

NETFLIX INC
Form 10-Q
November 03, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 000-49802

Netflix, Inc.

(Exact name of Registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

77-0467272
(I.R.S. Employer
Identification Number)

100 Winchester Circle, Los Gatos, California 95032

(Address and zip code of principal executive offices)

(408) 540-3700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(do not check if a smaller
reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2008, there were 58,669,096 shares of the registrant's common stock, par value \$0.001, outstanding.

Table of Contents

Table of Contents

	Page
<u>Part I. Financial Information</u>	3
Item 1. <u>Condensed Consolidated Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 4. <u>Controls and Procedures</u>	33
<u>Part II. Other Information</u>	35
Item 1. <u>Legal Proceedings</u>	35
Item 1A. <u>Risk Factors</u>	35
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
Item 6. <u>Exhibits</u>	36
<u>Signatures</u>	37
<u>Exhibit Index</u>	38

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
Index to Condensed Consolidated Financial Statements

	Page
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2008 and 2007</u>	4
<u>Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three and Nine Months Ended September 30, 2008 and 2007</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7

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

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Revenues	\$ 341,269	\$ 293,972	\$ 1,005,066	\$ 902,985
Cost of revenues:				
Subscription	186,573	163,707	567,498	495,734
Fulfillment expenses *	37,923	30,746	109,890	90,384
Total cost of revenues	224,496	194,453	677,388	586,118
Gross profit	116,773	99,519	327,678	316,867
Operating expenses:				
Technology and development *	23,368	18,112	65,821	52,526
Marketing *	49,217	49,149	144,096	166,508
General and administrative *	11,742	12,863	38,900	38,834
Gain on disposal of DVDs	(1,628)	(2,310)	(4,724)	(5,500)
Gain on legal settlement				(7,000)
Total operating expenses	82,699	77,814	244,093	245,368
Operating income	34,074	21,705	83,585	71,499
Other income (expense):				
Interest expense on lease financing obligations	(677)	(296)	(1,781)	(893)
Interest and other income (expense)	1,536	5,089	11,600	15,411
Income before income taxes	34,933	26,498	93,404	86,017
Provision for income taxes	14,562	10,851	33,110	35,100
Net income	\$ 20,371	\$ 15,647	\$ 60,294	\$ 50,917
Net income per share:				
Basic	\$ 0.34	\$ 0.24	\$ 0.98	\$ 0.75
Diluted	\$ 0.33	\$ 0.23	\$ 0.95	\$ 0.73
Weighted average common shares outstanding:				
Basic	60,408	66,469	61,651	67,723
Diluted	62,272	68,090	63,658	69,560
* Stock-based compensation included in expense line items:				
Fulfillment expenses	\$ 126	\$ 99	\$ 340	\$ 327
Technology and development	950	1,002	2,795	2,590
Marketing	460	547	1,424	1,599
General and administrative	1,499	1,465	4,511	4,218

See accompanying notes to the condensed consolidated financial statements.

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

	September 30, 2008	As of December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 111,524	\$ 177,439
Short-term investments	139,304	207,703
Prepaid expenses	9,982	6,116
Prepaid revenue sharing expenses	15,274	6,983
Deferred tax assets	7,023	2,254
Other current assets	18,268	16,037
Total current assets	301,375	416,532
Content library, net	122,558	132,455
Property and equipment, net	128,541	113,175
Deferred tax assets	19,831	16,865
Other assets	10,694	4,465
Total assets	\$ 582,999	\$ 683,492
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 109,277	\$ 104,445
Accrued expenses	31,625	36,466
Current portion lease financing obligations	1,090	823
Deferred revenue	65,897	71,665
Total current liabilities	207,889	213,399
Lease financing obligations, excluding current portion	38,287	35,652
Other liabilities	11,990	4,629
Total liabilities	258,166	253,680
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 160,000,000 shares authorized at September 30, 2008 and December 31, 2007; 59,119,998 and 64,912,915 issued and outstanding at September 30, 2008 and December 31, 2007, respectively	62	65
Additional paid-in capital	331,489	402,710
Treasury stock at cost (2,991,684 shares)	(90,028)	
Accumulated other comprehensive (loss) income	(2,410)	1,611
Retained earnings	85,720	25,426
Total stockholders' equity	324,833	429,812
Total liabilities and stockholders' equity	\$ 582,999	\$ 683,492

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See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2008	2007	2008	2007
Cash flows from operating activities:				
Net income	\$ 20,371	\$ 15,647	\$ 60,294	\$ 50,917
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of property, equipment and intangibles	8,643	5,945	23,313	16,057
Amortization of content library	47,596	48,237	162,178	148,664
Amortization of discounts and premiums on investments	122	23	436	(48)
Stock-based compensation expense	3,035	3,113	9,070	8,734
Excess tax benefits from stock-based compensation	(1,093)	(5,170)	(4,467)	(21,264)
(Gain) loss on disposal of property and equipment	(1)	128	101	128
Loss (gain) on sale of short-term investments	494	(170)	(3,746)	(364)
Gain on disposal of DVDs	(3,205)	(3,937)	(9,856)	(11,731)
Deferred taxes	(3,894)	(358)	(7,255)	(1,235)
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	(209)	111	(8,306)	(4,495)
Accounts payable	(1,056)	6,048	6,869	(387)
Accrued expenses	4,730	11,433	(1,994)	33,376
Deferred revenue	(1,989)	(4,201)	(5,768)	(13,357)
Other assets and liabilities	(313)	814	8,376	1,026
Net cash provided by operating activities	73,231	77,663	229,245	206,021
Cash flows from investing activities:				
Purchases of short-term investments	(22,950)	(51,972)	(180,841)	(370,112)
Proceeds from sale of short-term investments	50,609	41,264	247,610	165,379
Purchases of property and equipment	(9,226)	(7,412)	(36,319)	(34,393)
Acquisition of intangible asset	(62)		(1,062)	