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***NETFLIX REPORTS PRO-FORMA NET INCOME ON RECORD 4<sup>th</sup> QUARTER  
2002 REVENUE***

- Revenue of \$45.2 million, up 109 percent year over year and up 11 percent sequentially
- Pro-forma net income of \$463 thousand or \$0.02 per basic and fully diluted share
- Churn of 6.3 percent, down from 7.2 percent in the third quarter of 2002
- EBITDA of \$8.1 million, up 476 percent year over year and up 29 percent sequentially
- Positive cash flow of \$4.7 million for the fourth quarter and \$15.8 million for fiscal 2002

LOS GATOS, CA — January 15, 2003 -- Netflix, Inc. (Nasdaq: NFLX) announced record financial results for the fourth quarter and year ended December 31, 2002.

**Revenue, Subscribers, and Churn**

Total revenue for the fourth quarter was a record \$45.2 million, up 109 percent compared to \$21.6 million for the fourth quarter 2001, and up 11 percent compared to \$40.7 million for the third quarter 2002.

Revenue for fiscal 2002 was a record \$152.8 million, up 101 percent compared to \$75.9 million for fiscal 2001. “Netflix momentum is a powerful testament to consumer enthusiasm for unlimited DVD rentals, delivered by mail, with no late fees, for \$20 a month,” said Reed Hastings, Netflix CEO and co-founder. “Netflix has and will continue to dominate the category we created.”

Netflix ended the fourth quarter of 2002 with approximately 857,000 total subscribers. During the quarter Netflix acquired 315,000 new trial subscribers, a 39 percent year-over-year increase from the 227,000 new trial subscribers acquired in the fourth quarter of 2001 and a sequential increase of 14 percent over the 277,000 new trial subscribers acquired in the third quarter of 2002.

Average monthly subscriber churn for the fourth quarter of 2002 was 6.3 percent as compared to 7.2 percent in the third quarter of 2002 and 6.2 percent in the fourth quarter of 2001. Churn includes free trial subscribers as well as paying subscribers who elect not to renew their monthly subscription service during the quarter. Churn rates were better than expected throughout the quarter for free trial and paying subscribers.

### **Gross Margin**

Gross margin for the quarter was 48.2 percent, slightly above the Company’s guidance of 47 to 48 percent and up from 47.2 percent in the third quarter of 2002. Disc usage per average paid subscriber declined 3 percent during the quarter. Cost savings from lower postage and packaging expense were partially offset by increased depreciation expense on DVD inventory.

### **Subscriber Acquisition Cost**

Subscriber acquisition cost<sup>1</sup> for the fourth quarter was \$33.31 per new-trial subscriber compared to a cost of \$30.15 for the fourth quarter 2001 and a cost of \$33.57 for the third quarter 2002.

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<sup>1</sup> “Subscriber acquisition cost” is defined as the total marketing expense on the Company’s Statement of Operations divided by total new trial subscribers in the quarter.

## **Net Income, EBITDA, and Cash Flow**

Netflix reported record pro forma net income of \$463 thousand, or \$0.02 per basic and diluted share, for the fourth quarter of 2002 compared to a pro forma net loss of \$3.5 million, or a loss of \$0.23 per pro forma basic and diluted share<sup>2</sup>, for the fourth quarter of 2001 and a pro forma net loss of \$228 thousand, or \$0.01 per basic and diluted share, for the third quarter of 2002. Pro forma net income equals net income on a GAAP basis less stock-based compensation expense, restructuring charges, and non-cash interest expense on the early retirement of debt.

Netflix also reported a net loss on a GAAP basis totaling \$2.3 million or a loss of \$0.10 per basic and diluted share for the fourth quarter of 2002, compared to a net loss of \$4.5 million or a loss of \$2.26 per basic and diluted share, or a loss of \$0.30 per pro forma basis and diluted share, for the fourth quarter of 2001 and a net loss of \$1.7 million or a loss of \$0.08 per basic and diluted share for the third quarter of 2002.

EBITDA for the fourth quarter 2002 was \$8.1 million, up 476 percent compared to \$1.4 million for the fourth quarter ended 2001 and up 29 percent compared to \$6.3 million for the third quarter ended 2002.

Free cash flow for the fourth quarter 2002 was 10 percent of revenue or \$4.7 million, down 19 percent from \$5.8 million in the third quarter 2002 due to rapid growth in Netflix subscribers and the costs of acquiring subscribers and inventory to support that growth. For the full year 2002 the Company generated \$15.8 million of positive cash flow and finished the year with \$104 million of cash and short-term investments. Less outstanding debt of \$1.7 million, this equates to \$4.59 per fully diluted share.

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<sup>2</sup> Pro forma basic and diluted net loss per share gives effect to the conversion of all shares of our preferred stock, as of the beginning of the periods presented, that automatically converted to common stock upon the completion of our initial public offering.

## **Business Outlook**

The Company's performance expectations for the first quarter of 2003 and the full year 2003 are as follows:

### **First Quarter, 2003**

- Ending subscribers of 975 to 1,025 thousand
- Revenue of \$51 to \$54 million
- Gross margin of 47 to 48 percent
- Subscriber acquisition cost of \$34 to \$36 per acquired subscriber
- Pro forma operating loss before stock-based compensation expense of \$0.5 to \$2.5 million
- EBITDA of \$5.7 to \$7.2 million

### **Full Year 2003**

- Revenue of \$235 million to \$255 million
- Pro forma operating profit before stock-based compensation expense of \$2 to \$6 million
- EBITDA of \$40 to \$45 million

“2003 will be a year of milestones with a laser focus on the fundamentals that have made us one of today's most dynamic Internet companies: generally overnight delivery to more than 50 percent of our subscribers and a library of DVD titles that would be virtually impossible for any consumer to amass or access at their local video store,” said Mr. Hastings.

### **Earnings Call**

The Netflix earnings call will be web cast today at 5:00 p.m. Eastern Time / 2:00 p.m. Pacific Time, and may be accessed at <http://www.netflix.com> or at <http://www.prnewswire.com>. Following the conclusion of the web cast, a replay of the call will be available via Netflix's web site at <http://www.netflix.com>.

## **About Netflix**

Launched in 1998, Netflix (Nasdaq: NFLX) is the world's largest online subscriptions-based DVD rental service, providing more than 850,000 subscribers with access to a comprehensive library of more than 13,500 DVD titles. For \$19.95 a month, Netflix subscribers can rent as many DVDs as they want, with three movies out at a time, and keep them for as long as they like. There are no due dates and no late fees. DVDs are delivered directly to the subscriber's address by first-class mail from distribution centers throughout the United States. Netflix can reach more than half of its subscribers with generally next-day service. The Company also provides background information on DVD releases, including reviews, member reviews and ratings and personalized movie recommendations. For more information on the company, visit [www.netflix.com](http://www.netflix.com) <<http://www.netflix.com>>.

## **Forward Looking Statements**

This press release contains certain forward-looking statements within the meaning of the federal securities laws, including statements regarding our subscriber growth, revenues, gross margins, subscriber acquisition costs, pro forma operating loss, and EBITDA for the first quarter of 2003 and our revenue, pro forma operating income, and EBITDA for the full year of 2003. These statements are subject to risks and uncertainties that could cause actual results and events to differ, including, without limitation: our ability to manage our growth, in particular managing our subscriber acquisition costs as well as the mix between revenue sharing titles and titles not subject to revenue sharing that are delivered to our subscribers; our ability to attract new subscribers and retain existing subscribers; fluctuations in consumer spending on DVD players, DVDs and related products; competition; disruption in service on our website or with our computer systems; deterioration of the U.S. economy or conditions specific to online commerce or the filmed entertainment industry; conditions that effect our delivery through the U.S. Postal Service, including increases in first class postage; changes to the exclusive release period provided by the studios for DVDs following theatrical release; increases in the costs of acquiring DVDs; and, widespread consumer adoption of different modes of viewing in-home filmed entertainment. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our filings with the Securities and Exchange Commission, including our final prospectus dated May 22, 2002 relating to our initial public offering. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this press release.

**Netflix, Inc.**
**Statements of Operations**

(in thousands, except per share data)

	Three Months Ended			Year Ended	
	Dec 31, 2001	Sep 30, 2002	Dec 31, 2002	Dec 31, 2001	Dec 31, 2002
<b>Revenues:</b>					
Subscription	\$ 21,362	\$ 40,163	\$ 44,978	\$ 74,255	\$ 150,818
Sales	256	568	210	1,657	1,988
Total revenues	21,618	40,731	45,188	75,912	152,806
<b>Cost of revenues:</b>					
Subscription	10,468	21,147	23,246	49,088	77,044
Sales	197	349	144	819	1,092
Total cost of revenues	10,665	21,496	23,390	49,907	78,136
Gross profit	10,953	19,235	21,798	26,005	74,670
<b>Operating expenses:</b>					
Fulfillment	2,967	4,908	5,449	13,452	19,366
Technology and development	2,901	3,966	3,960	17,734	14,625
Marketing	6,844	9,299	10,492	21,031	35,783
General and administrative	1,110	1,870	1,920	4,658	6,737
Restructuring charges	-	-	-	671	-
Stock-based compensation	987	1,467	2,778	5,686	9,831
Total operating expenses	14,809	21,510	24,599	63,232	86,342
Operating loss	(3,856)	(2,275)	(2,801)	(37,227)	(11,672)
Interest and other income (expense), net	(609)	580	486	(1,391)	(10,275)
Net loss	\$ (4,465)	\$ (1,695)	\$ (2,315)	\$ (38,618)	\$ (21,947)
<b>Net loss per share:</b>					
Basic and diluted	\$ (2.26)	\$ (.08)	\$ (.10)	\$ (21.15)	\$ (1.56)
Pro forma basic and diluted	\$ (.30)	\$ (.08)	\$ (.10)	\$ (2.74)	\$ (1.15)
<b>Weighted average shares outstanding:</b>					
Basic and diluted	1,978	21,922	22,223	1,826	14,102
Pro forma basic and diluted	14,834	21,922	22,223	14,099	19,138
<b>Other data:</b>					
(Unaudited)					
<b>EBITDA:</b>					
Operating loss	\$ (3,856)	\$ (2,275)	\$ (2,801)	\$ (37,227)	\$ (11,672)
Add back:					
Stock based compensation	987	1,467	2,778	5,686	9,831
Pro forma operating income (loss)	(2,869)	(808)	(23)	(31,541)	(1,841)
Depreciation of PP&E	1,512	1,576	1,438	5,507	5,919
Amortization of DVD Library	2,075	4,663	5,849	22,127	17,417
Amortization of Intangibles	684	808	808	2,163	3,141
Non-cash charges for equity granted to non-employees	-	40	-	28	40
<b>EBITDA</b>	\$ 1,402	\$ 6,279	\$ 8,072	\$ (1,716)	\$ 24,676
<b>Pro forma net income (loss):</b>					
Net loss	\$ (4,465)	\$ (1,695)	\$ (2,315)	\$ (38,618)	\$ (21,947)
Add back:					
Restructuring charges	-	-	-	671	-
Stock-based compensation	987	1,467	2,778	5,686	9,831
Non-cash interest on early repayment of debt	-	-	-	-	10,695
Pro forma net income (loss)	\$ (3,478)	\$ (228)	\$ 463	\$ (32,261)	\$ (1,421)
<b>Pro forma net income (loss) per share:</b>					
Pro forma basic and diluted	\$ (.23)	\$ (.01)	\$ .02	\$ (2.29)	\$ (.07)

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

(in thousands, except share and per share data)

	As of	
	December 31,	
	2001	2002
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,131	\$ 59,814
Short-term investments	-	43,796
Prepaid expenses	1,019	2,753
Prepaid revenue sharing expenses	732	303
Other current assets	1,670	409
Total current assets	19,552	107,075
DVD library, net	3,633	9,972
Intangible assets, net	7,917	6,094
Property and equipment, net	8,205	5,620
Deposits	1,677	1,690
Other assets	646	79
Total assets	\$ 41,630	\$ 130,530
<b>Liabilities and Stockholders' (Deficit) Equity</b>		
Current liabilities:		
Accounts payable	\$ 13,715	\$ 20,350
Accrued expenses	4,544	9,102
Deferred revenue	4,937	9,743
Current portion of capital lease obligations	1,345	1,231
Notes payable	1,667	-
Total current liabilities	26,208	40,426
Deferred rent	240	288
Capital lease obligations, less current portion	1,057	460
Subordinated notes payable	2,799	-
Total liabilities	30,304	41,174
Commitments and contingency		
Redeemable convertible preferred stock	101,830	-
Stockholders' (deficit) equity:		
Convertible preferred stock, \$0.001 par value; 8,500,000 shares authorized; 6,157,499 and no shares issued and outstanding at December 31, 2001 and December 31, 2002, respectively; aggregate liquidation preference of \$2,222 at December 31, 2001 and \$0 at December 31, 2002	6	-
Common stock, \$0.001 par value; 100,000,000 and 150,000,000 shares authorized at December 31, 2001 and December 31, 2002, respectively; 2,161,855 and 22,445,795 issued and outstanding at December 31, 2001 and December 31, 2002, respectively	2	22
Additional paid-in capital	52,479	259,172
Deferred stock-based compensation	(5,725)	(11,399)
Accumulated other comprehensive income	-	774
Accumulated deficit	(137,266)	(159,213)
Total stockholders' (deficit) equity	(90,504)	89,356
Total liabilities and stockholders' (deficit) equity	\$ 41,630	\$ 130,530

**Netflix, Inc.**
**Statements of Cash Flows**

(in thousands, except per share data)

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2001	2002	2001	2002
<b>Cash flows from operating activities:</b>				
Net loss	\$ (4,465)	\$ (2,315)	\$ (38,618)	\$ (21,947)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Depreciation of property, plant and equipment	1,512	1,438	5,507	5,919
Amortization of DVD library	2,075	5,849	22,127	17,417
Amortization of intangible assets	684	808	2,163	3,141
Noncash charges for equity instruments granted to non-employees	-	-	28	40
Stock-based compensation expense	987	2,778	5,686	9,831
Gain on disposal of DVDs	-	(205)	-	(1,674)
Noncash interest expense	463	31	1,017	11,384
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	(631)	272	(15)	(44)
Accounts payable	4,407	2,202	6,025	6,635
Accrued expenses	(209)	994	(1,375)	4,558
Deferred revenue	1,474	2,564	2,164	4,806
Deferred rent	24	3	138	48
Net cash (used in) provided by operating activities	6,321	14,419	4,847	40,114
<b>Cash flows from investing activities:</b>				
Purchases of short-term investments	-	(408)	-	(43,022)
Purchases of property and equipment	(565)	(1,188)	(3,233)	(2,751)
Acquisitions of DVD library	(3,007)	(8,756)	(8,851)	(24,070)
Proceeds from sale of DVDs	-	210	-	1,988
Deposits and other assets	100	21	(586)	554
Net cash used in investing activities	(3,472)	(10,121)	(12,670)	(67,301)
<b>Cash flows from financing activities:</b>				
Proceeds from issuance of common stock	31	1,414	125	88,020
Net proceeds from issuance of subordinated notes payable and detachable warrants	-	-	12,831	-
Repurchases of common stock	(5)	(3)	(12)	(6)
Principal payments on notes payable and capital lease obligations	(978)	(216)	(3,885)	(17,144)
Net cash (used in) provided by financing activities	(952)	1,195	9,059	70,870
Net increase (decrease) in cash and cash equivalents	1,897	5,493	1,236	43,683
Cash and cash equivalents, beginning of period	14,234	54,321	14,895	16,131
Cash and cash equivalents, end of period	\$ 16,131	\$ 59,814	\$ 16,131	\$ 59,814
<b>Free Cash Flow:</b>				
Net cash provided by operating activities	\$ 6,321	\$ 14,419	\$ 4,847	\$ 40,114
Purchases of property and equipment	(565)	(1,188)	(3,233)	(2,751)
Acquisitions of DVD library	(3,007)	(8,756)	(8,851)	(24,070)
Proceeds from sale of DVDs	-	210	-	1,988
Deposits and other assets	100	21	(586)	554
<b>Free Cash Flow</b>	\$ 2,849	\$ 4,706	\$ (7,823)	\$ 15,835
<b>Supplemental disclosure:</b>				
Cash paid for interest	\$ 233	\$ 121	\$ 860	\$ 592
Noncash investing and financing activities:				
Purchase of assets under capital lease obligations	\$ 520	\$ -	\$ 520	\$ 583
Discount on capital lease obligation	\$ -	\$ -	\$ 172	\$ -
Exchange of Series F non-voting convertible preferred stock for intangible asset	\$ 15	\$ -	\$ 4,498	\$ 1,318
Unrealized gain on short-term investments	\$ -	\$ 171	\$ -	\$ 774
Conversion of redeemable convertible preferred stock to common stock	\$ -	\$ -	\$ -	\$ 101,830



**Netflix, Inc.**
**Other data:**

(Unaudited)

	Three Months Ended			Year Ended	
	Dec 31, 2001	Sep 30, 2002	Dec 31, 2002	Dec 31, 2001	Dec 31, 2002
<b>Subscribers:</b>					
New Trial Subscribers: during period	227	277	315	566	1,140
New Trial Subscribers year to year change	47%	159%	39%	10%	101%
New Trial Subscribers quarter to quarter sequential change	112%	17%	14%		
Subscribers: end of period	456	742	857	456	857
Subscribers year to year change	56%	122%	88%	56%	88%
Subscribers quarter to quarter sequential change	37%	11%	15%		
Free subscribers: end of period	56	34	61	56	61
Free subscribers as percentatge of ending subscribers	12.3%	4.6%	7.1%	12.3%	7.1%
Paid subscribers: end of period	400	708	796	400	796
Subscriber churn (monthly)	6.2%	7.2%	6.3%		
Subscription revenue per average paid subscriber (monthly)	\$ 19.92	\$ 19.97	\$ 19.94	\$ 20.21	\$ 20.15
Subscriber Acquisition Cost	\$ 30.15	\$ 33.57	\$ 33.31	\$ 37.16	\$ 31.39
<b>Margins:</b>					
Gross margin	50.7%	47.2%	48.2%	34.3%	48.9%
Operating margin	(17.8%)	(5.6%)	(6.2%)	(49.0%)	(7.6%)
Pro forma operating margin	(13.3%)	(2.0%)	(0.1%)	(41.5%)	(1.2%)
Net margin	(20.7%)	(4.2%)	(5.1%)	(50.9%)	(14.4%)
Pro forma net margin	(16.1%)	(0.6%)	1.0%	(42.5%)	(0.9%)
<b>Expenses as percentage of revenues:</b>					
Fulfillment	13.7%	12.0%	12.1%	17.7%	12.7%
Technology and development	13.4%	9.7%	8.8%	23.4%	9.6%
Marketing	31.7%	22.8%	23.2%	27.7%	23.4%
General and administrative	5.1%	4.6%	4.2%	6.1%	4.4%
Operating expenses before stock-based comp. and restruct	63.9%	49.2%	48.3%	74.9%	50.1%
Restructuring charges	0.0%	0.0%	0.0%	0.9%	0.0%
Stock-based compensation	4.6%	3.6%	6.1%	7.5%	6.4%
Total operating expenses	68.5%	52.8%	54.4%	83.3%	56.5%
<b>Year to year change:</b>					
Subscription revenues	59.5%	117.8%	110.6%	106.9%	103.1%
Sales revenues	100.0%	30.9%	(18.0%)	100.0%	20.0%
Total revenues	61.4%	115.8%	109.0%	111.5%	101.3%
Fulfillment	(17.1%)	49.5%	83.7%	31.3%	44.0%
Technology and development	(48.0%)	(11.1%)	36.5%	5.4%	(17.5%)
Marketing	(6.9%)	170.0%	53.3%	(18.3%)	70.1%
General and administrative	(57.3%)	86.4%	73.0%	(33.4%)	44.6%
Operating expenses before stock-based comp. and restruct	(27.7%)	64.4%	57.9%	(4.9%)	34.5%
Restructuring charges	0.0%	(100.0%)	0.0%	100.0%	(100.0%)
Stock-based compensation	(55.9%)	20.2%	181.5%	(35.4%)	72.9%
Total operating expenses	(30.6%)	52.7%	66.1%	(7.8%)	36.5%