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## **Netflix Announces Q1 2007 Financial Results**

Subscribers – 6.8 million Revenue – \$305.3 million GAAP Net Income – \$9.9 million

**LOS GATOS, Calif., April 18, 2007** – Netflix, Inc. (Nasdaq: NFLX) today reported results for the first quarter ended March 31, 2007.

"Our first-quarter results were in line with our guidance, but at the low end of the range, reflecting the impact of increased competition." said Reed Hastings, Netflix co-founder and chief executive officer. "Our business continues to grow and to generate profits, and we are pushing into online video to lead the next generation of movie viewing."

### First-Quarter 2007 Financial Highlights

<u>Revenue</u> for the first quarter of 2007 was \$305.3 million, representing 36 percent year-over-year growth from \$224.1 million for the first quarter of 2006, and 10 percent sequential growth from \$277.2 million for the fourth quarter of 2006.

GAAP net income for the first quarter of 2007 was \$9.9 million, or \$0.14 per diluted share, compared to GAAP net income of \$4.4 million, or \$0.07 per diluted share, for the first quarter of 2006 and GAAP net income of \$14.9 million, or \$0.21 per diluted share, for the fourth quarter of 2006.

Non-GAAP net income was \$11.5 million, or \$0.16 per diluted share, for the first quarter of 2007, compared to non-GAAP net income of \$6.4 million, or \$0.10 per diluted share, for the first quarter of 2006 and non-GAAP net income of \$16.8 million, or \$0.24 per diluted share, for the fourth quarter of 2006.

Non-GAAP net income equals net income on a GAAP basis before stock-based compensation expense, net of taxes.

<u>Gross margin</u><sup>1</sup> for the first quarter of 2007 was 36.1 percent, compared to 33.8 percent for the first quarter of 2006 and 38.9 percent for the fourth quarter of 2006.

<u>Free cash flow</u><sup>2</sup> for the first quarter of 2007 was negative \$18.0 million, compared to positive \$11.7 million in the first quarter of 2006 and positive \$22.5 million for the fourth quarter of 2006.

<sup>&</sup>lt;sup>1</sup> Gross margin is defined as revenue less cost of subscription and fulfillment expense.

Cash provided by operating activities for the first quarter of 2007 was \$63.0 million, compared to \$46.0 million for the first quarter of 2006 and \$87.1 million for the fourth quarter of 2006.

<u>Subscribers.</u> Netflix ended the first quarter of 2007 with approximately 6,797,000 total subscribers, representing 40 percent year-over-year growth from 4,866,000 total subscribers at the end of the first quarter of 2006 and 8 percent sequential growth from 6,316,000 subscribers at the end of the fourth quarter of 2006.

Net subscriber additions in the quarter were 481,000, compared to 687,000 for the same period of 2006 and 654,000 for the fourth quarter of 2006.

During the quarter Netflix acquired 1,520,000 gross subscriber additions, representing 10 percent year-over-year growth from 1,377,000 gross subscriber additions in the first quarter of 2006 and 2 percent quarter-over-quarter growth from 1,493,000 gross subscriber additions in the fourth quarter of 2006.

Of the 6,797,000 total subscribers at quarter end, 98 percent, or 6,676,000, were paid subscribers. The other 2 percent, or 121,000, were free subscribers. Paid subscribers represented 97 percent of total subscribers at the end of the first quarter of 2006 and at the end of the fourth quarter of 2006.

<u>Subscriber acquisition cost</u><sup>3</sup> for the first quarter of 2007 was \$47.46 per gross subscriber addition, compared to \$38.47 for the same period of 2006 and \$44.31 for the fourth quarter of 2006.

<u>Churn</u><sup>4</sup> for the first quarter of 2007 was 4.4 percent, compared to 4.1 percent for the first quarter of 2006 and 3.9 percent for the fourth quarter of 2006. Churn includes free subscribers as well as paying subscribers who elect not to renew their monthly subscription service during the quarter.

Stock-based compensation. In accordance with SEC Staff Accounting Bulletin No. 107, stock-based compensation is no longer presented as a separate line item on our income statement. Stock-based compensation is now presented in the same lines as cash compensation paid to the same individuals. In the first quarter, the charge related to stock-based compensation was \$2.8 million, compared to \$3.3 million in the first quarter of 2006 and compared to \$3.1 million in the fourth quarter of 2006.

#### Stock Buyback

The Company also is announcing today that its Board of Directors has authorized a stock repurchase program that enables the Company to purchase up to \$100 million of its common stock through the end of 2007.

Stock repurchases under this program may be made through open market transactions and, from time to time, privately negotiated transactions with third parties, and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, alternative investment opportunities and other market conditions. Repurchased shares would be returned to the status of authorized but un-issued shares of common stock.

<sup>&</sup>lt;sup>2</sup> Free cash flow is defined as cash provided by operating activities less cash used in investing activities excluding purchases and sales of short-term investments.

<sup>&</sup>lt;sup>3</sup> Subscriber acquisition cost is defined as the total marketing expense, which includes stock-based compensation for marketing personnel, on the Company's Statement of Operations divided by total gross subscriber additions during the quarter.

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

#### **Business Outlook**

The Company's performance expectations for the second quarter of 2007 and full-year 2007 are as follows:

## **Second-Quarter 2007**

- Ending subscribers of 6.7 million to 6.9 million
- Revenue of \$303 million to \$309 million
- GAAP net income of \$13 million to \$17 million, or \$0.18 to \$0.24 per diluted share

#### Full-Year 2007

- Ending subscribers of 7.3 million to 7.8 million, down from 8.0 million to 8.4 million
- Revenue of \$1.21 billion to \$1.26 billion, down from \$1.25 billion to \$1.3 billion
- GAAP net income of \$55 million to \$60 million, or \$0.76 to \$0.83 per diluted share, unchanged from the prior guidance

#### **Float and Trading Plans**

The Company estimates the public float at approximately 56,139,802 shares as of March 31, 2007, up approximately 1 percent from 55,863,475 shares as of December 31, 2006, based on registered shares held in street name with the Depository Trust and Clearing Corporation. From time to time executive officers of Netflix may elect to buy or sell stock in Netflix. All open market sales are made pursuant to the terms of 10b5-1 Trading Plans approved by the Company and generally adopted no less than three months prior to the first date of sale under such plan.

## **Earnings Call**

The Netflix earnings call will be webcast today at 8:30 a.m. Eastern Time / 5:30 a.m. Pacific Time, and may be accessed at <a href="http://ir.netflix.com">http://ir.netflix.com</a>. For those without access to the Internet, the conference call may be accessed by dialing (719) 457-2620. The access code is 7466889. Following completion of the call, a recorded replay of the webcast will be available at <a href="http://ir.netflix.com">http://ir.netflix.com</a>. The telephone replay of the call will be available from approximately 8:30 a.m. Pacific Time on April 18, 2007 through April 24, 2007 at 9:00 p.m. Pacific Time. To listen to the telephone replay, call (719) 457-0820, access code 7466889.

#### **Use of Non-GAAP Measures**

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

#### **About Netflix**

Netflix (Nasdaq: NFLX) is the world's largest online movie rental service, providing more than six million subscribers access to over 75,000 DVD titles. The company offers a variety of subscription plans, starting at \$4.99 a month. There are no due dates, no late fees and no shipping fees. DVDs are delivered for free by the USPS from regional shipping centers located throughout the United States. Netflix can reach more than 90 percent of its subscribers with generally one business-day delivery. Netflix offers personalized movie recommendations to its members and has more than one billion movie ratings. Netflix also allows members to share and recommend movies to one another through its Friends feature. For more information, visit www.netflix.com.

## **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 second quarter of 2007 as well as subscriber growth, revenue, GAAP net income and earnings per share for the full-year 2007. The forward-looking statements in this release are subject to risks and uncertainties that could cause actual results and events to differ, including, without limitation: impacts arising out of competition, our ability to manage our growth, in particular, managing our subscriber acquisition cost as well as the cost of content delivered to our subscribers; our ability to attract new subscribers and retain existing subscribers; changes in pricing, availability and effectiveness related to our advertising; fluctuations in consumer usage of our service, customer spending on DVDs and related products; disruption in service on our website or with our computer systems; deterioration of the U.S. economy or conditions specific to online commerce or the filmed entertainment industry; conditions that effect our delivery through the U.S. Postal Service, including regulatory changes and increases in first class postage; increases in the costs of acquiring DVDs; and, widespread consumer adoption of different modes of viewing in-home filmed entertainment. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2007. 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)

	<b>Three Months Ended</b>							
	N	March 31,		December 31,		March 31,		
		<u>2006</u>		<u>2006</u>		2007		
_	Φ.	224.425	Φ.	255 222	Φ.	207.220		
Revenues	\$	224,126	\$	277,233	\$	305,320		
Cost of revenues:		126.220		1.40.506		167 100		
Subscription		126,220		142,586		165,189		
Fulfillment expenses*		22,045		26,762		29,783		
Total cost of revenues		148,265		169,348		194,972		
Gross profit		75,861		107,885		110,348		
Operating expenses:		11.00		12.201				
Technology and development*		11,206		13,201		15,715		
Marketing*		52,968		66,158		72,138		
General and administrative*		8,292		11,142		12,188		
Gain on disposal of DVDs		(1,387)		(1,304)		(908)		
Total operating expenses		71,079		89,197		99,133		
Operating income		4,782		18,688		11,215		
Other income:								
Interest and other income		2,452		5,064		5,350		
Income before income taxes		7,234		23,752		16,565		
Provision for income taxes		2,830		8,892		6,701		
Net income	\$	4,404	\$	14,860	\$	9,864		
Net income per share:		,						
Basic	\$	.08	\$	.22	\$	.14		
Diluted	\$	.07	\$	.21	\$	.14		
Weighted average common shares outstanding:								
Basic		55,213		68,424		68,693		
Diluted		66,456		70,670		70,672		
		55,155		,		,		
*Amortization of stock-based compensation included	l in							
expense line items:								
Fulfillment	\$	260	\$	229	\$	146		
Technology and development		965	·	892	·	757		
Marketing		554		515		531		
General and administrative		1,531		1,494		1,369		
	\$	3,310	\$	3,130	\$	2,803		
	Ψ	2,010	4	2,123	4	2,000		
Reconciliation of Non-GAAP Financial Measures								
Non-GAAP net income reconciliation:								
Net income	\$	4,404	\$	14,860	\$	9,864		
Add back:								
Stock-based compensation		3,310		3,130		2,803		
Income tax effect of stock-based compensation		(1,294)		(1,171)		(1,134)		
Non-GAAP net income	\$	6,420	\$	16,819	\$	11,533		
Non-GAAP net income per share:								
Basic	\$	.12	\$	.25	\$	.17		
Diluted	\$	.10	\$	.24	\$	.16		
Weighted average common shares outstanding:	4	.10	4	.21	4	.10		
Basic		55,213		68,424		68,693		
Diluted		66,456		70,670		70,672		
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# Netflix, Inc. Consolidated Balance Sheets

(unaudited)

(in thousands, except share and par value data)

		As of				
	Dec	cember 31,	March 31,			
		<u>2006</u>		<u>2007</u>		
Assets						
Current assets:						
Cash and cash equivalents	\$	400,430	\$	218,458		
Short-term investments		-		169,525		
Prepaid expenses		4,742		5,567		
Prepaid revenue sharing expenses		9,456		10,432		
Deferred tax assets		3,155		3,191		
Other current assets		10,635		19,100		
Total current assets		428,418		426,273		
DVD library, net		104,908		114,137		
Intangible assets, net		969		945		
Property and equipment, net		55,503		64,452		
Deposits		1,316		1,593		
Deferred tax assets		15,600		15,819		
Other assets		2,065		1,891		
Total assets	\$	608,779	\$	625,110		
Liabilities and Stockholders' Equity						
Current liabilities:						
Accounts payable	\$	93,864	\$	93,959		
Accrued expenses		29,905		33,528		
Deferred revenue		69,678		64,234		
Total current liabilities		193,447		191,721		
Deferred rent		1,121		1,185		
Total liabilities		194,568		192,906		
Stockholders' equity:						
Common stock, \$0.001 par value; 160,000,000 shares authorized						
at December 31, 2006 and March 31, 2007; 68,612,463 and						
68,761,943 issued and outstanding at December 31, 2006 and						
March 31, 2007, respectively		69		69		
Additional paid-in capital		454,731		462,376		
Accumulated other comprehensive income		-		484		
Accumulated deficit		(40,589)		(30,725)		
Total stockholders' equity		414,211		432,204		
Total liabilities and stockholders' equity	\$	608,779	\$	625,110		

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

(in thousands)	<b>Three Months Ended</b>						
	M	arch 31, 2006		cember 31, <u>2006</u>		March 31, <u>2007</u>	
Cash flows from operating activities:							
Net income	\$	4,404	\$	14,860	\$	9,864	
Adjustments to reconcile net income to net cash							
provided by operating activities:							
Depreciation of property and equipment		3,609		4,374		4,601	
Amortization of DVD library		27,281		45,716		49,442	
Amortization of intangible assets		12		25		24	
Amortization of discount and premiums on investments		-		-		(82)	
Stock-based compensation expense		3,310		3,130		2,803	
Excess tax benefits from stock-based compensation		(690)		(5,652)		(4,076)	
Loss on disposal of property and equipment		(23)		-		-	
Gain on sale of short-term investments		-		-		(147)	
Gain on disposal of DVDs		(2,049)		(2,770)		(2,597)	
Deferred taxes		2,058		2,651		(255)	
Changes in operating assets and liabilities:							
Prepaid expenses and other current assets		2,304		(3,134)		(10,266)	
Accounts payable		2,873		3,178		11,399	
Accrued expenses		3,439		4,918		7,699	
Deferred revenue		(608)		19,803		(5,444)	
Deferred rent		70		12		64	
Net cash provided by operating activities	-	45,990	1	87,111		63,029	
Cash flows from investing activities:		- 7	-	,			
Purchases of short-term investments		_		_		(264,234)	
Proceeds from sale of short-term investments		_		_		95,422	
Purchases of property and equipment		(6,686)		(11,524)		(18,013)	
Acquisitions of DVD library		(29,842)		(56,289)		(68,541)	
Proceeds from sale of DVDs		2,481		3,977		5,626	
Proceeds from disposal of property and equipment		23		-		-	
Deposits and other assets		(291)		(804)		(103)	
Net cash used in investing activities	-	(34,315)		(64,640)		(249,843)	
Cash flows from financing activities:		(34,313)		(04,040)		(247,043)	
Proceeds from issuance of common stock		3,144		3,566		766	
Excess tax benefits from stock-based compensation		690		5,652		4.076	
Net cash provided by financing activities		3,834	-	9,218		4,842	
Net cash provided by infancing activities		3,034		9,216		4,042	
Net increase (decrease) in cash and cash equivalents		15,509		31,689		(181,972)	
Cash and cash equivalents, beginning of period		212,256		368,741		400,430	
Cash and cash equivalents, end of period	\$	227,765	\$	400,430	\$	218,458	
Non-GAAP free cash flow reconciliation:							
Net cash provided by operating activities	\$	45,990	\$	87,111	\$	63,029	
Purchases of property and equipment	,	(6,686)	7	(11,524)	_	(18,013)	
Acquisitions of DVD library		(29,842)		(56,289)		(68,541)	
Proceeds from sale of DVDs		2,481		3,977		5,626	
Deposits and other assets		(291)		(804)		(103)	
Non-GAAP free cash flow	\$	11,652	\$	22,471	\$	(18,002)	
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Netflix, Inc. Consolidated Other data

(unaudited)

(in thousands, except percentages and subscriber acquisition cost)

(in thousands, except percentages and subscriber acquisition cost)	As of / Three Months Ended			
	2006	2006	March 31, 2007	
Subscriber information:	<u> 2000</u>	2000	2007	
Subscribers: beginning of period	4,179	5,662	6,316	
Gross subscribers additions: during period	1,377	1,493	1,520	
Gross subscriber additions year-to-year change	45.7%	29.2%	10.4%	
Gross subscriber additions quarter-to-quarter sequential change	19.1%	14.0%	1.8%	
Less subscriber cancellations : during period	(690)	(839)	(1,039)	
Subscribers: end of period	4,866	6,316	6,797	
Subscribers year-to-year change	61.2%	51.1%	39.7%	
Subscribers quarter-to-quarter sequential change	16.4%	11.6%	7.6%	
Free subscribers: end of period	132	162	121	
Free subscribers as percentage of ending subscribers	2.7%	2.6%	1.8%	
Paid subscribers: end of period	4,734	6,154	6,676	
Paid subscribers year-to-year change	64.0%	52.9%	41.0%	
Paid subscribers quarter-to-quarter sequential change	17.6%	12.1%	8.5%	
Churn	4.1%	3.9%	4.4%	
Subscriber acquisition cost	\$ 38.47	\$ 44.31	\$ 47.46	
Margins:		•	,	
Gross margin	33.8%	38.9%	36.1%	
Operating margin	2.1%	6.7%	3.7%	
Net margin	2.0%	5.4%	3.2%	
Expenses as percentage of revenues:				
Technology and development	5.0%	4.8%	5.1%	
Marketing	23.6%	23.9%	23.6%	
General and administrative	3.7%	4.0%	4.0%	
Gain on disposal of DVDs	(0.6%)	(0.5%)	(0.2%)	
Total operating expenses	31.7%	32.2%	32.5%	
Year-to-year change:				
Total revenues	47.0%	43.6%	36.2%	
Fulfillment	28.7%	39.5%	35.1%	
Technology and development	30.8%	43.2%	40.2%	
Marketing	44.9%	39.0%	36.2%	
General and administrative	24.0%	(14.5%)	47.0%	
Gain on disposal of DVDs	99.6%	65.5%	(34.5%)	
Total operating expenses	39.1%	29.2%	39.5%	