT INDEX

| Exhibit No. | Description of Exhibit |
|---|---|
| 99.1* | Press release issued by Netflix, Inc. on July 21, 2010. |
| 99.2* | Management's commentary on financial results for the quarter ended June 30, 2010. |

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

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

**Exhibit 99.1**

| | | |
|---|---|---|
| FOR IMMEDIATE RELEASE<br>Wednesday, July 21, 2010 | IR CONTACT: | Deborah Crawford<br>VP, Investor Relations<br>(408) 540-3712 |
| | PR CONTACT: | Steve Swasey<br>VP, Corporate Communications<br>(408) 540-3947 |

**Netflix Announces Q2 2010 Financial Results**

**Subscribers – 15.0 million**
**Revenue – $519.8 million**
**GAAP Net Income – $43.5 million**
**GAAP EPS – $0.80 per diluted share**

**LOS GATOS, Calif., July 21, 2010** – Netflix, Inc. (Nasdaq: NFLX) today reported results for the second quarter ended June 30, 2010.

"Our rate of subscriber growth continues to accelerate and we added more than a million net new subscribers for the third consecutive quarter," said Netflix Co-Founder and CEO Reed Hastings. "Consumers are clearly enthralled by our offering of unlimited movies and TV shows streamed over the Internet."

**Second-Quarter 2010 Financial Highlights**

Subscribers . Netflix ended the second quarter of 2010 with approximately 15,001,000 total subscribers, representing 42 percent year-over-year growth from 10,599,000 total subscribers at the end of the second quarter of 2009 and 7 percent sequential growth from 13,967,000 subscribers at the end of the first quarter of 2010.

Net subscriber change in the quarter was an increase of 1,034,000 compared to an increase of 289,000 for the same period of 2009 and an increase of 1,699,000 for the first quarter of 2010.

Gross subscriber additions for the quarter totaled 3,059,000, representing 58 percent year-over-year growth from 1,936,000 gross subscriber additions in the second quarter of 2009 and 12 percent quarter-over-quarter decline from 3,492,000 gross subscriber additions in the first quarter of 2010.

Of the 15,001,000 total subscribers at quarter end, 97 percent, or 14,577,000, were paid subscribers. The other 3 percent, or 424,000, were free subscribers. Paid subscribers represented 98 percent of total subscribers at the end of the second quarter of 2009 and at the end of the first quarter of 2010.

Revenue for the second quarter of 2010 was $519.8 million, representing 27 percent year-over-year growth from $408.5 million for the second quarter of 2009, and 5 percent sequential growth from $493.7 million for the first quarter of 2010.

Gross margin [1] for the second quarter of 2010 was 39.4 percent compared to 34.1 percent for the second quarter of 2009 and 37.8 percent for the first quarter of 2010.

GAAP net income for the second quarter of 2010 was $43.5 million, or $0.80 per diluted share compared to GAAP net income of $32.4 million, or $0.54 per diluted share, for the second quarter of 2009 and GAAP net income of $32.3 million, or $0.59 per diluted share, for the first quarter of 2010. GAAP net income grew 34 percent on a year-over-year basis and GAAP EPS grew 48 percent on a year-over-year basis.

Percentage of subscribers who watched instantly more than 15 minutes of a TV episode or movie in the second quarter of 2010 was 61 percent compared to 37 percent for the same period of 2009 and 55 percent for the first quarter of 2010.

Subscriber acquisition cost [2] for the second quarter of 2010 was $24.37 per gross subscriber addition compared to $23.88 for the same period of 2009 and $21.54 for the first quarter of 2010.

Churn [3] for the second quarter of 2010 was 4.0 percent compared to 4.5 percent for the second quarter of 2009 and 3.8 percent for the first quarter of 2010. Churn includes free subscribers as well as paying subscribers who elect not to renew their monthly subscription service during the quarter.

Free cash flow [4] for the second quarter of 2010 was $34.2 million compared to $26.3 million for the second quarter of 2009 and $37.6 million for the first quarter of 2010.

Last twelve-month free cash flow for the second quarter of 2010 was $127.5 million compared to $118.6 million for the second quarter of 2009 and $119.6 million for the first quarter of 2010.

Cash provided by operating activities for the second quarter of 2010 was $60.3 million compared to $75.3 million for the second quarter of 2009 and $77.2 million for the first quarter of 2010.

**Business Outlook**

The Company’s performance expectations for the third and fourth quarters of 2010 and full-year 2010 are as follows:

**Third-Quarter 2010**

- Ending subscribers of 16.3 million to 16.7 million
- Revenue of $546 million to $554 million
- GAAP net income of $33 million to $40 million
- GAAP EPS of $0.61 to $0.74 per diluted share

[1] Gross margin is defined as revenues less cost of subscription and fulfillment expenses divided by revenues.
[2] Subscriber acquisition cost is defined as the total marketing expense, which includes stock-based compensation for marketing personnel, on the Company’s Condensed Consolidated Statements of Operations divided by total gross subscriber additions during the quarter.
[3] Churn is a monthly measure defined as customer cancellations in the quarter divided by the sum of beginning subscribers and gross subscriber additions, then divided by three months.
[4] Free cash flow is defined as cash provided by operating activities and investing activities excluding the non-operational cash flows from purchases and sales of short-term investments and cash flows from investment in business.

**Fourth-Quarter 2010**

- Ending subscribers of 17.7 million to 18.5 million
- Revenue of $580 million to $596 million
- GAAP net income of $32 million to $40 million
- GAAP EPS of $0.58 to $0.73 per diluted share

**Full-Year 2010**

- Ending subscribers of 17.7 million to 18.5 million, up from 16.5 million to 17.3 million
- Revenue of $2.14 billion to $2.16 billion, up from $2.11 billion to $2.16 billion
- GAAP net income of $141 million to $156 million, up from $132 million to $144 million
- GAAP EPS of $2.58 to $2.86 per diluted share, up from $2.41 to $2.63 per diluted share

**Earnings Q&A Session**

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

All media inquiries should be directed to Steve Swasey at (408) 540-3947 or sswasey@netflix.com .

A live webcast and the replay of the earnings Q&A session can be accessed on the investor relations section of the Netflix website at http://ir.netflix.com . For those without access to the Internet, a replay of the call will be available from 6:00 p.m. Pacific Time on July 21, 2010 through midnight on July 24, 2010. To listen to the replay, call (706) 645-9291, conference ID 84659036.

**Use of Non-GAAP Measures**

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

**About Netflix**

With more than 15 million members, Netflix, Inc. (Nasdaq: NFLX) is the world's largest subscription service streaming movies and TV episodes over the Internet and sending DVDs by mail. For $8.99 a month, Netflix members can instantly watch unlimited TV episodes and movies streamed to their TVs and computers and can receive unlimited DVDs delivered quickly to their homes. With Netflix, there are never any due dates or late fees. Members can select from a growing library of titles that can be watched instantly and a vast array of titles on DVD. Among the large and expanding base of devices that can stream movies and TV episodes from Netflix right to members' TVs are Microsoft's Xbox 360 and Sony's PS3 game consoles and Nintendo's Wii console; Blu-ray disc players from Samsung, LG and Insignia; Internet TVs from LG, Sony and VIZIO; the Roku digital video player and TiVo digital video recorders; and Apple's iPad tablet. For more information, visit http://www.netflix.com .

**Forward-Looking Statements**

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

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

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, 2010 | March 31, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| Revenues | $519,819 | $493,665 | $408,509 | $1,013,484 | $802,607 |
| Cost of revenues: | | | | | |
| Subscription | 265,387 | 259,560 | 227,316 | 524,947 | 444,772 |
| Fulfillment expenses * | 49,547 | 47,602 | 41,927 | 97,149 | 83,739 |
| Total cost of revenues | 314,934 | 307,162 | 269,243 | 622,096 | 528,511 |
| Gross profit | 204,885 | 186,503 | 139,266 | 391,388 | 274,096 |
| Operating expenses: | | | | | |
| Technology and development * | 37,863 | 37,399 | 27,119 | 75,262 | 51,319 |
| Marketing * | 74,533 | 75,219 | 46,231 | 149,752 | 108,473 |
| General and administrative * | 17,119 | 17,193 | 13,252 | 34,312 | 26,266 |
| Gain on disposal of DVDs | (1,972) | (1,653) | (118) | (3,625) | (1,215) |
| Total operating expenses | 127,543 | 128,158 | 86,484 | 255,701 | 184,843 |
| Operating income | 77,342 | 58,345 | 52,782 | 135,687 | 89,253 |
| Other income (expense): | | | | | |
| Interest expense | (4,893) | (4,959) | (674) | (9,852) | (1,344) |
| Interest and other income | 921 | 972 | 866 | 1,893 | 2,476 |
| Income before income taxes | 73,370 | 54,358 | 52,974 | 127,728 | 90,385 |
| Provision for income taxes | 29,851 | 22,086 | 20,531 | 51,937 | 35,579 |
| Net income | $ 43,519 | $ 32,272 | $ 32,443 | $ 75,791 | $ 54,806 |
| Net income per share: | | | | | |
| Basic | $ 0.83 | $ 0.61 | $ 0.56 | $ 1.44 | $ 0.94 |
| Diluted | $ 0.80 | $ 0.59 | $ 0.54 | $ 1.39 | $ 0.91 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 52,486 | 52,911 | 57,872 | 52,697 | 58,301 |
| Diluted | 54,324 | 54,775 | 59,660 | 54,548 | 60,182 |
| *** Stock-based compensation included in expense line items:** | | | | | |
| Fulfillment expenses | $ 307 | $ 176 | $ 102 | $ 483 | $ 222 |
| Technology and development | 2,376 | 1,869 | 1,190 | 4,245 | 2,261 |
| Marketing | 756 | 643 | 458 | 1,399 | 901 |
| General and administrative | 3,489 | 2,814 | 1,528 | 6,303 | 3,026 |

**Reconciliation of Non-GAAP Financial Measures**
(unaudited)

| **Non-GAAP net income reconciliation:** | | | | | |
|---|---|---|---|---|---|
| GAAP net income | $ 43,519 | $ 32,272 | $ 32,443 | $ 75,791 | $ 54,806 |
| Stock-based compensation | 6,928 | 5,502 | 3,278 | 12,430 | 6,410 |
| Income tax effect of stock-based compensation | (2,820) | (2,234) | (1,272) | (5,054) | (2,531) |
| Non-GAAP net income | $ 47,627 | $ 35,540 | $ 34,449 | $ 83,167 | $ 58,685 |
| Non-GAAP net income per share: | | | | | |
| Basic | $ 0.91 | $ 0.67 | $ 0.60 | $ 1.58 | $ 1.01 |
| Diluted | $ 0.88 | $ 0.65 | $ 0.58 | $ 1.52 | $ 0.98 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 52,486 | 52,911 | 57,872 | 52,697 | 58,301 |
| Diluted | 54,324 | 54,775 | 59,660 | 54,548 | 60,182 |

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

| | As of | |
|---|---|---|
| | June 30, 2010 | December 31, 2009 |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 107,327 | $ 134,224 |
| Short-term investments | 171,758 | 186,018 |
| Current content library, net | 93,123 | 37,329 |
| Prepaid content | 33,837 | 26,741 |
| Other current assets | 35,173 | 26,701 |
| Total current assets | 441,218 | 411,013 |
| Content library, net | 94,666 | 108,810 |
| Property and equipment, net | 123,292 | 131,653 |
| Deferred tax assets | 21,951 | 15,958 |
| Other non-current assets | 12,845 | 12,300 |
| Total assets | $ 693,972 | $ 679,734 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 120,031 | $ 91,475 |
| Accrued expenses | 34,746 | 33,387 |
| Current portion of lease financing obligations | 1,971 | 1,410 |
| Deferred revenue | 101,419 | 100,097 |
| Total current liabilities | 258,167 | 226,369 |
| Long-term debt | 200,000 | 200,000 |
| Lease financing obligations, excluding current portion | 35,185 | 36,572 |
| Other non-current liabilities | 23,980 | 17,650 |
| Total liabilities | 517,332 | 480,591 |
| Stockholders' equity: | | |
| Common stock, $0.001 par value; 160,000,000 shares authorized at June 30, 2010 and December 31, 2009; 52,358,171 and 53,440,073 issued and outstanding at June 30, 2010 and December 31, 2009, respectively | 52 | 53 |
| Accumulated other comprehensive income, net | 802 | 273 |
| Retained earnings | 175,786 | 198,817 |
| Total stockholders' equity | 176,640 | 199,143 |
| Total liabilities and stockholders' equity | $ 693,972 | $ 679,734 |

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

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, 2010 | March 31, 2010* | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| **Cash flows from operating activities:** | | | | | |
| Net income | $ 43,519 | $ 32,272 | $ 32,443 | $ 75,791 | $ 54,806 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Acquisition of streaming content library | (66,157) | (50,475) | (9,343) | (116,632) | (31,434) |
| Amortization of content library | 65,143 | 62,292 | 53,235 | 127,435 | 102,539 |
| Depreciation and amortization of property, equipment and intangibles | 9,309 | 10,859 | 9,013 | 20,168 | 18,188 |
| Amortization of discounts and premiums on investments | 236 | 234 | 119 | 470 | 313 |
| Amortization of debt issuance costs | 137 | 98 | — | 235 | — |
| Stock-based compensation expense | 6,928 | 5,502 | 3,278 | 12,430 | 6,410 |
| Excess tax benefits from stock-based compensation | (11,182) | (7,424) | (3,815) | (18,606) | (7,499) |
| Loss on disposal of property and equipment | — | — | 110 | — | 254 |
| (Gain) loss on sale of short-term investments | (215) | (264) | 101 | (479) | (471) |
| Gain on disposal of DVDs | (3,058) | (3,228) | (506) | (6,286) | (2,539) |
| Deferred taxes | (3,394) | (2,761) | 5,898 | (6,155) | 4,554 |
| Changes in operating assets and liabilities: | | | | | |
| Prepaid content | (2,133) | (4,963) | (1,613) | (7,096) | 2,485 |
| Other current assets | (9,211) | 548 | (7,232) | (8,663) | (11,721) |
| Accounts payable | 19,263 | 16,878 | (6,549) | 36,141 | 2,023 |
| Accrued expenses | 7,917 | 13,746 | (34) | 21,663 | 2,911 |
| Deferred revenue | 1,310 | 12 | (128) | 1,322 | (2,632) |
| Other assets and liabilities | 1,840 | 3,879 | 325 | 5,719 | 2,748 |
| Net cash provided by operating activities | 60,252 | 77,205 | 75,302 | 137,457 | 140,935 |
| **Cash flows from investing activities:** | | | | | |
| Acquisitions of DVD content library | (24,191) | (36,902) | (43,224) | (61,093) | (89,723) |
| Purchases of short-term investments | (21,795) | (35,995) | (28,769) | (57,790) | (81,153) |
| Proceeds from sale of short-term investments | 32,055 | 30,770 | 7,832 | 62,825 | 44,765 |
| Proceeds from maturities of short-term investments | 4,310 | 4,013 | 26,175 | 8,323 | 27,505 |
| Purchases of property and equipment | (5,671) | (6,393) | (6,933) | (12,064) | (13,505) |
| Acquisitions of intangible assets | — | (130) | — | (130) | (200) |
| Proceeds from sale of DVDs | 3,815 | 3,984 | 1,159 | 7,799 | 3,885 |
| Other assets | 10 | (172) | 11 | (162) | 9 |
| Net cash used in investing activities | (11,467) | (40,825) | (43,749) | (52,292) | (108,417) |
| **Cash flows from financing activities:** | | | | | |
| Principal payments of lease financing obligations | (465) | (361) | (295) | (826) | (564) |
| Proceeds from issuance of common stock | 13,109 | 9,918 | 9,778 | 23,027 | 23,367 |
| Excess tax benefits from stock-based compensation | 11,182 | 7,424 | 3,815 | 18,606 | 7,499 |
| Repurchases of common stock | (45,145) | (107,724) | (72,511) | (152,869) | (115,230) |
| Net cash used in financing activities | (21,319) | (90,743) | (59,213) | (112,062) | (84,928) |
| Net increase (decrease) in cash and cash equivalents | 27,466 | (54,363) | (27,660) | (26,897) | (52,410) |
| Cash and cash equivalents, beginning of period | 79,861 | 134,224 | 115,131 | 134,224 | 139,881 |
| Cash and cash equivalents, end of period | $107,327 | $ 79,861 | $ 87,471 | $ 107,327 | $ 87,471 |

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, 2010 | March 31, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| **Non-GAAP free cash flow reconciliation:** | | | | | |
| Net cash provided by operating activities | $ 60,252 | $ 77,205 | $ 75,302 | $ 137,457 | $ 140,935 |
| Acquisitions of DVD content library | (24,191) | (36,902) | (43,224) | (61,093) | (89,723) |
| Purchases of property and equipment | (5,671) | (6,393) | (6,933) | (12,064) | (13,505) |
| Acquisitions of intangible assets | — | (130) | — | (130) | (200) |
| Proceeds from sale of DVDs | 3,815 | 3,984 | 1,159 | 7,799 | 3,885 |
| Other assets | 10 | (172) | 11 | (162) | 9 |
| **Non-GAAP free cash flow** | $ 34,215 | $ 37,592 | $ 26,315 | $ 71,807 | $ 41,401 |

* Certain prior period amounts have been reclassified.

| | Twelve Months Ended | | |
|---|---|---|---|
| | June 30, 2010 | March 31, 2010 | June 30, 2009 |
| **Non-GAAP free cash flow reconciliation:** | | | |
| Net cash provided by operating activities | $ 321,585 | $ 336,635 | $ 293,530 |
| Acquisitions of DVD content library | (164,414) | (183,447) | (156,846) |
| Purchases of property and equipment | (44,491) | (45,753) | (30,202) |
| Acquisitions of intangible assets | (130) | (130) | (262) |
| Proceeds from sale of DVDs | 15,078 | 12,422 | 12,367 |
| Other assets | (100) | (99) | (20) |
| **Non-GAAP free cash flow** | $ 127,528 | $ 119,628 | $ 118,567 |

**Netflix, Inc.**
**Consolidated Other Data**
(unaudited)

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

| | As of / Three Months Ended | | |
|---|---|---|---|
| | June 30, 2010 | March 31, 2010 | June 30, 2009 |
| **Subscriber information:** | | | |
| Subscribers: beginning of period | 13,967 | 12,268 | 10,310 |
| Gross subscriber additions: during period | 3,059 | 3,492 | 1,936 |
| Gross subscriber additions year-to-year change | 58.0% | 44.7% | 39.9% |
| Gross subscriber additions quarter-to-quarter sequential change | (12.4%) | 24.6% | (19.8%) |
| Less subscriber cancellations: during period | (2,025) | (1,793) | (1,647) |
| Subscribers: end of period | 15,001 | 13,967 | 10,599 |
| Subscribers year-to-year change | 41.5% | 35.5% | 26.0% |
| Subscribers quarter-to-quarter sequential change | 7.4% | 13.8% | 2.8% |
| Free subscribers: end of period | 424 | 345 | 224 |
| Free subscribers as percentage of ending subscribers | 2.8% | 2.5% | 2.1% |
| Paid subscribers: end of period | 14,577 | 13,622 | 10,375 |
| Paid subscribers year-to-year change | 40.5% | 34.7% | 26.0% |
| Paid subscribers quarter-to-quarter sequential change | 7.0% | 14.5% | 2.6% |
| Average monthly revenue per paying subscriber | $ 12.29 | $ 12.90 | $ 13.29 |
| Average monthly gross profit per paying subscriber | $ 4.84 | $ 4.87 | $ 4.53 |
| Percentage of subscribers who watched instantly more than 15 minutes of a TV episode or movie | 61% | 55% | 37% |
| Household penetration - Bay Area | 26% | 24% | 21% |
| Household penetration - Rest of Country | 13% | 12% | 9% |
| **Churn** | 4.0% | 3.8% | 4.5% |
| Subscriber acquisition cost | $ 24.37 | $ 21.54 | $ 23.88 |
| **Margins:** | | | |
| Gross margin | 39.4% | 37.8% | 34.1% |
| Operating margin | 14.9% | 11.8% | 13.0% |
| Net margin | 8.4% | 6.5% | 8.0% |
| **Expenses as percentage of revenues:** | | | |
| Technology and development | 7.3% | 7.6% | 6.6% |
| Marketing | 14.3% | 15.2% | 11.3% |
| General and administrative | 3.3% | 3.5% | 3.2% |
| Gain on disposal of DVDs | (0.4%) | (0.3%) | — |
| Total operating expenses | 24.5% | 26.0% | 21.1% |
| **Year-to-year change:** | | | |
| Total revenues | 27.2% | 25.3% | 21.0% |
| Cost of subscription | 16.7% | 19.4% | 17.3% |
| Fulfillment expenses | 18.2% | 13.8% | 15.4% |
| Technology and development | 39.6% | 54.5% | 22.2% |
| Marketing | 61.2% | 20.8% | 15.6% |
| General and administrative | 29.2% | 32.1% | (1.2%) |
| Gain on disposal of DVDs | 1571.2% | 50.7% | (94.8%) |
| Total operating expenses | 47.5% | 30.3% | 17.9% |

**Exhibit 99.2**

**Safe Harbor Statement**

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

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

**Reed Hastings, CEO, Netflix**

Q2 was another amazing quarter for us. Our Y/Y subscriber growth accelerated to 42%, our revenue growth accelerated to 27%, and GAAP EPS grew 48%. For the last two quarters, the acceleration of our growth has been astounding, driven by the increasing appeal of streaming. This kind of rapid acceleration is unlikely to continue for long, but as our guidance for Q3 implies, we do see it continuing in the third quarter. The mid-point of our Q3 guidance represents an increase from Q2’s 42% Y/Y subscriber growth rate to a 49% annual growth rate. We’ll know more about Q4 in October, but for now we are being prudent in forecasting that we’ll maintain an amazing 48% annual growth rate for Q4.

Turning to the P&L for Q2, we spent less than expected on cost of subscription, and more than we initially planned on marketing. This quarter more subscribers streamed more content and our Y/Y disc shipment growth, while positive, was less than we had forecast. Within a given quarter, it’s difficult to license more streaming content on such short notice, so we split the upside from lower shipment growth between marketing, which drove more subscriber growth, and earnings. Looking forward at the next two quarters, we’ll be investing the upside in the combination of streaming content and marketing as both drive subscriber growth. If we find enough content deals where the terms make sense to us, we’ll be spending lots more on streaming content. Otherwise, we can spend more on marketing. Either way our goal is to continue to drive growth and deliver earnings consistent with our guidance.

We're investing aggressively in streaming content because of the clear benefits to the business - faster subscriber growth due to the attractiveness of our offering that includes great streaming and less growth in disc shipments due to substitution.

In terms of streaming content, we are rapidly expanding our TV shows available for streaming and since our last call we have added thousands of TV episodes from new deals with Fox, MTV Networks and Warner Television. These shows include all seasons of 24, Futurama, Lie To Me, The Chapelle Show, Nip/Tuck and Veronica Mars, and in a few weeks all seasons of The Family Guy will be available to stream as well. We see TV shows as equally important to our franchise as movies.

As we evolve from DVD by mail into streaming, the role of exclusive content changes. Exclusives in the DVD arena don't work because of the First Sale copyright doctrine, but are a core part of the Pay-TV market into which we are growing. To date, we've been an outlier in the Pay-TV segment by not having any exclusive content. At this point we can start to afford some major TV shows and movies on an exclusive basis, and plan going forward on a mix of more-expensive exclusive content and lower-cost non-exclusive content. Our willingness to license some higher-priced exclusive content will open up new licensing opportunities for us.

In our deal with Relativity Media, for example, we gained the exclusive rights for a set of their movies for subscription. We're very excited to get these movies and are looking for more exclusive deals, especially on TV shows, as well as non-exclusive content.

As we add more content, and more platforms, we are fortunate to have no single deal for content or platform accounting for more than about 20% of our streaming viewing, so we have reasonable and not excessive concentration risks with our suppliers. As we add even more content and platforms, we expect this modest concentration risk to decline further.

We recently announced that we would be launching a pure streaming service in Canada in the fall and we will have more to say about that on our call in October. We chose Canada because it forms a great validation market for us in terms of pure streaming. Our future international streaming-only investments will be dependent on our learning in Canada.

In terms of streaming platforms, we are very pleased with our success in getting on even more devices. In Q2, we launched Netflix on Nintendo Wii and Apple iPad and saw the introduction of dozens of new TVs and Blu-ray players from partners such as LG, Samsung, Sanyo, Sharp, Sony, Toshiba and VIZIO and by the end of the year we expect Netflix to be available on over 100 million devices in consumers' homes. Not only are we adding more platforms, but we are also making significant improvements in our existing platforms. Before our next call in October, we expect to be launching a major new version of our Sony PS3 user interface which doesn't require a disc, and is dynamically updated continuously with the latest Netflix UI improvements.

Looking at competition, consumers have an enormous array of choices for their entertainment. A new choice consumers now have is Hulu Plus, which directly competes with us in subscription streaming. Once Hulu Plus has a few hundred thousand subscribers we'll be able to learn from consumers what they like about Hulu Plus. Then we'll work to incorporate what we find back into Netflix. The Hulu team is sharp, and we're not going to underestimate them. In the long term, Hulu Plus and Netflix share the same major competitive threat, which is the MVPD's (multichannel video programming distributor) getting so much better that fewer consumers choose to supplement with Netflix or Hulu Plus.

In summary, Q2 was a great quarter and we are very well positioned to continue to benefit from the growth of Internet video. We know, however, there are many risks for our business, and we are staying as vigilant and focused as ever in this time of astounding business acceleration.

**Barry McCarthy, CFO, Netflix**

Accelerating subscriber growth and record high profit were the dominant themes of our Q2 results. The faster subscriber growth was expected but not the record high profit, which is why we beat our guidance for Q2 earnings. The outperformance in Q2 has important implications for long term growth and profit. Why were profits so strong this quarter? The answer is "streaming". More about that shortly.

**Q2 Results**

Gross margin for the quarter was 39.4%. That's the largest Y/Y improvement (530bps) in the last four years. Disc shipments continue to grow on a Y/Y basis, but less than we had expected and less than revenue growth, which explains the margin improvement. In particular, lower disc usage per subscriber was the primary driver of margin improvement, owing first, to the increased popularity of our $8.99 plan, and second, to substitution behavior which depressed disc usage.

On the 2008 Q4 earnings call, I said there were signs of DVD usage declines among early adopters of streaming. I said, other things being equal, Netflix profit margins would expand if streaming substitution became a mainstream consumer behavior, with postage and packaging expense replaced by streaming delivery expense.

Now, six quarters later, the data clearly suggests that the substitution behavior first exhibited by early adopters is also being exhibited by mainstream subscribers. As previously mentioned, disc shipments are still growing on a Y/Y basis, but at a slower rate than last quarter. As a result, we saw lower disc usage in Q2 than we expected. More on the margin implications for guidance in a moment.

Subscriber acquisition cost (SAC) of $24.37 increased sequentially and on a Y/Y basis. This was a managed outcome. As the quarter progressed, and it became apparent we would ship fewer discs than forecast and overshoot our gross profit targets, we increased marketing spending in marginally less efficient marketing channels.

Churn of 4% was down 50 bps on a Y/Y basis. Consumer engagement with streaming continues to explain the improvement. Sequentially, churn increased 20 bps, but the seasonal increase was 10 bps better than a year ago because of the consumer appeal of streaming.

**Guidance**

The upward revision in our full-year guidance reflects the momentum we currently see in the business, particularly with respect to subscriber growth.

As Reed mentioned, we continue to invest aggressively in streaming content. We have several new deals in the pipeline. If we close those new deals, as expected, streaming content expense will increase significantly over the next two quarters, which will decrease gross margin from Q2 levels. By making the Netflix service a better value proposition and better user experience than it is today, we expect to recoup our streaming investment through incremental subscriber growth, lower churn, lower SAC, and increased operating profit and cash flow. These expectations are incorporated in our Q3 and Q4 guidance.

Given the nature of the business, it's possible we'll license less streaming content than we're currently forecasting. In that event, you should expect us to redeploy funds to marketing, in which case subscribers would likely grow faster than we're currently forecasting, at slightly higher SAC and slightly higher churn.

Much has been written lately about the prospect of postal rate increases in 2011 and beyond. I believe the impact on our margin structure will be small. The substitution effects I spoke of earlier, where content consumption continues to marginally shift from DVD by mail to streamed movies and TV, will more than offset the impact of postal rate changes on our margin structure.

**Buyback Update**

We continued to repurchase Netflix shares in the second quarter, even at record high prices. In total, we spent $44 million repurchasing 0.4 million shares at an average cost of $108.24 per share in the second quarter.

Cumulatively, we have returned $776 million to shareholders by repurchasing 21.5 million Netflix shares at an average cost of $36.06 per share. This represents 40% of the 54.3 million average fully diluted share count in Q2.

We finished the quarter with $279 million in cash and short-term investments and $200 million in long term debt. The balance sheet remains strong, with very modest leverage. We plan to keep it that way for the foreseeable future, with no plans for additional debt.

**Closing Thoughts**

If you've watched the Netflix streaming ecosystem grow over the past three years and wondered about the implications for our business model, or perhaps been frustrated by our limited disclosure of streaming metrics (for competitive reasons), the financial results year-to-date and our guidance through 2010 should give you confidence that the business model is working well and our financial results are solid.

NETFLIX

**Q2'10 Financial Highlights | July 21, 2010**

# Forward-Looking Statements and Non-GAAP Financial Measurements

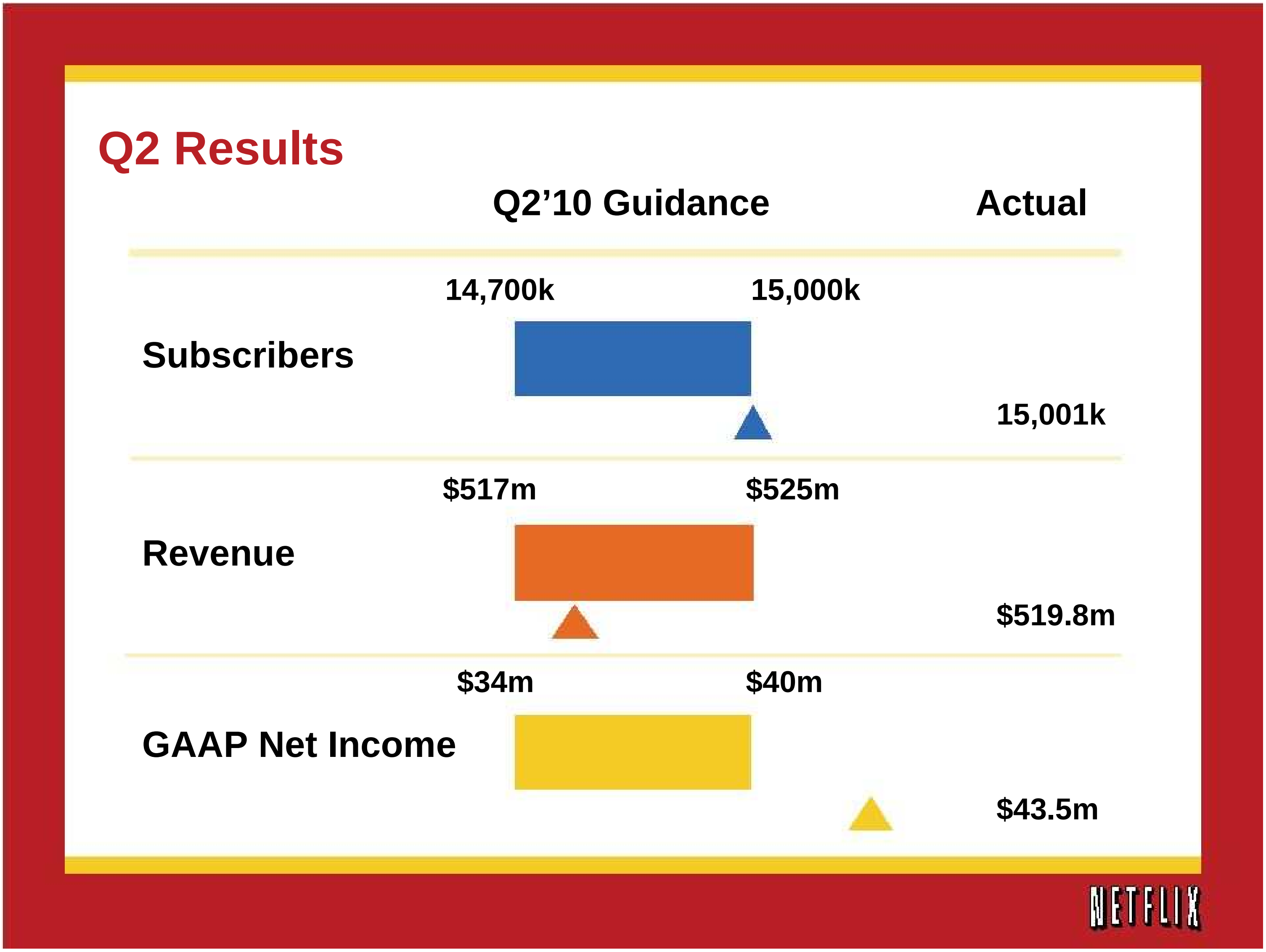
This presentation contains forward-looking statements relating to future events or future financial performance that involve risks and uncertainties. Actual results may differ materially from those anticipated in these statements based on a number of factors, including those identified in the company's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

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

NETFLIX

## Netflix Goals

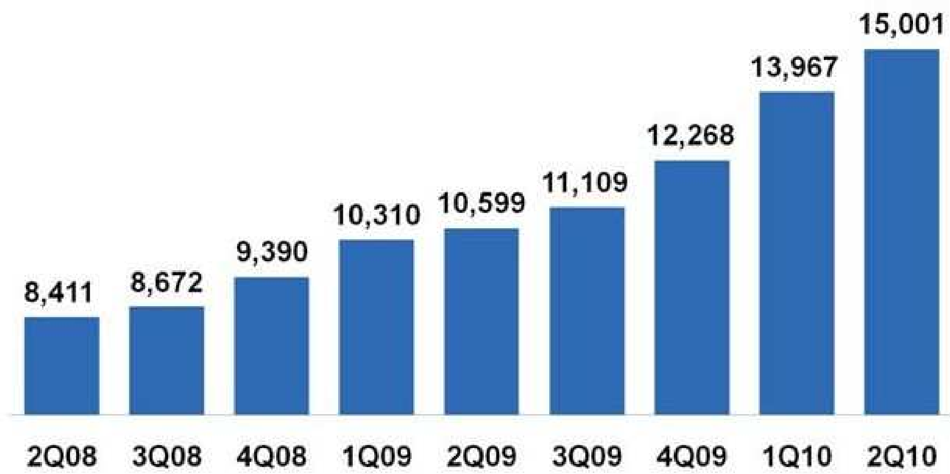
- Be a great Internet movie and TV show service by **combining Internet streaming with DVD by mail**
- Materially grow **subscribers** and **EPS** every year


Q2 Results
Q2’10 Guidance
Actual
14,700k
15,000k
Subscribers
15,001k
$517m
$525m
Revenue
$519.8m
$34m
$40m
GAAP Net Income
$43.5m
NETFLIX

## Subscriber Growth

(in thousands)

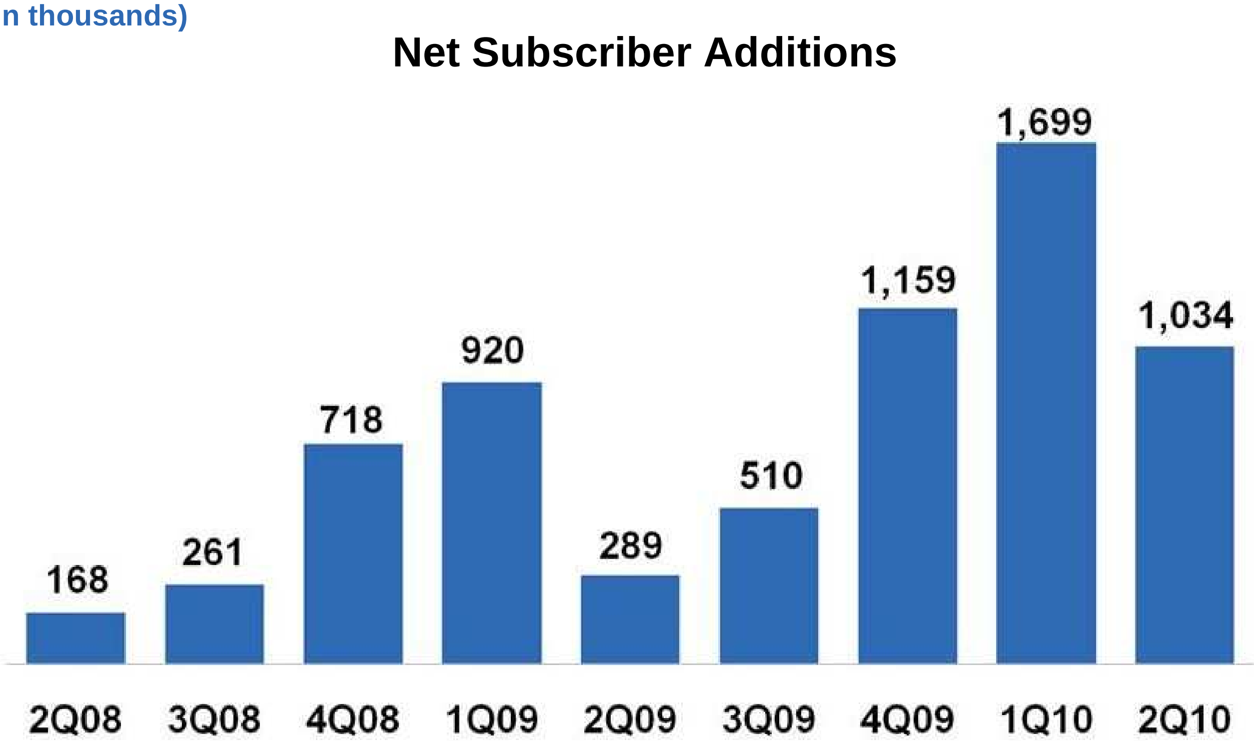
### Netflix Subscribers




NETFLIX

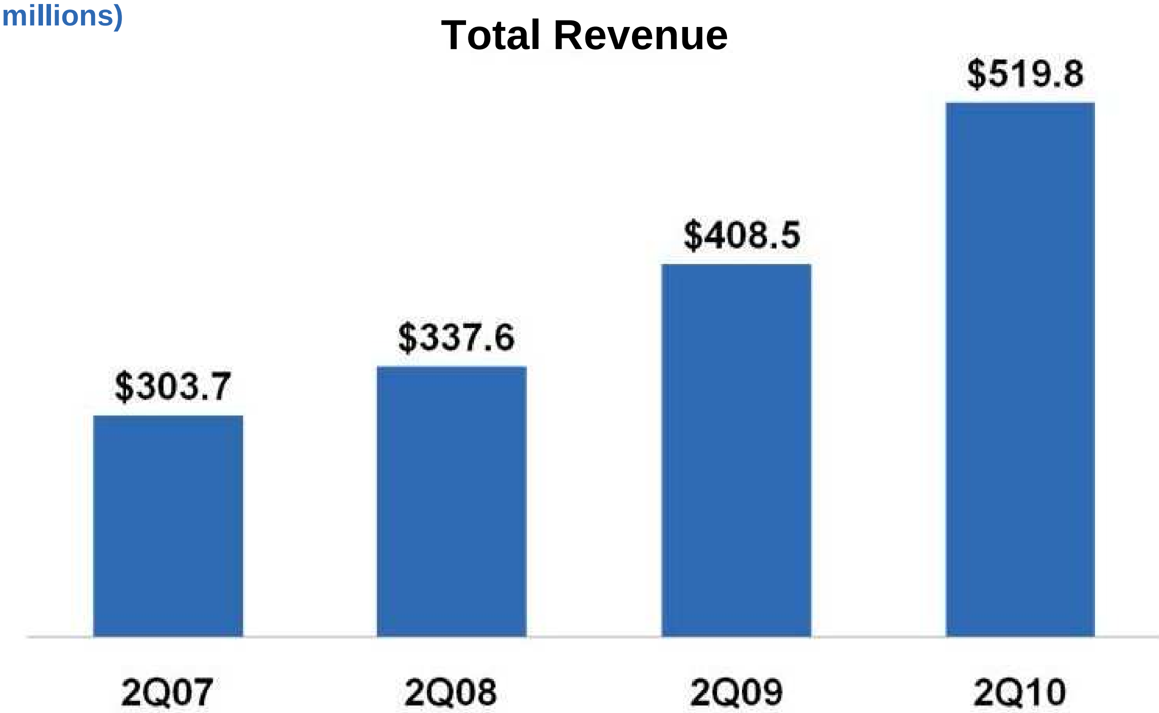
# Net Additions

(in thousands)



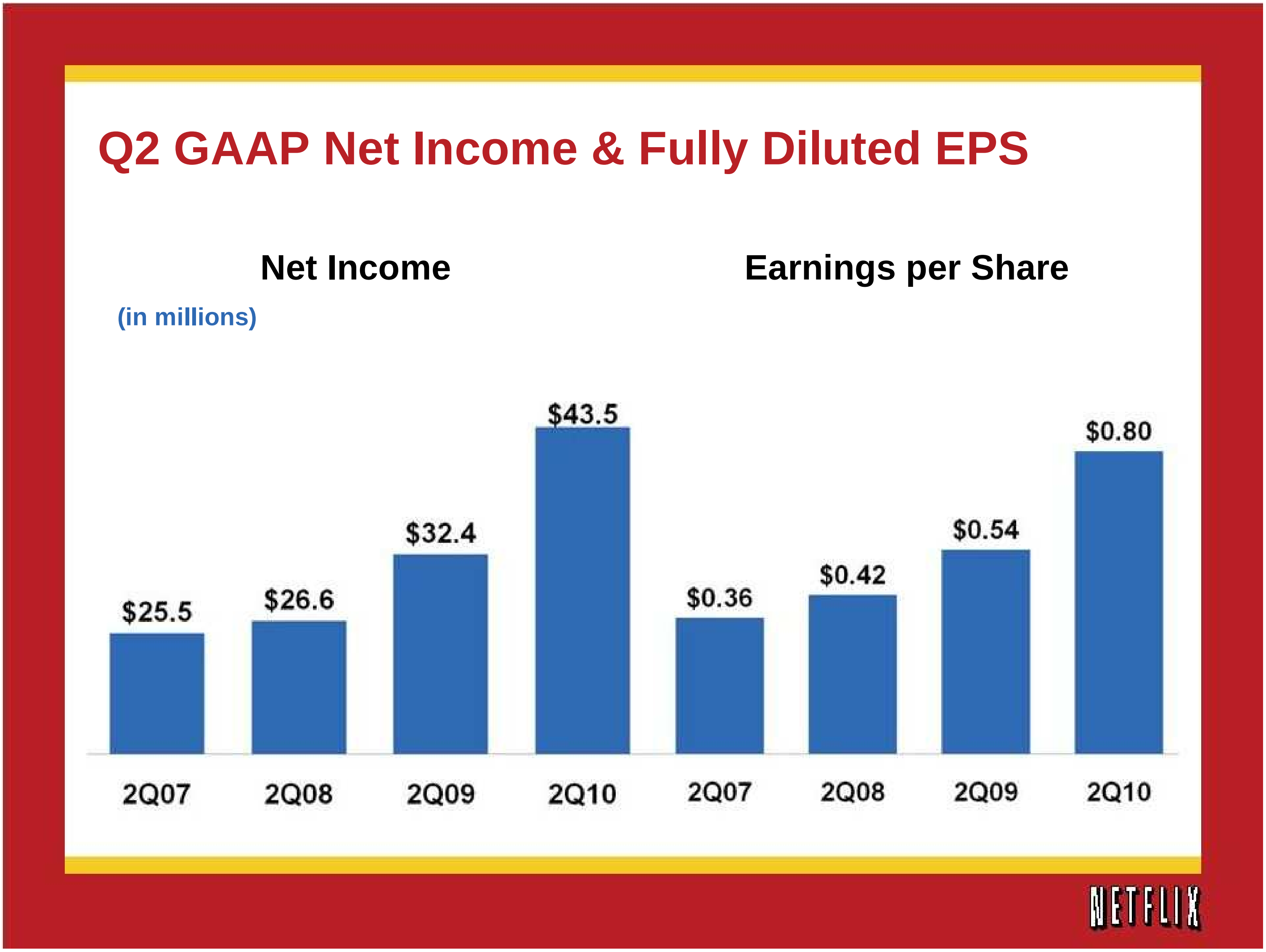
# Q2 Revenue

(in millions)

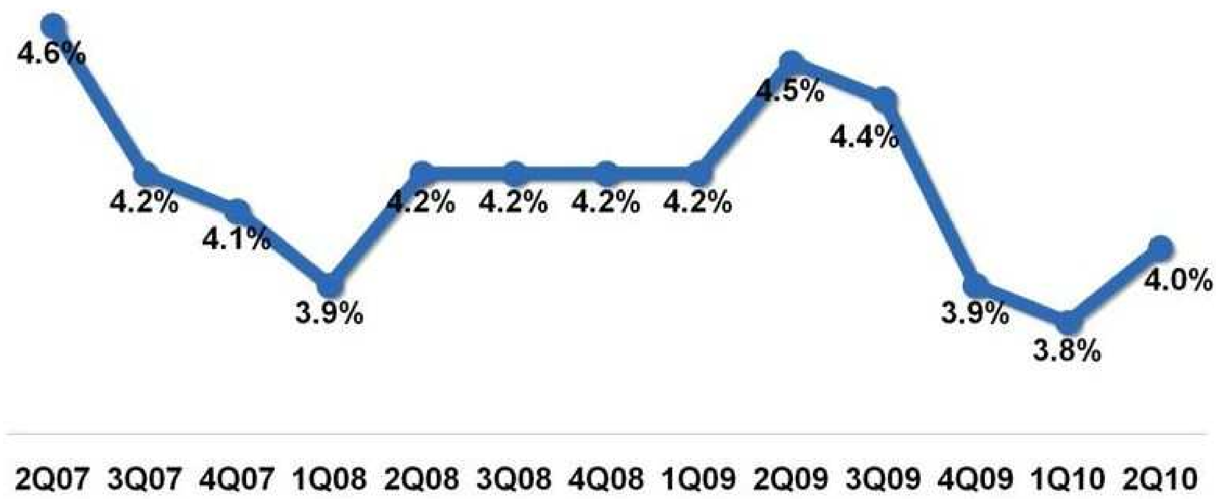



Note: Netflix implemented price reductions in July 2007

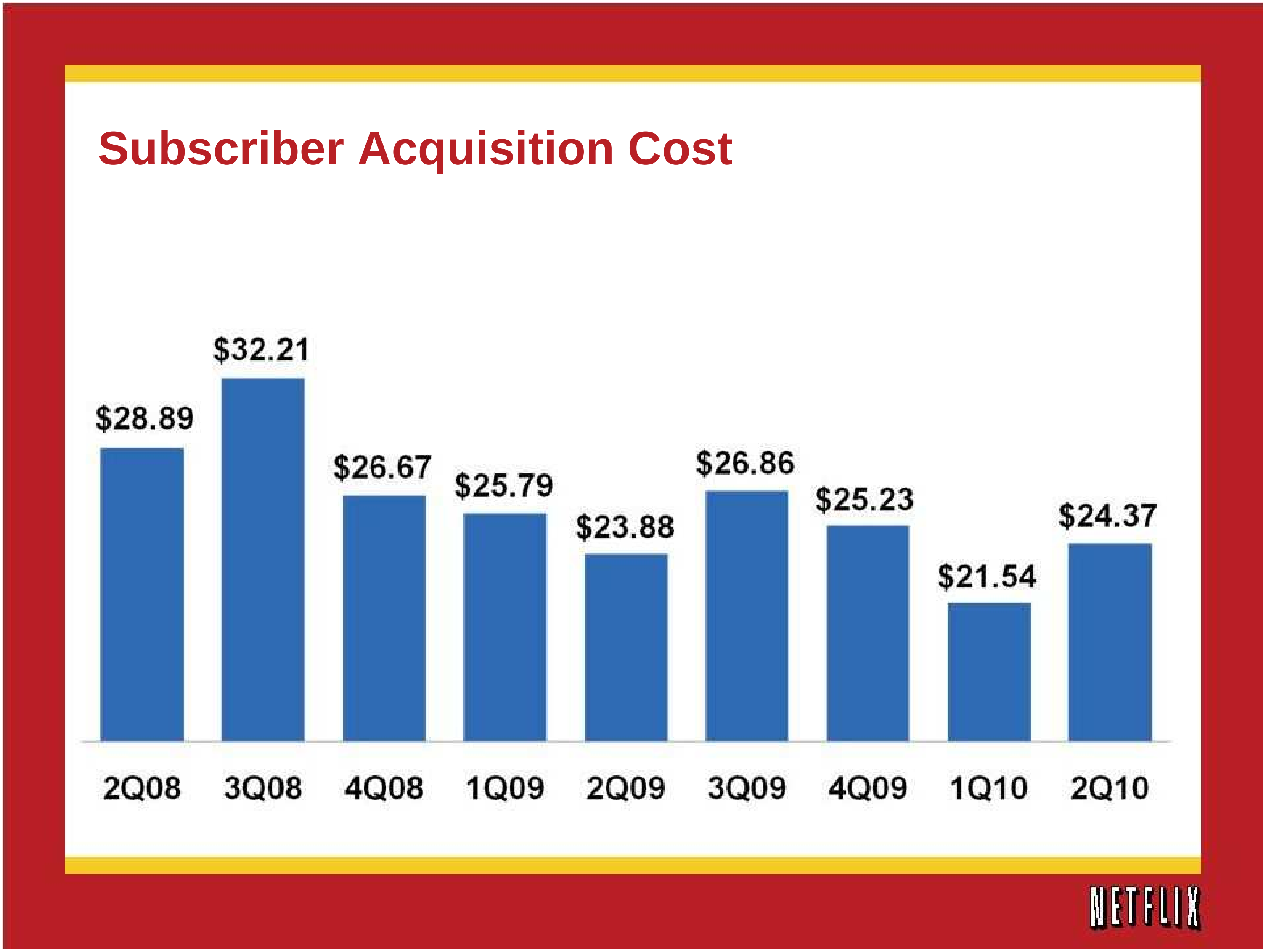
NETFLIX


Q2 GAAP Net Income & Fully Diluted EPS
Net Income
(in millions)
$25.5
$26.6
$32.4
$43.5
2Q07
2Q08
2Q09
2Q10
Earnings per Share
$0.36
$0.42
$0.54
$0.80
2Q07
2Q08
2Q09
2Q10
NETFLIX

# Churn




NETFLIX


Subscriber Acquisition Cost
$28.89
$32.21
$26.67
$25.79
$23.88
$26.86
$25.23
$21.54
$24.37
2Q08
3Q08
4Q08
1Q09
2Q09
3Q09
4Q09
1Q10
2Q10
NETFLIX

# Free Cash Flow

**(in thousands)**

| | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 |
|---|---|---|---|---|---|
| **Non-GAAP Free Cash Flow Reconciliation:** | | | | | |
| Net cash provided by operating activities | $75,302 | $78,311 | $105,817 | $77,205 | $60,252 |
| Purchases of property and equipment | (6,933) | (9,994) | (22,433) | (6,393) | (5,671) |
| Acquisition of intangible asset | - | - | - | (130) | - |
| Acquisitions of DVD content library | (43,224) | (46,273) | (57,048) | (36,902) | (24,191) |
| Proceeds from sale of DVDs | 1,159 | 3,345 | 3,934 | 3,984 | 3,815 |
| Other assets | 11 | 134 | (72) | (172) | 10 |
| **Non-GAAP Free Cash Flow** | $26,315 | $25,523 | $30,198 | $37,592 | $34,215 |

NETFLIX

## Business Outlook

| | 3Q10 | 4Q10 | FY ’10 |
|---|---|---|---|
| Subscribers | 16.3 – 16.7M | 17.7 – 18.5M | 17.7 – 18.5M |
| Revenue | $546 – 554M | $580 – 596M | $2.14 – 2.16B |
| GAAP Net Income | $33 – 40M | $32 – 40M | $141 – 156M |
| GAAP EPS* | $0.61 – 0.74 | $0.58 – 0.73 | $2.58 – 2.86 |

*Fully Diluted

NETFLIX

## Quarterly Summary Financials

| | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 |
|---|---|---|---|---|---|---|
| **Subscribers (M)** | 10.3 | 10.6 | 11.1 | 12.3 | 14.0 | 15.0 |
| ***Y/Y Change*** | *25%* | *26%* | *28%* | *31%* | *35%* | *42%* |
| **Revenue (M)** | $394 | $409 | $423 | $445 | $494 | $520 |
| ***Y/Y Change*** | *21%* | *21%* | *24%* | *24%* | *25%* | *27%* |
| **Operating Profit (M)** | $36 | $53 | $49 | $53 | $58 | $77 |
| ***Y/Y Change*** | *138%* | *54%* | *45%* | *41%* | *60%* | *47%* |
| **Net Income (M)** | $22 | $32 | $30 | $31 | $32 | $44 |
| ***Y/Y Change*** | *68%* | *22%* | *48%* | *36%* | *44%* | *34%* |
| **EPS*** | $0.37 | $0.54 | $0.52 | $0.56 | $0.59 | $0.80 |
| ***Y/Y Change*** | *76%* | *29%* | *58%* | *47%* | *59%* | *48%* |
| **% of Subscribers Watching Instantly > 15 minutes** | 36% | 37% | 41% | 48% | 55% | 61% |

*Fully Diluted

NETFLIX

# Fiscal Year Summary Financials

| | 2005 | 2006 | 2007 | 2008 | 2009 | Mid-point of Guidance 2010 |
|---|---|---|---|---|---|---|
| **Subscribers (M)** | 4.2 | 6.3 | 7.5 | 9.4 | 12.3 | 18.1 |
| ***Y/Y Change*** | *60%* | *51%* | *18%* | *26%* | *31%* | *47%* |
| **Revenue (M)** | $682 | $997 | $1,205 | $1,365 | $1,670 | $2,150 |
| ***Y/Y Change*** | *36%* | *46%* | *21%* | *13%* | *22%* | *29%* |
| **Operating Profit (M)** | $3 | $65 | $92 | $122 | $192 | -- |
| ***Y/Y Change*** | *-86%* | *2387%* | *41%* | *32%* | *58%* | |
| **Net Income (M)** | $42 | $49 | $67 | $83 | $116 | $149 |
| ***Y/Y Change*** | *96%* | *17%* | *36%* | *25%* | *40%* | *28%* |
| **EPS*** | $0.64 | $0.71 | $0.97 | $1.32 | $1.98 | $2.72 |
| ***Y/Y Change*** | *94%* | *11%* | *37%* | *36%* | *50%* | *37%* |
| **% of Subscribers Watching Instantly > 15 minutes** | NA | NA | NA | 28% | 48% | -- |

*Fully Diluted

NETFLIX

**Q2'10 Financial Highlights** | July 21, 2010