FINAL TRANSCRIPT

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NFLX - Q1 2010 Netflix Earnings Conference Call

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CORPORATE PARTICIPANTS

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Netflix - VP IR

Reed Hastings
Netflix - President & CEO

Barry McCarthy
Netflix - CFO

PRESENTATION

Operator

Good day, everyone and welcome to the Netflix First Quarter 2010 earnings Q & A session. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to Deborah Crawford, Vice President of Investor Relations. Please go ahead.

Deborah Crawford - *Netflix - VP IR*

Thank you and good afternoon. Welcome to the Netflix First Quarter 2010 earnings Q & A session.

We released earnings for the First Quarter at approximately 1;05 P.M. Pacific Time today. The earnings Press Release, managements commentary on the quarters results and the webcast of this Q & A session are all available at the Company's Investor Relations website at ir.netflix.com.

Like last quarter this call will consist solely of Q & A and we're going to conduct the Q & A via e-mail. Please e-mail your questions to ir@netflix.com and please note that this is a new e-mail address from previous quarters. We may make forward-looking statements during this call regarding the Company's future performance. Actual results may differ materially from these statements due to risks and uncertainties related to the business.

A detailed discussion of such risks and uncertainties is contained in our filings with the Securities and Exchange Commission including our Annual Report on Form 10-K filed with the Commission on February 22, 2010. A rebroadcast of this Q & A session will be available at the Netflix website after 6;00 p.m. Pacific time today. Before moving into the Q & A I would like to turn the call over to Reed for opening remarks.

Reed Hastings - *Netflix - President & CEO*

Thanks, Debra and welcome everyone to today's Q & A session. Q1 was another outstanding quarter. We saw record net sub additions, the lowest SAC and churn in our history, and EPS grew 59% year-over-year.

At the same time the percentage of our subscribers streaming movies and TV episodes in the last 90 days grew to 55%. This was driven by the progress we've made in enhancing our streaming content offering, expanding breadth of Netflix enabled devices and improving the user interface, and as our guidance for the remainder of 2010 indicates, we expect our momentum to continue, so with that, let's go over to the questions.

QUESTIONS AND ANSWERS

Deborah Crawford - *Netflix - VP IR*

Great. The first question is from Steven Frankel at Brigantine Advisors. Can you share any insights into the viewing habits of watch instantly customers? How many times per month does a typical user stream? Have you seen any material impact on disc usage if the viewing skewed materially to TV content?

Reed Hastings - *Netflix - President & CEO*

Steven, it's Reed here. Think of the distribution of instant watching users like any normal distribution, there's some people who barely use it, there's some that use it a lot. It's a pretty typical normal distribution. TV and movies, it's more towards TV than on DVD, but movies are still the majority. We're continuing to strengthen the TV side, and is that the last part? Related usage?

Barry McCarthy - *Netflix - CFO*

And on the usage question, it appears that we're seeing some substitution of DVD rental for streaming.

Deborah Crawford - *Netflix - VP IR*

He had a second question, what is the largest competitive threat facing Netflix today, kiosk vendors, digital VOD or traditional cable VOD?

Reed Hastings - *Netflix - President & CEO*

Well Steven there's a lot of competitive threats and it's always hard to figure out what the biggest ones are. Certainly cable, satellite, Telco, MSO, just improving their product is the biggest one --the better, more on demand, more HDTV everywhere continuing to improve that and, you know, that's a competitor for time at the least. And then there's the potential emergence of direct competitors, we referred to Hulu, we'll see what they do, potentially others over time. But TV shows and movies is a very very broad competitive set but the upside is it's a very big market.

Deborah Crawford - *Netflix - VP IR*

Next questions are from Youssef Squali of Jeffries & Company. What do you believe is the likely impact of the postal service going from six days delivery to five days on your DVD-by-mail business?

Reed Hastings - *Netflix - President & CEO*

Youssef, it's Reed here. We're not particularly concerned as our streaming grows, we'll be less and less sensitive to, you know, particular postal variations. The soonest they are talking about it actually taking effect would be the middle of next year, so it's not a good thing for us. We hope they hold off as long as possible but we're also cognizant that the total health of the USPS is at stake, and they may need to make changes that they need to make.

Deborah Crawford - *Netflix - VP IR*

He had a second question. What kind of adoption are you seeing on the Wii platform since its launch. Would the cost be higher or lower than your average?

Reed Hastings - *Netflix - President & CEO*

On the Wii, we're real happy with the first two weeks here, the application's working great, we're shipping more discs every day, so we couldn't be happier. There's no particular cost difference from any of our other platforms.

Deborah Crawford - *Netflix - VP IR*

Next questions are from Mark Mahaney at Citigroup. Can you provide any more color on the HBO deal mentioned in the transcript? How broad is this deal?

Reed Hastings - *Netflix - President & CEO*

Mark, it's Reed. The 28 day deal or the HBO deal is in reference to our DVD and BluRay purchasing. That is we figured out a 28-day style deal with them like we have with Warner Brothers.

Deborah Crawford - *Netflix - VP IR*

Second question; Do you have any indications yet as to whether the 28 day windows are causing any satisfaction problems with your customers?

Reed Hastings - *Netflix - President & CEO*

Yes, our indication is our record low churn. You know, we continue to improve our service, taking all of the savings from the 28 day DVD and pouring it into more streaming and you see the net benefit in our record low churn.

Deborah Crawford - *Netflix - VP IR*

Next question is from Ryan Hunter at Wedge Partners. As instant watch viewing increases, are you starting to see subscribers change from multi-out to single-out subscriptions? If so, will lower operating costs from streaming offset the churn and over what time horizon should we think about this leveling out?

Reed Hastings - *Netflix - President & CEO*

Let's see, Ryan. It's not so much that people who have been with us for a couple years on a two out of three out switch down. There's a little bit of that but it's not material. It's mostly that as we grow, the new people coming in are differentially choosing our one out $9 a month plan, so that's where you get the majority of the ASP effect from. We're very happy with the margin structure that that generates for us, and on the earnings stream, so I hope that that answers your question.

Barry McCarthy - *Netflix - CFO*

Yeah, on the switching, the migration by price point, roughly 1% of subs a month migrates down, roughly 1% migrates up -- well 1.2% -- and on balance for the last quarter, we had 4,500 more subs migrate up than migrate down. So in prior quarters we've said that it happens a little bit, on balance slightly more than up, and that remains the current trend in the business, so it just isn't a dominant consumer behavior.

Deborah Crawford - *Netflix - VP IR*

He had a second question. Vitamin Water recently aired an ad that mentioned searching Netflix for a guilty pleasure marathon. Is there a former relationship or is this an example of Netflix becoming more a part of social vernacular?

Reed Hastings - *Netflix - President & CEO*

The latter, Ryan.

Deborah Crawford - *Netflix - VP IR*

Next question is from David Miller at Caris & Company. Of the $200 million in leverage which was sourced late last year, can you say what portion has gone to source streaming rights, what portion has gone towards stock buybacks and what portion has gone towards working capital?

Barry McCarthy - *Netflix - CFO*

The question refers to the $200 million debt deal we closed in November of last year. As you know, from the Q4 and Q1 results, cash flow from operations is positive and free cash flow has been positive, and so what was the working capital needs of the business are self-funding and cash flow from operations includes all of the expenses and investments and content related to streaming and so that has been self-funding. So by default, all of the proceeds have gone for either stock buyback or to replenish cash on the balance sheet and it's actually been a combination of both.

Deborah Crawford - *Netflix - VP IR*

The next questions from Doug Anmuth at Barclays Capital. Why shift marketing spend to content in the second half when you really have the opportunity to grow the subscriber base and can clearly fund the content spend other ways?

Reed Hastings - *Netflix - President & CEO*

Doug, it's a legitimate question, I think probably either one would get us great growth. I just want to point out when we invest in streaming content, that also attracts more subscribers because it improves the service so they are both vehicles for growth and we make judgment calls between the two, but on the margin, our results are not that sensitive to it. That is if it were $10 million or $15 million one way or the other, we would get really the same growth. Think of it as, you know, we're continuing to invest adequately in marketing and generously in terms of the streaming content which is a strategy decision.

Barry McCarthy - *Netflix - CFO*

The near-term objective, you'd say with respect to the streaming, is to improve the overall quality in the service by year-end, and that serves the long-term strategic objectives of improving the value proposition which increases lifetime value by lowering churn and improves word of mouth which lower SAC and the combination you see at play and the most recent quarter and the prior quarter.

Deborah Crawford - *Netflix - VP IR*

Second question from Doug. What is your view of the iPad, more of a new subscriber driver or another device for subscribers that will improve value proposition, reduce churn, etc.?

Reed Hastings - *Netflix - President & CEO*

A little of both, Doug. I mean it's a great device, it will grow over time in both its impact in usage and as we mentioned we'll expand on to the iPhone also and of course that's a much bigger installed base but a smaller screen, so, you know, both of those will be good. I would say overall a relatively small part of video viewing, most of our focus is on television, either directly with Wi-Fi TV or through the BluRay player or through the video game console, but it's easy enough to support mobile so we're doing that also.

Deborah Crawford - *Netflix - VP IR*

Great. The next question is from Tony Wibel at Janney Montgomery Scott. When does the Starz contract come up for renewal?

Reed Hastings - *Netflix - President & CEO*

Tony, it's Reed. We don't need to talk about the details of any of the contracts but we're not overly dependent on any single piece of content, we're continuing to grow our total content and we're confident we'll be able to continue to grow that content this year, next year, and going forward as we are able to invest more money in it which we have been.

Deborah Crawford - *Netflix - VP IR*

The next couple of questions are from Mark Harding at Maxim Group. First, could you comment on the linearity of subscriber ads during the quarter?

Barry McCarthy - *Netflix - CFO*

Well let's see, Mark. Historically what we've seen is seasonality affects in calendar Q1 and calendar Q4 with growth just after the Christmas holiday season for back-end loaded in Q4 and front-end loaded in Q1 and then growth during Q2 is relatively back-end loaded and Q3 is pretty linear across the quarter. Our growth patterns this quarter were less pronounced. With the growth in -partners and the appeal of streaming and with the launch of Wii, we'll see sort of the non-traditional growth pattern during the second quarter and incremental marketing spending around that growth as well.

Deborah Crawford - *Netflix - VP IR*

Second question; Can you update us on the split between new releases and catalog DVDs, and can you provide any similar metrics for streaming, perhaps newer releases through your Starz relationship versus older titles?

Reed Hastings - *Netflix - President & CEO*

Mark, on DVD, we haven't seen any material changes in years, so that's been a pretty consistent story, and on streaming, we haven't provided any color on that break out between different types of content or ages.

Deborah Crawford - *Netflix - VP IR*

The next question is from Ben Rose at Battle Road Research. Can the Company share the number of subscribers who are utilizing streaming for virtually all of their Netflix consumption? If not might you share that percentage in the future?

Reed Hastings - *Netflix - President & CEO*

It's a pretty small number, almost everybody watches DVD's also of our subscriber base, and we don't have any plans to break that out. What we are focused on is driving up the percentage of people who do some streaming and you see that as the key metric which is why we developed it and are continuing to update everyone on it.

Deborah Crawford - *Netflix - VP IR*

The next question is from Wayne Chang at Canaccord Adams. Could you speak a little bit more extensively concerning the levels of activation you have seen on all of the various connected devices, via television, set-top boxes and portable devices such as the iPad?

Reed Hastings - *Netflix - President & CEO*

It's not particularly in terms of the levels of activation that we're going to talk about but probably underlying the question is trying to get some insight into how people are using the service and a key insight for you is that there's a significant amount of people that are hooking or watching on a PC and are watching with a PC hooked to a TV which to us looks like a PC, and so don't think about it as the only thing that matters is the Xbox or the PS3. It's really a very broad usage pattern across a whole lot of devices, even in a given single household you'll have people accessing Netflix from multiple devices and that's part of the strength of our service in really being an Internet video service is to be on all of the devices that the Internet is on and have consumers think about us as an Internet service across all of those devices.

Deborah Crawford - *Netflix - VP IR*

Next question is from Malindi Davies at Susquehanna Financial group. A question about the new distribution deal with Warner Brothers. Now that you have Blind Side for example, do you have enough to fill demand for DVD's? Are demand trends for Blind Side 28 days after the DVD release, similar so what you've been seeing for new releases of this type in the past? We are trying to understand if there's "pent-up demand" from Netflix subscribers or are Netflix subscribers shifting to pay-per-view and/or are buying DVD's for the new releases and using Netflix for other content like older movies, TV shows, etc.?

Reed Hastings - *Netflix - President & CEO*

Malindi, there's a little bit of both as you would expect. There are people who because of the 28 day are turning to buying the DVD especially because it's widely promoted at Wal-Mart and other places. There are some that take pay-per-view because Warner Brothers is aggressive on pay-per-view licensing, and that's really the intent of the deal. In terms of the backlog, once it comes to the 28 day, we try to target to have enough DVD's to clear that back log pretty quickly. There's a little bit of guesswork based on that that we're still learning together with Warner Brothers on how to predict that but that's the goal and intent.

Deborah Crawford - *Netflix - VP IR*

Great. The next question is from Ralph Schackart at William Blair. Why is Netflix committed to staying out of the 40 billion plus transaction based pay-per-view market if we include DVD rental and sales? Why wouldn't content owners want you to sell new releases with the Netflix strong brand and digital distribution channel if there will be multiple digital store fronts going forward?

Reed Hastings - *Netflix - President & CEO*

William, that's an interesting question. I would say at times, content owners have wanted us to do that. I would say we don't see how we add much value in that, that is, you know, when we buy DVD's we buy them from Wal-Mart as consumers, from Wal-Mart or Amazon because, you know, they do a great job at it. That's what their main focus is and our focus is on subscription and it's hard and it takes us a lot of work, so that's probably the main reason we don't do the for example, selling DVD's. In terms of pay-per-view, there's a very specific thing which is for example, Xbox has and has had for years a big pay-per-view business and if we had also had pay-per-view as part of our service, it would have been a lot harder to get distribution on the Xbox. Similarly with PS3, and then of course you seen that with Wal-Mart entering the pay-per-view market online with Voodoo, that many of those firms want to go after that business and so it's really much smarter for us, we think, to be out of that, not in a position of conflict and just to be focused on our subscription business.

Deborah Crawford - *Netflix - VP IR*

The next question is from Edward Williams at BMO Capital Markets. In terms of the iPad app, how does it affect your view of the mobile market for watch instantly?

Reed Hastings - *Netflix - President & CEO*

I think it doesn't change it, Edward, as I had said a few minutes ago, we look at mobile for video viewing, it's a nice extra because it's pretty easy as opposed to fundamental and the really TV-based and laptop-based screens are the primary screens that we're focused on.

Deborah Crawford - *Netflix - VP IR*

Second question, how much of your share buyback program is left, and on top of that, another modeling question, what should we assume for a tax rate in 2010?

Barry McCarthy - *Netflix - CFO*

With the second part of the answer, probably 41% for the tax rate and at least in response to the question on the buyback program, you should imagine that as we, if we exhaust the current buyback authorization that there will be additional authorizations and you should expect us to continue to be active in repurchasing the stock.

Deborah Crawford - *Netflix - VP IR*

The next question is from Jason Helfstein at Oppenheimer & Company. As you began to acquire content for international streaming, would you expect the subscriber economics to be different from the US business and how could this impact margins?

Reed Hastings - *Netflix - President & CEO*

Jason, we'll be able to talk more about international at the end of the year. In our guidance is built in the modest expenditures we have planned for this year.

Deborah Crawford - *Netflix - VP IR*

A question from Steven Frankel at Brigantine Advisors. Is the increase in stock-based compensation that we saw in Q1 a level that will be sustained throughout the year?

Barry McCarthy - *Netflix - CFO*

Probably so, yes, depending on our new employee hiring this year and the thing that should give you comfort that's likely to be true is that it was relatively flat plus or minus a couple hundred thousand dollars last year and the year before that, so the big drivers of incremental expense would be increased volatility, both implied and actual, and employee growth.

Reed Hastings - *Netflix - President & CEO*

And we're on a calendar year review cycle, so generally it will be stable during the year and then shift on the calendar year boundary.

Deborah Crawford - *Netflix - VP IR*

The next set of questions are from Scott Devitt at Morgan Stanley. With regard to gross margin, the recent coupons you sent out offering 10% off the next monthly bill to users who install watch instantly on their Wii lead us to believe that streaming users are materially higher margin than non-streaming users given they watch less DVD's. Can you give us any idea of the margin difference between streaming and non-streaming users?

Barry McCarthy - *Netflix - CFO*

Scott, we're not commenting on gross margin for streamers versus non-streamers. You're right that if there's a shift - at a high level, you're right, but all things being equal if there's a shift away from DVD towards streaming, it could be an accelerant of gross margin, but you should also remember that we've explicitly said that all things will not be equal and that to the extent that there's more profit in the business, our objective is to reinvest the profit in improving the user experience so in that way, margins is a managed outcome and our objective is to take what would have been higher margins, reinvest it in the business in order to drive faster subscriber growth and lower churn and lower SAC and increase competitive moats.

Reed Hastings - *Netflix - President & CEO*

And then on specifically on the Wii test, that was just our ever-aggressive product and marketing and testing things of the program you referred to is just a test at this point.

Deborah Crawford - *Netflix - VP IR*

Second question from Scott Devitt, with Redbox considering a streaming service at a lower price point than your $8.99 per month subscription, are you revisiting the idea of offering a streaming only subscription plan at a lower price point?

Reed Hastings - *Netflix - President & CEO*

No, Scott. Redbox does many things incredibly well but we're not worried about them particularly as a streaming competitor so anything they do with streaming doesn't affect how we think about that space.

Deborah Crawford - *Netflix - VP IR*

And finally, given the ever expanding number of Netflix enabled devices, have you seen or do you expect to see consumers trading up to higher-price subscription plans in order to watch multiple videos simultaneously, either multiple people in different rooms in the house, mobile users watching while others at home are as well, or to have Netflix enabled on greater than six devices?

Reed Hastings - *Netflix - President & CEO*

The next year or two we don't anticipate much of that. It's pretty much one account per family model in the near term.

Deborah Crawford - *Netflix - VP IR*

Next questions are from Andy Hargreaves at Pacific Crest Securities. To your knowledge, are cable satellite subscribers who cancel citing your service in increasing numbers? If so could that impact your ability to gain access to TV content?

Reed Hastings - *Netflix - President & CEO*

Andy, there's been a bunch of stories about so-called cord cutting but we haven't seen a lot of it. You know, Netflix has a subset of the content available on a typical MSO system - in particular no sports -- so it's not much of a substitute for the packages that MSO's offer.

Deborah Crawford - *Netflix - VP IR*

He had a second question with regards to G & A. What drove the increase in the quarter and should G & A stay around the Q1 levels through 2010?

Barry McCarthy - *Netflix - CFO*

Two contributing factors primarily on the comp side. The CEO swapped a very large percentage of his comp this year versus last year into options and that has a higher related expense -- so he's doubling down his investment in the business in that way, and that's encouraging, and then secondly as the brand has grown, the plaintiff's bar has become more active and legal expenses as a consequence are up on a year-over-year and Q over Q basis.

Deborah Crawford - *Netflix - VP IR*

The next set of questions are from Barton Crockett at Lazard. The first is a long-term content question. As Netflix subscriber base grows and seemingly gets closer and closer to total subscribers for premium pay TV networks, like HBO, Showtime and Starz, does the Company ever need to think about borrowing a page from their strategy and investing in unique original content? Over the long term, it seems that for a video network to remain relevant to consumers and ward off competition, it needs unique content. Otherwise, a checkbook becomes the main barrier to entry which is not sustainable. Do you agree or disagree with that thought?

Reed Hastings - *Netflix - President & CEO*

Barton, it's a good deep analysis, but I would disagree. Your premise is that video services such as HBO and Starz need original content to differentiate and I'm not in disagreement with that part, but what Netflix has to differentiate is the user interface personalization on-demand aspect with the Internet and web and our view is that we can remain a packager and be significantly differentiated from other services because our value add is not just the content, it's all of the recommendations, how people interact with them, helping them match with content they are going to end up loving. So our view is we won't ever need to go into original series. I would certainly say if we ever did, we would probably have the wrong CEO and we shouldn't be based in Silicon Valley and there's a number of other things, you know, that make that an unpromising avenue.

So instead what we're focused on is can we license the content as we have with Starz, we have some content from Showtime and not yet anything from Epics or HBO. And as those firms look at us, they can look at us two ways, one is geez we're another packager of movies and a potential competitor, or thay can look at it is we're a natural distributer for their original series. And when you see the enormous success that Starz is having with Spartacus, that Showtime, you know, has had with Weeds, Californication and others, and of course HBO has for many years, you can see those services are differentially good at the original series. So what we hope will be the lines of partnership will be us as a great distributer writing them big checks for their original content -- we focus on packaging and they focus on the original series.

Deborah Crawford - *Netflix - VP IR*

The next question is related to gross margin and the 28 day window. Did the new 28 day window deal with Warner Brothers have a meaningful impact on Q1 gross margin? Can you discuss whether it helped or hurt gross margins and then the materiality of the impact? How do you see the 28 day window deals with Warner Brothers and other studios affecting gross margin for the balance of the year?

Reed Hastings - *Netflix - President & CEO*

I'll let Barry talk about the gross margin as a whole but you remember what we're doing is saving money on DVD and putting it into streaming, okay? So if you asked the question are we saving money on DVD the answer is yes. If we're saving money on content the answer is no because we're making a choice to put the additional money into more streaming content.

Barry McCarthy - *Netflix - CFO*

Which is the perfect preamble to remind everyone that gross margin in that way is a managed outcome.

Deborah Crawford - *Netflix - VP IR*

Last question from Barton. You say you intend to remain active this year in share repurchases. Your repurchase volume doesn't seem to have been affected much by the meteoric rise in Netflix stock. Are we anywhere near a price of Netflix shares that would prompt you to scale back your share repurchase volumes?

Barry McCarthy - *Netflix - CFO*

No. To expand on the answer I would say that if you're looking in the rear view mirror, the stock looks expensive. I can remember when we were charted by Heard on the Street and the Wall Street Journal back in January and in the middle of last year for repurchasing at record high prices which in retrospect looked pretty attractive. So whether you think the stock is expensive or cheap depends entirely on your view of the value of the business, and if you could imagine that Netflix is a winner in a very large market then probably the target price at which you're willing to acquire the stock is relatively high and if in the alternative you think we get trampled or margins get trampled in this space, then you perhaps have no price at which you're willing to buy the stock. We have had and continue to have an optimistic view about likely success in the space and as a result, we have pretty aggressive targets at which we're willing to buy the stock, and so far, so good.

Deborah Crawford - *Netflix - VP IR*

The next question is from Mike Olson at Piper Jaffrey. What do you think attach rates are on the tens of millions of devices Netflix has now integrated with and are mobile device partnerships incremental for new sub additions or Mobile Devices just churn reducers for subs using watch instantly through other devices?

Reed Hastings - *Netflix - President & CEO*

Mike, the generous tens of millions that you referred to for devices may be true in the Fall as more devices sell and come to market with Netflix included in them, but it's a little aggressive for the current situation. In mobile, I would say not sure if it's sign up vehicle or just one of the many platforms that someone watches. My intuition would be that it's one of the many platforms that someone accesses Netflix with and that that helps. Either way, it's not that much work to put a client together for a mobile device so it makes sense for us to do.

Deborah Crawford - *Netflix - VP IR*

The next question is from Dan Ernst at Hudson Square. With regards to the Netflix iPad app, can you talk about any trends in terms of subscriber viewing that you have seen with the iPad? Of subscribers or viewing?

Reed Hastings - *Netflix - President & CEO*

Dan, I can tell you the wonderful thing about the Apple ecosystem is that it gets so much press and attention. It brings a lot of press and attention to the Company, obviously to this call, in excess of its short-term contribution to viewing or subscribers. Now in the long term, the iPad is a very exciting device that has great potential. But in the short-term, in comparison to the nearly 30 million households that have a Wii, it's not a major contributor.

Deborah Crawford - *Netflix - VP IR*

The next two questions are from Brian Fitzgerald at UBS. What are the most popular content categories on the streaming service?

Reed Hastings - *Netflix - President & CEO*

The beautiful thing about Netflix is that it's adaptive to the individual taste, so if a subscriber really likes comedy, it will start featuring lots of comedy. If a subscriber likes drama, TV shows, horror, it adapts to their taste and that's our fundamental focus which is learning the taste of each of our members and presenting them an experience that makes them feel how Netflix has all of the stuff that I really want to watch. So we really don't focus on programming for categories or types. It's really a broad set of content and then the real focus is on learning and adapting in the user interface for the particular taste.

Deborah Crawford - *Netflix - VP IR*

The next question is from Brian at UBS. Regarding Netflix relationship with TiVo and the new premier set top box, this box will be deployed as the set top box for RCN users. Will Netflix have to remove Starz content for those users so not to conflict with RCN's offering?

Reed Hastings - *Netflix - President & CEO*

You know, to tell you the truth I didn't know about this TiVo-RCN deal so I haven't heard anything to that and I think I probably would have if there was such a conflict so I imagine there isn't one.

Deborah Crawford - *Netflix - VP IR*

Next question is from Nat Schindler of Banc of America. Your spend on the DVD library of just 37 million is down 21% year-over-year and 35% year-over-year -- one of them must be Q over Q -- despite the deep rise in subscribers. Is this decline driven by the recent better library management and back catalog marketing, Time-Warner contract, user substituting streaming content for DVDs, or simply a lack of big Hollywood hits in Q1 to buy?

Barry McCarthy - *Netflix - CFO*

I would say none of the above. It reflects the shift in purchasing to rev share and the rev share gets expensed in the P & L and you don't see it flow through the statement of cash flows like CapEx for content purchasing on DVDs does.

Deborah Crawford - *Netflix - VP IR*

The next question is from Imran Khan at JPMorgan. Could you please give us color on your churn rate for customers who are using streaming predominantly?

Reed Hastings - *Netflix - President & CEO*

We don't break out individual churn rates for different sectors. I would say overall, we're very happy with where churn is trending and you're seeing churn coming down and streaming rising so that's a good thing.

Barry McCarthy - *Netflix - CFO*

Sorry, just to amplify my comments I made on last quarters call and in my commentary on the website. I attributed record low churn to the growth in streaming and made similar comments the last quarter and so you should infer that the subscribers who engaged in streaming are incrementally happy and staying longer.

Deborah Crawford - *Netflix - VP IR*

The next question is from John Blackledge at CS. Would you expect to raise additional debt in 2010?

Barry McCarthy - *Netflix - CFO*

Not likely, John. I would say we could, I think we've got something like .74 terms of debt on the business, but we have no immediate plans.

Deborah Crawford - *Netflix - VP IR*

The next question is from Rick Richard Skaggs at Loomis Sayles. Share repurchase was substantial in the quarter, increasing balance sheet leverage on the surface. What do you see as an optimal debt-to-capital ratio given the predictability of cash flows and other investment opportunities?

Barry McCarthy - *Netflix - CFO*

Still teasing that out and not prepared to talk about it publicly. I mean we could very comfortably support 1.5 turns of debt on the business, as I said we're currently at less than .8 to 1, but I would want the capital structure to be conservative enough so that the Company, if we were ever challenged competitively, would never be constrained on the operating decisions we've made to confront competition. I wouldn't want that leverage to get in the way of any decisions we might want to make in the future. On the other hand, the business is growing rapidly, the competitive moats seem well established, and we're very optimistic about the future, so at this point there are a number of puts and calls in the context of our interest in using proceeds from additional debt financing to repurchase shares.

Reed Hastings - *Netflix - President & CEO*

And really the bigger driver of how much leverage is just that we're clearly not in a mode of trying to build our cash up to -- if we had not done any buyback over the last three years, we would have a billion dollars on the Balance Sheet. That sounds good and it's a nice press headline but we're really happy with the decisions we've made to keep cash pretty steady and to return that money to shareholders, so that part we have been willing to talk about.

Deborah Crawford - *Netflix - VP IR*

The next question is from Youssef Squali at Jeffries. Can you explain the reasons for moving to Amazon's AWS? Can you quantify potential savings?

Reed Hastings - *Netflix - President & CEO*

Youssef, I'm not sure on the savings architecturally, we're big believers in the public cloud for any Company that, you know, doesn't have Google or Facebook's scale. Basically as you know, you get to take advantage of their vast resources, so we think it will help us with cost, it will help with reliability. It's obviously early in the public cloud movement, we'll see a lot of new companies enter that space and the vigorous competition will help draw the prices down which will benefit for us, if we're architected for the public cloud.

Barry McCarthy - *Netflix - CFO*

Generally, tt has made us more nimble, marked by our ability to encode the library for new platform launches in short periods of time.

Reed Hastings - *Netflix - President & CEO*

That's right. Barry has a good anecdote in that one. We moved our encoding facility out of our internal data center into Amazon about six months ago and when we got the sudden ability to do the Apple iPad and we had to do a very large encoding job, we would never have been able to - it would have taken six months in our prior internal data center. But because of the elasticity of the public cloud we're able to spin up thousands and thousands of encoding cuts and do it in parallel so you're right, we've already seeing, you know, good progress from that.

Deborah Crawford - *Netflix - VP IR*

The next question is from Mario Cibelli at Marathon Partners Will Netflix still deliver its last DVD in 2030?

Reed Hastings - *Netflix - President & CEO*

Mario, I will personally deliver that last DVD in 2030 and yes, that's still our best guess when we look at the DVD market. Our DVD shipments are continuing to climb throughout the country, even in the Bay Area where you see the astounding up to 24% of Bay Area households subscribing to Netflix and our DVD shipments, DVD and BluRay combined, are continuing to grow, so DVDs got a lot of legs here and 2030 is still the target.

Deborah Crawford - *Netflix - VP IR*

Last couple of questions and they are from Scott Devitt at Morgan Stanley. Now that Netflix is available on the iPad and is expected on the iPhone, what is the likelihood that the Netflix app lands on Apple TV some day?

Reed Hastings - *Netflix - President & CEO*

You know, Apple declared themselves two months to be a mobile Company, they are focused on mobile mobile mobile so I'm not sure how much going forward that they are going to spend on Apple TV. If they decide to invest in it, it's something that would make sense to us but at this point it's not their focus. Their focus is on mobile and we'll work with them on all of those mobile platforms as we have been.

Deborah Crawford - *Netflix - VP IR*

And finally, given the increased focus on Mobile Devices and the incremental engineering costs associated with developing products for these platforms, do you see any opportunity to monetize this customer base differently? For example, offering a higher price plan that includes mobile access similar to BluRay?

Reed Hastings - *Netflix - President & CEO*

You know, on the eb, the basic model is that you're a web-based or Internet based service available on devices that have web browsers and speak Internet. So that's the basic paradigm, as opposed to those one price on this type of PC and another price on a different machine and we're very much a web centric Internet video firm in that way and because of that, we tend not to think about things like extra charges for certain modalities of access. We do think about charges for HD or we think about more content, but that's across all of the devices that are simply to us Internet access devices.

Deborah Crawford - *Netflix - VP IR*

Great. Operator, that's the last question I have. Before we conclude the call, I would like to turn the call back over to Reed Hastings for some closing remarks.

Reed Hastings - *Netflix - President & CEO*

Thanks, Deborah, and thanks all of you for joining us on the call. Q1 was another great quarter and as you can see from our guidance, we're well positioned for continued growth and I look forward to reporting to you on our progress on next quarters call.

Operator

This does conclude your program. Thank you for your participation and have a wonderful day. You may disconnect your lines at this time.
