

NETFLIX INC
Form 10-Q
November 09, 2006
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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, 2006

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)

Delaware
(State or other jurisdiction of

incorporation or organization)

100 Winchester Circle, Los Gatos, California 95032

(Address and zip code of principal executive offices)

(408) 540-3700

77-0467272
(I.R.S. Employer

Identification Number)

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(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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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 November 7, 2006, there were 68,459,206 shares of the registrant's common stock, par value \$0.001, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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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, 2005	September 30, 2006	September 30, 2005	September 30, 2006
Revenues	\$ 172,740	\$ 255,950	\$ 489,213	\$ 719,427
Cost of revenues:				
Subscription	97,878	135,210	291,821	390,035
Fulfillment expenses*	17,771	23,583	52,798	67,602
Total cost of revenues	115,649	158,793	344,619	457,637
Gross profit	57,091	97,157	144,594	261,790
Operating expenses:				
Technology and development *	8,955	11,929	26,169	35,178
Marketing *	33,463	59,367	96,971	159,366
General and administrative *	9,541	9,948	22,462	25,013
Gain on disposal of DVDs	(388)	(1,142)	(1,199)	(3,493)
Total operating expenses	51,571	80,102	144,403	216,064
Operating income	5,520	17,055	191	45,726
Other income (expense):				
Interest and other income	1,491	4,687	3,788	10,840
Interest and other expense	(13)		(54)	
Income before income taxes	6,998	21,742	3,925	56,566
Provision for income taxes	52	8,961	109	22,344
Net income	\$ 6,946	\$ 12,781	\$ 3,816	\$ 34,222
Net income per share:				
Basic	\$.13	\$.19	\$.07	\$.56
Diluted	\$.11	\$.18	\$.06	\$.50
Weighted average common shares outstanding:				
Basic	53,693	68,081	53,237	60,606
Diluted	66,012	70,345	64,928	68,626

* **Amortization of stock-based compensation included in expense****line items:**

Fulfillment	\$ 227	\$ 213	\$ 1,000	\$ 696
Technology and development	949	884	3,495	2,716
Marketing	596	540	1,963	1,623
General and administrative	1,521	1,532	4,537	4,531

See accompanying notes to condensed consolidated financial statements.

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

	December 31, 2005	As of September 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 212,256	\$ 368,741
Prepaid expenses	7,848	5,243
Prepaid revenue sharing expenses	5,252	6,932
Deferred tax assets	13,666	4,654
Other current assets	4,669	9,524
Total current assets	243,691	395,094
DVD library, net	57,032	92,013
Intangible assets, net	457	994
Property and equipment, net	40,213	43,164
Deposits	1,249	1,139
Deferred tax assets	21,239	16,752
Other assets	800	1,438
Total assets	\$ 364,681	\$ 550,594
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 63,491	\$ 81,968
Accrued expenses	25,563	30,639
Deferred revenue	48,533	49,875
Total current liabilities	137,587	162,482
Deferred rent	842	1,109
Total liabilities	138,429	163,591
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 160,000,000 shares authorized at December 31, 2005 and September 30, 2006; 54,755,731 and 68,154,177 issued and outstanding at December 31, 2005 and September 30, 2006, respectively	55	68
Additional paid-in capital	315,868	442,384
Accumulated deficit	(89,671)	(55,449)
Total stockholders' equity	226,252	387,003
Total liabilities and stockholders' equity	\$ 364,681	\$ 550,594

See accompanying notes to 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,
	2005	2006	2005	2006
Cash flows from operating activities:				
Net income	\$ 6,946	\$ 12,781	\$ 3,816	\$ 34,222
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of property and equipment	2,424	4,066	6,518	11,529
Amortization of DVD library	24,477	36,253	72,035	95,444
Amortization of intangible assets	139	25	973	48
Stock-based compensation expense	3,293	3,169	10,995	9,566
Excess tax benefits from stock-based compensation		(3,923)		(7,565)
Loss on disposal of property and equipment				(23)
Gain on disposal of DVDs	(819)	(2,241)	(2,156)	(6,319)
Noncash interest expense			11	
Deferred taxes		4,126		13,499
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	1,401	(143)	2,853	(3,930)
Accounts payable	(8,401)	(2,624)	(6,617)	30
Accrued expenses	6,702	9,049	7,273	12,641
Deferred revenue	903	846	2,464	1,342
Deferred rent	90	78	275	267
Net cash provided by operating activities	37,155	61,462	98,440	160,751
Cash flows from investing activities:				
Purchases of property and equipment	(5,460)	(5,231)	(17,219)	(15,809)
Acquisition of intangible asset	(481)		(481)	(585)
Acquisitions of DVD library	(25,767)	(37,255)	(84,390)	(113,239)
Proceeds from sale of DVDs	1,577	3,675	3,741	8,909
Proceeds from disposal of property and equipment				23
Deposits and other assets	(10)	(311)	(165)	(528)