

NETFLIX INC
Form 10-Q
August 11, 2008
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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 June 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

77-0467272
(I.R.S. Employer

incorporation or organization)

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 July 31, 2008, there were 60,868,077 shares of the registrant's common stock, par value \$0.001, outstanding.

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PART I. FINANCIAL INFORMATION

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

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2008	2007	2008	2007
Revenues	\$ 337,614	\$ 303,693	\$ 663,797	\$ 609,013
Cost of revenues:				
Subscription	193,769	166,838	380,925	332,027
Fulfillment expenses *	36,318	29,855	71,967	59,638
Total cost of revenues	230,087	196,693	452,892	391,665
Gross profit	107,527	107,000	210,905	217,348
Operating expenses:				
Technology and development *	22,186	18,803	42,453	34,414
Marketing *	39,984	45,238	94,879	117,359
General and administrative *	13,419	13,815	27,158	25,971
Gain on disposal of DVDs	(2,263)	(2,282)	(3,096)	(3,190)
Gain on legal settlement		(7,000)		(7,000)
Total operating expenses	73,326	68,574	161,394	167,554
Operating income	34,201	38,426	49,511	49,794
Other income (expense):				
Interest expense on lease financing obligations	(681)	(298)	(1,104)	(597)
Interest and other income (expense)	2,404	4,972	10,064	10,322
Income before income taxes	35,924	43,100	58,471	59,519
Provision for income taxes	9,345	17,606	18,548	24,249
Net income	\$ 26,579	\$ 25,494	\$ 39,923	\$ 35,270
Net income per share:				
Basic	\$ 0.43	\$ 0.37	\$ 0.64	\$ 0.52
Diluted	\$ 0.42	\$ 0.36	\$ 0.62	\$ 0.50
Weighted average common shares outstanding:				
Basic	61,782	68,031	62,262	68,360
Diluted	63,857	69,891	64,341	70,276
* Stock-based compensation included in expense line items:				
Fulfillment expenses	\$ 108	\$ 82	\$ 214	\$ 228
Technology and development	849	831	1,845	1,588
Marketing	455	521	964	1,052
General and administrative	1,493	1,384	3,012	2,753

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)**

	June 30, 2008	As of December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 144,289	\$ 177,439
Short-term investments	169,175	207,703
Prepaid expenses	7,631	6,116
Prepaid revenue sharing expenses	14,861	6,983
Deferred tax assets	3,339	2,254
Other current assets	19,859	16,037
Total current assets	359,154	416,532
Content library, net	126,928	132,455
Property and equipment, net	129,553	113,175
Deferred tax assets	19,621	16,865
Other assets	10,767	4,465
Total assets	\$ 646,023	\$ 683,492
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 109,000	\$ 104,445
Accrued expenses	27,462	36,466
Current portion lease financing obligations	1,029	823
Deferred revenue	67,886	71,665
Total current liabilities	205,377	213,399
Lease financing obligations, excluding current portion	38,582	35,652
Other liabilities	12,602	4,629
Total liabilities	256,561	253,680
Stockholders' equity:		
Common stock, \$0.001 par value; 160,000,000 shares authorized at June 30, 2008 and December 31, 2007; 61,910,603 and 64,912,915 issued and outstanding at June 30, 2008 and December 31, 2007, respectively	62	65
Additional paid-in capital	324,865	402,710
Accumulated other comprehensive (loss) income	(814)	1,611
Retained earnings	65,349	25,426
Total stockholders' equity	389,462	429,812
Total liabilities and stockholders' equity	\$ 646,023	\$ 683,492

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		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2008	2007	2008	2007
Cash flows from operating activities:				
Net income	\$ 26,579	\$ 25,494	\$ 39,923	\$ 35,270
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of property, equipment and intangibles	8,188	5,319	14,772	10,112
Amortization of content library	57,012	50,985	114,582	100,427
Amortization of discounts and premiums on investments	177	11	316	(71)
Stock-based compensation expense	2,905	2,818	6,035	5,621
Excess tax benefits from stock-based compensation	(2,554)	(12,018)	(3,374)	(16,094)
(Loss) gain on sale of short-term investments	78	(47)	(4,242)	(194)
Gain on disposal of DVDs	(4,059)	(5,197)	(6,651)	(7,794)
Deferred taxes	(2,502)	(563)	(3,361)	(877)
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	(10,659)	5,660	(8,097)	(4,606)
Accounts payable	9,124	(17,834)	7,925	(6,435)
Accrued expenses	(14,551)	14,244	(6,724)	21,943
Deferred revenue	(489)	(3,712)	(3,779)	(9,156)
Other assets and liabilities	8,896	74	8,689	212
Net cash provided by operating activities	78,145	65,234	156,014	128,358
Cash flows from investing activities:				
Purchases of short-term investments	(65,937)	(53,906)	(157,891)	(318,140)
Proceeds from sale of short-term investments	21,682	28,693	197,001	124,115
Purchases of property and equipment	(14,662)	(8,968)	(27,093)	(26,981)
Acquisition of intangible asset	(1,000)		(1,000)	
Acquisitions of content library	(55,175)	(57,353)	(120,298)	(125,894)
Proceeds from sale of DVDs	5,379	7,370	9,886	12,996