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 March 31, 2022

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: 001-35727

Netflix, Inc.
(Exact name of Registrant as specified in its charter)

Delaware	**77-0467272**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
100 Winchester Circle, Los Gatos, California	**95032**
(Address of principal executive offices)	**(Zip Code)**

(408) 540-3700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.001 per share	**NFLX**	**NASDAQ Global Select Market**

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 March 31, 2022, there were 444,273,850 shares of the registrant's common stock, par value $0.001, outstanding.

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NETFLIX, INC.

Consolidated Statements of Operations
(unaudited)
(in thousands, except per share data)

	Three Months Ended	
	March 31, 2022	March 31, 2021
Revenues	$ 7,867,767	$ 7,163,282
Cost of revenues	4,284,705	3,868,511
Marketing	555,978	512,512
Technology and development	657,530	525,207
General and administrative	397,928	297,196
Operating income	1,971,626	1,959,856
Other income (expense):		
Interest expense	(187,579)	(194,440)
Interest and other income	195,645	269,086
Income before income taxes	1,979,692	2,034,502
Provision for income taxes	(382,245)	(327,787)
Net income	$ 1,597,447	$ 1,706,715
Earnings per share:		
Basic	$ 3.60	$ 3.85
Diluted	$ 3.53	$ 3.75
Weighted-average shares of common stock outstanding:		
Basic	444,146	443,224
Diluted	452,984	455,641

See accompanying notes to the consolidated financial statements.

NETFLIX, INC.

Consolidated Statements of Comprehensive Income
(unaudited)
(in thousands)

	Three Months Ended	
	March 31, 2022	March 31, 2021
Net income	$ 1,597,447	$ 1,706,715
Other comprehensive loss:		
Foreign currency translation adjustments	(33,675)	(40,261)
Comprehensive income	$ 1,563,772	$ 1,666,454

See accompanying notes to the consolidated financial statements.

NETFLIX, INC.

Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Three Months Ended	
	March 31, 2022	March 31, 2021
Cash flows from operating activities:		
Net income	$ 1,597,447	$ 1,706,715
Adjustments to reconcile net income to net cash provided by operating activities:		
Additions to content assets	(3,584,164)	(3,284,576)
Change in content liabilities	(347,149)	(266,040)
Amortization of content assets	3,166,365	2,719,196
Depreciation and amortization of property, equipment and intangibles	74,602	35,741
Stock-based compensation expense	119,209	107,230
Foreign currency remeasurement gain on debt	(161,821)	(253,330)
Other non-cash items	101,968	72,657
Deferred income taxes	(68,906)	159,733
Changes in operating assets and liabilities:		
Other current assets	41,157	(221,555)
Accounts payable	(215,444)	(137,313)
Accrued expenses and other liabilities	350,763	177,897
Deferred revenue	16,743	22,279
Other non-current assets and liabilities	(167,931)	(61,368)
Net cash provided by operating activities	922,839	777,266
Cash flows from investing activities:		
Purchases of property and equipment	(121,158)	(81,001)
Change in other assets	—	(4,615)
Acquisitions	(124,521)	—
Net cash used in investing activities	(245,679)	(85,616)
Cash flows from financing activities:		
Repayments of debt	(700,000)	(500,000)
Proceeds from issuance of common stock	13,678	48,071
Net cash used in financing activities	(686,322)	(451,929)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(11,448)	(42,138)
Net increase (decrease) in cash, cash equivalents and restricted cash	(20,610)	197,583
Cash, cash equivalents and restricted cash at beginning of period	6,055,111	8,238,870
Cash, cash equivalents and restricted cash at end of period	$ 6,034,501	$ 8,436,453

See accompanying notes to the consolidated financial statements.

NETFLIX, INC.

Consolidated Balance Sheets
(in thousands, except share and par value data)

	As of	
	March 31, 2022	December 31, 2021
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 6,008,946	$ 6,027,804
Other current assets	2,089,069	2,042,021
Total current assets	8,098,015	8,069,825
Content assets, net	31,191,920	30,919,539
Property and equipment, net	1,383,763	1,323,453
Other non-current assets	4,657,206	4,271,846
Total assets	$ 45,330,904	$ 44,584,663
Liabilities and Stockholders' Equity		
Current liabilities:		
Current content liabilities	$ 4,066,289	$ 4,292,967
Accounts payable	617,202	837,483
Accrued expenses and other liabilities	1,817,117	1,449,351
Deferred revenue	1,239,048	1,209,342
Short-term debt	—	699,823
Total current liabilities	7,739,656	8,488,966
Non-current content liabilities	2,945,221	3,094,213
Long-term debt	14,534,561	14,693,072
Other non-current liabilities	2,567,427	2,459,164
Total liabilities	27,786,865	28,735,415
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, $0.001 par value; 4,990,000,000 shares authorized at March 31, 2022 and December 31, 2021; 444,273,850 and 443,963,107 issued and outstanding at March 31, 2022 and December 31, 2021, respectively	4,155,580	4,024,561
Treasury stock at cost (1,564,478 shares at March 31, 2022)	(824,190)	(824,190)
Accumulated other comprehensive loss	(74,170)	(40,495)
Retained earnings	14,286,819	12,689,372
Total stockholders' equity	17,544,039	15,849,248
Total liabilities and stockholders' equity	$ 45,330,904	$ 44,584,663

See accompanying notes to the consolidated financial statements.

NETFLIX, INC.

Consolidated Statements of Stockholders' Equity
(unaudited)
(in thousands)

	Three Months Ended	
	March 31, 2022	March 31, 2021
Total stockholders' equity, beginning balances	$ 15,849,248	$ 11,065,240
Common stock and additional paid-in capital:		
Beginning balances	$ 4,024,561	$ 3,447,698
Issuance of common stock upon exercise of options	11,810	45,156
Stock-based compensation expense	119,209	107,230
Ending balances	$ 4,155,580	$ 3,600,084
Treasury stock:		
Beginning balances	$ (824,190)	$ —
Repurchases of common stock to be held as treasury stock	—	—
Ending balances	$ (824,190)	$ —
Accumulated other comprehensive loss		
Beginning balances	$ (40,495)	$ 44,398
Other comprehensive loss	(33,675)	(40,261)
Ending balances	$ (74,170)	$ 4,137
Retained earnings:		
Beginning balances	$ 12,689,372	$ 7,573,144
Net income	1,597,447	1,706,715
Ending balances	$ 14,286,819	$ 9,279,859
Total stockholders' equity, ending balances	$ 17,544,039	$ 12,884,080

See accompanying notes to the consolidated financial statements.

NETFLIX, INC.

Notes to Consolidated Financial Statements
(unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying interim consolidated financial statements of Netflix, Inc. and its wholly owned subsidiaries (the "Company") have been prepared in conformity with accounting principles generally accepted in the United States ("U.S.") and are consistent in all material respects with those applied in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission (the "SEC") on January 27, 2022. The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the content asset amortization policy and the recognition and measurement of income tax assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. On a regular basis, the Company evaluates the assumptions, judgments and estimates. Actual results may differ from these estimates.

The interim financial information is unaudited, but reflects all normal recurring adjustments that are, in the opinion of management, necessary to fairly present the information set forth herein. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. Interim results are not necessarily indicative of the results for a full year.

There have been no material changes in the Company's significant accounting policies as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Recently adopted accounting pronouncements

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. The Company adopted ASU 2021-08 in the first quarter of 2022 and the adoption had no material impact to the Company's consolidated financial statements.

2. Revenue Recognition

The Company's primary source of revenues is from monthly membership fees. Members are billed in advance of the start of their monthly membership and revenues are recognized ratably over each monthly membership period. Revenues are presented net of the taxes that are collected from members and remitted to governmental authorities. The Company is the principal in all its relationships where partners, including consumer electronics ("CE") manufacturers, multichannel video programming distributors ("MVPDs"), mobile operators and internet service providers ("ISPs"), provide access to the service as the Company retains control over service delivery to its members. Typically, payments made to the partners, such as for marketing, are expensed. However, if there is no distinct service provided in exchange for the payments made to the partners or if the price that the member pays is established by the partners and there is no standalone price for the Netflix service (for instance, in a bundle), these payments are recognized as a reduction of revenues.

The following tables summarize streaming revenue, paid net membership additions, and paid memberships at end of period by region for the three months ended March 31, 2022 and 2021, respectively:

United States and Canada (UCAN)

	As of/ Three Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Revenues	$ 3,350,424	$ 3,170,972
Paid net membership additions (losses)	(636)	448
Paid memberships at end of period (1)	74,579	74,384

Europe, Middle East, and Africa (EMEA)

	As of/ Three Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Revenues	$ 2,561,831	$ 2,343,674
Paid net membership additions (losses)	(303)	1,810
Paid memberships at end of period (1)	73,733	68,508

Latin America (LATAM)

	As of/ Three Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Revenues	$ 998,948	$ 836,647
Paid net membership additions (losses)	(351)	357
Paid memberships at end of period (1)	39,610	37,894

Asia-Pacific (APAC)

	As of/ Three Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Revenues	$ 916,754	$ 762,414
Paid net membership additions	1,087	1,361
Paid memberships at end of period (1)	33,719	26,853

(1) A paid membership (also referred to as a paid subscription) is defined as a membership that has the right to receive Netflix service following sign-up and a method of payment being provided, and that is not part of a free trial or certain other promotions that may be offered by the Company to new or rejoining members. A membership is canceled and ceases to be reflected in the above metrics as of the effective cancellation date. Voluntary cancellations generally become effective at the end of the prepaid membership period. Involuntary cancellations, as a result of a failed method of payment, become effective immediately. Memberships are assigned to territories based on the geographic location used at time of sign-up as determined by the Company's internal systems, which utilize industry standard geo-location technology.

Total U.S. revenues, inclusive of DVD revenues not reported in the tables above, were $3.1 billion and $3.0 billion for the three months ended March 31, 2022 and 2021, respectively. DVD revenues were $40 million and $50 million for the three months ended March 31, 2022 and 2021, respectively.

Deferred revenue consists of membership fees billed that have not been recognized, as well as gift cards and other prepaid memberships that have not been fully redeemed. As of March 31, 2022, total deferred revenue was $1,239 million, the vast majority of which was related to membership fees billed that are expected to be recognized as revenue within the next month. The remaining deferred revenue balance, which is related to gift cards and other prepaid memberships, will be recognized as revenue over the period of service after redemption, which is expected to occur over the next 12 months. The $30 million increase in deferred revenue as compared to the balance of $1,209 million as of December 31, 2021 is a result of the increase in average monthly revenue per paying member and acquisition-related deferred revenue.

3. Earnings Per Share

Basic earnings per share is computed using the weighted-average number of outstanding shares of common stock during the period. Diluted earnings per share is computed using the weighted-average number of outstanding shares of common stock and, when dilutive, potential outstanding shares of common stock during the period. Potential shares of common stock consist of incremental shares issuable upon the assumed exercise of stock options. The computation of earnings per share is as follows:

	Three Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands, except per share data)	
Basic earnings per share:		
Net income	$ 1,597,447	$ 1,706,715
Shares used in computation:		
Weighted-average shares of common stock outstanding	444,146	443,224
Basic earnings per share	$ 3.60	$ 3.85
Diluted earnings per share:		
Net income	$ 1,597,447	$ 1,706,715
Shares used in computation:		
Weighted-average shares of common stock outstanding	444,146	443,224
Employee stock options	8,838	12,417
Weighted-average number of shares	452,984	455,641
Diluted earnings per share	$ 3.53	$ 3.75

Employee stock options with exercise prices greater than the average market price of the common stock were excluded from the diluted calculation as their inclusion would have been anti-dilutive. The following table summarizes the potential shares of common stock excluded from the diluted calculation:

	Three Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Employee stock options	2,749	257

4. Cash, Cash Equivalents and Restricted Cash

The following tables summarize the Company's cash, cash equivalents, and restricted cash as of March 31, 2022 and December 31, 2021:

	As of March 31, 2022			
	Cash and cash equivalents	Other Current Assets	Non-current Assets	Total
	(in thousands)			
Cash	$ 4,568,719	$ 955	$ 24,454	$ 4,594,128
Level 1 securities:				
Money market funds	1,440,227	—	146	1,440,373
	$ 6,008,946	$ 955	$ 24,600	$ 6,034,501

	As of December 31, 2021			
	Cash and cash equivalents	Other Current Assets	Non-current Assets	Total
	(in thousands)			
Cash	$ 4,103,613	$ 3,189	$ 23,972	$ 4,130,774
Level 1 securities:				
Money market funds	1,924,191	—	146	1,924,337
	$ 6,027,804	$ 3,189	$ 24,118	$ 6,055,111

Other current assets include restricted cash for deposits related to self insurance. Non-current assets include restricted cash related to letter of credit agreements.

There were no material gross realized gains or losses in the three months ended March 31, 2022 or 2021.

5. Balance Sheet Components

Content Assets, Net

Content assets consisted of the following:

	As of	
	March 31, 2022	December 31, 2021
	(in thousands)	
Licensed content, net	$ 12,923,692	$ 13,799,221
Produced content, net		
Released, less amortization	7,111,245	6,877,743
In production	10,175,960	9,235,975
In development and pre-production	981,023	1,006,600
	18,268,228	17,120,318
Content assets, net	$ 31,191,920	$ 30,919,539

As of March 31, 2022, approximately $5,606 million, $2,963 million, and $1,815 million of the $12,924 million unamortized cost of the licensed content is expected to be amortized in each of the next three years. As of March 31, 2022, approximately $2,807 million, $1,933 million, and $1,182 million of the $7,111 million unamortized cost of the produced content that has been released is expected to be amortized in each of the next three years.

As of March 31, 2022, the amount of accrued participations and residuals was not material.

The following tables represent the amortization of content assets:

	Three Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Licensed content	$ 1,884,438	$ 1,829,246
Produced content	1,281,927	889,950
Total	$ 3,166,365	$ 2,719,196

Property and Equipment, Net

Property and equipment and accumulated depreciation consisted of the following:

	As of		
	March 31, 2022	December 31, 2021	Estimated Useful Lives
	(in thousands)		
Land	$ 82,381	$ 82,381	
Buildings	48,625	48,123	30 years
Leasehold improvements	983,209	863,342	Over life of lease
Furniture and fixtures	147,059	139,809	3 years
Information technology	448,608	380,452	3 years
Corporate aircraft	110,978	110,978	8 years
Machinery and equipment	32,613	32,426	3-5 years
Capital work-in-progress	220,422	282,248	
Property and equipment, gross	2,073,895	1,939,759	
Less: Accumulated depreciation	(690,132)	(616,306)	
Property and equipment, net	$ 1,383,763	$ 1,323,453	

Leases

The Company has entered into operating leases primarily for real estate. Operating leases are included in "Other non-current assets" on the Company's Consolidated Balance Sheets, and represent the Company’s right to use the underlying asset for the lease term. The Company’s obligations to make lease payments are included in "Accrued expenses and other liabilities" and "Other non-current liabilities" on the Company's Consolidated Balance Sheets. The Company has entered into various short-term operating leases, primarily for marketing billboards, with an initial term of twelve months or less. These leases are not recorded on the Company's Consolidated Balance Sheets. All operating lease expense is recognized on a straight-line basis over the lease term. Because the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate to determine the present value of the lease payments.

Information related to the Company's operating right-of-use assets and related operating lease liabilities were as follows:

	Three Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Cash paid for operating lease liabilities	$ 103,141	$ 82,439
Right-of-use assets obtained in exchange for new operating lease obligations	141,298	49,445

	As of	
	March 31, 2022	December 31, 2021
	(in thousands)	
Operating lease right-of-use assets, net	$ 2,483,778	$ 2,446,573
Current operating lease liabilities	330,936	315,189
Non-current operating lease liabilities	2,434,078	2,408,486
Total operating lease liabilities	$ 2,765,014	$ 2,723,675

Other Current Assets

Other current assets consisted of the following:

	As of	
	March 31, 2022	December 31, 2021
	(in thousands)	
Trade receivables	$ 824,650	$ 804,320
Prepaid expenses	419,134	323,818
Other	845,285	913,883
Total other current assets	$ 2,089,069	$ 2,042,021

6. Debt

As of March 31, 2022, the Company had aggregate outstanding notes of $14,535 million, net of $88 million of issuance costs, with varying maturities (the "Notes"). As of December 31, 2021, the Company had aggregate outstanding notes of $15,393 million, net of $92 million of issuance costs. Each of the Notes were issued at par and are senior unsecured obligations of the Company. Interest is payable semi-annually at fixed rates. A portion of the outstanding Notes is denominated in foreign currency (comprised of €5,170 million) and is remeasured into U.S. dollars at each balance sheet date (with remeasurement gain totaling $162 million for the three months ended March 31, 2022).

The following table provides a summary of the Company's outstanding debt and the fair values based on quoted market prices in less active markets as of March 31, 2022 and December 31, 2021:

	Principal Amount at Par				Level 2 Fair Value as of	
	March 31, 2022	December 31, 2021	Issuance Date	Maturity	March 31, 2022	December 31, 2021
	(in millions)				(in millions)	
5.500% Senior Notes	—	700	February 2015	February 2022	—	704
5.750% Senior Notes	400	400	February 2014	March 2024	419	437
5.875% Senior Notes	800	800	February 2015	February 2025	855	899
3.000% Senior Notes (1)	520	535	April 2020	June 2025	545	581
3.625% Senior Notes	500	500	April 2020	June 2025	502	529
4.375% Senior Notes	1,000	1,000	October 2016	November 2026	1,039	1,111
3.625% Senior Notes (1)	1,439	1,480	May 2017	May 2027	1,539	1,702
4.875% Senior Notes	1,600	1,600	October 2017	April 2028	1,671	1,829
5.875% Senior Notes	1,900	1,900	April 2018	November 2028	2,096	2,293
4.625% Senior Notes (1)	1,218	1,252	October 2018	May 2029	1,376	1,565
6.375% Senior Notes	800	800	October 2018	May 2029	907	999
3.875% Senior Notes (1)	1,328	1,366	April 2019	November 2029	1,444	1,651
5.375% Senior Notes	900	900	April 2019	November 2029	977	1,068
3.625% Senior Notes (1)	1,218	1,252	October 2019	June 2030	1,291	1,493
4.875% Senior Notes	1,000	1,000	October 2019	June 2030	1,068	1,169
	$ 14,623	$ 15,485			$ 15,729	$ 18,030

(1) The following Senior Notes have a principal amount denominated in euro: 3.000% Senior Notes for €470 million, 3.625% Senior Notes for €1,300 million, 4.625% Senior Notes for €1,100 million, 3.875% Senior Notes for €1,200 million, and 3.625% Senior Notes for €1,100 million.

In February 2022, the Company repaid upon maturity the $700 million aggregate principal amount of its 5.500% Senior Notes.

Each of the Notes are repayable in whole or in part upon the occurrence of a change of control, at the option of the holders, at a purchase price in cash equal to 101% of the principal plus accrued interest. The Company may redeem the Notes prior to maturity in whole or in part at an amount equal to the principal amount thereof plus accrued and unpaid interest and an applicable premium. The Notes include, among other terms and conditions, limitations on the Company's ability to create, incur or allow certain liens; enter into sale and lease-back transactions; create, assume, incur or guarantee additional indebtedness of certain of the Company's subsidiaries; and consolidate or merge with, or convey, transfer or lease all or substantially all of the Company's and its subsidiaries assets, to another person. As of March 31, 2022 and December 31, 2021, the Company was in compliance with all related covenants.

Revolving Credit Facility

On June 17, 2021, the Company amended its unsecured revolving credit facility ("Revolving Credit Agreement") to, among other things, extend the maturity date from March 29, 2024 to June 17, 2026 and to increase the size of the facility from $750 million to $1 billion. Revolving loans may be borrowed, repaid and reborrowed until June 17, 2026, at which time all amounts borrowed must be repaid. The Company may use the proceeds of future borrowings under the Revolving Credit Agreement for working capital and general corporate purposes. As of March 31, 2022, no amounts have been borrowed under the Revolving Credit Agreement.

The borrowings under the Revolving Credit Agreement bear interest, at the Company’s option, of either (i) a floating rate equal to a base rate (the “Alternate Base Rate”) or (ii) a rate equal to an adjusted London interbank offered rate (the “Adjusted LIBO Rate”), plus a margin of

0.75%. The Alternate Base Rate is defined as the greatest of (A) the rate of interest published by the Wall Street Journal, from time to time, as the prime rate, (B) the federal funds rate, plus 0.500% and (C) the Adjusted LIBO Rate for a one-month interest period, plus 1.00%. The Adjusted LIBO Rate is defined as the London interbank offered rate for deposits in U.S. dollars, for the relevant interest period, adjusted for statutory reserve requirements, but in no event shall the Adjusted LIBO Rate be less than 0.00% per annum. Regulatory authorities that oversee financial markets have announced that publication of the Adjusted LIBO Rate based upon U.S. Dollars is expected to cease on June 30, 2023. The Revolving Credit Agreement contains customary provisions for the replacement of the Adjusted LIBO Rate with an alternate benchmark rate, including a rate based on the secured overnight financing rate published by the Federal Reserve Bank of New York, as the Adjusted LIBO Rate is phased out in the lending market. The Company does not anticipate that the replacement of the Adjusted LIBO Rate with such alternative benchmark rate, as provided in the Revolving Credit Agreement, will materially impact its liquidity or financial position.

The Company is also obligated to pay a commitment fee on the undrawn amounts of the Revolving Credit Agreement at an annual rate of 0.10%. The Revolving Credit Agreement requires the Company to comply with certain covenants, including covenants that limit or restrict the ability of the Company's subsidiaries to incur debt and limit or restrict the ability of the Company and its subsidiaries to grant liens and enter into sale and leaseback transactions; and, in the case of the Company or a guarantor, merge, consolidate, liquidate, dissolve or sell, transfer, lease or otherwise dispose of all or substantially all of the assets of the Company and its subsidiaries, taken as a whole. As of March 31, 2022 and December 31, 2021, the Company was in compliance with all related covenants.

7. Commitments and Contingencies

Content

As of March 31, 2022, the Company had $22.4 billion of obligations comprised of $4.1 billion included in "Current content liabilities" and $2.9 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and $15.4 billion of obligations that are not reflected on the Consolidated Balance Sheets as they did not yet meet the criteria for asset recognition.

As of December 31, 2021, the Company had $23.2 billion of obligations comprised of $4.3 billion included in "Current content liabilities" and $3.1 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and $15.8 billion of obligations that are not reflected on the Consolidated Balance Sheets as they did not yet meet the criteria for asset recognition.

The expected timing of payments for these content obligations is as follows:

	As of	
	March 31, 2022	December 31, 2021
	(in thousands)	
Less than one year	$ 9,861,979	$ 10,019,306
Due after one year and through three years	9,089,537	9,238,315
Due after three years and through five years	3,072,216	3,238,977
Due after five years	341,828	664,762
Total content obligations	$ 22,365,560	$ 23,161,360

Content obligations include amounts related to the acquisition, licensing and production of content. Obligations that are in non-U.S. dollar currencies are translated to the U.S. dollar at period end rates. An obligation for the production of content includes non-cancelable commitments under creative talent and employment agreements as well as other production related commitments. An obligation for the acquisition and licensing of content is incurred at the time the Company enters into an agreement to obtain future titles. Once a title becomes available, a content liability is recorded on the Consolidated Balance Sheets. Certain agreements include the obligation to license rights for unknown future titles, the ultimate quantity and/or fees for which are not yet determinable as of the reporting date. Traditional film output deals, or certain TV series license agreements where the number of seasons to be aired is unknown, are examples of such license agreements. The Company does not include any estimated obligation for these future titles beyond the known minimum amount. However, the unknown obligations are expected to be significant.

Legal Proceedings

From time to time, in the normal course of its operations, the Company is subject to litigation matters and claims, including claims relating to employee relations, business practices and patent infringement. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and the Company's view of these matters may change in the future as the litigation and events related thereto unfold. The Company expenses legal fees as incurred. The Company records a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. An unfavorable outcome to any legal matter, if material, could have an adverse effect on the Company's operations or its financial position, liquidity or results of operations.

The Company is involved in litigation matters not listed herein but does not consider the matters to be material either individually or in the aggregate at this time. The Company's view of the matters not listed may change in the future as the litigation and events related thereto unfold.

Indemnification

In the ordinary course of business, the Company has entered into contractual arrangements under which it has agreed to provide indemnification of varying scope and terms to business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements and out of intellectual property infringement claims made by third parties. In these circumstances, payment may be conditional on the other party making a claim pursuant to the procedures specified in the particular contract.

The Company's obligations under these agreements may be limited in terms of time or amount, and in some instances, the Company may have recourse against third parties for certain payments. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers that will require it, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The terms of such obligations vary.

It is not possible to make a reasonable estimate of the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. No amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

8. Stockholders' Equity

Stock Option Plan

In June 2020, the Company's stockholders approved the 2020 Stock Plan, which was adopted by the Company's Board of Directors in March 2020 subject to stockholder approval. The 2020 Stock Plan is the successor to the 2011 Stock Plan and provides for the grant of incentive stock options to employees and for the grant of non-statutory stock options, stock appreciation rights, restricted stock and restricted stock units to employees, directors and consultants.

A summary of the activities related to the Company's stock option plans is as follows:

		Options Outstanding	
	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price (per share)
Balances as of December 31, 2021	20,145,360	17,595,851	$ 219.83
Granted	(523,787)	523,787	460.28
Exercised	—	(310,743)	38.00
Expired	—	(1,246)	16.11
Balances as of March 31, 2022	19,621,573	17,807,649	$ 230.09

The aggregate intrinsic value of the Company's outstanding stock options as of March 31, 2022 was $3,024 million and represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the first quarter of 2022 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last trading day of the first quarter of 2022. This amount changes based on the fair market value of the Company's common stock. The weighted-average remaining contractual term of the Company's outstanding stock options as of March 31, 2022 included in the table above was 5.33 years. All options outstanding are vested and exercisable.

A summary of the amounts related to option exercises, is as follows:

	Three Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Total intrinsic value of options exercised	$ 114,762	$ 228,020
Cash received from options exercised	13,678	48,071

Stock-based Compensation

Stock options granted are exercisable for the full ten year contractual term regardless of employment status. The following table summarizes the assumptions used to value option grants using the lattice-binomial model and the valuation data:

	Three Months Ended	
	March 31, 2022	March 31, 2021
Dividend yield	— %	— %
Expected volatility	38 %	41 %
Risk-free interest rate	1.71 %	1.08 %
Suboptimal exercise factor	4.71	3.81
Weighted-average fair value (per share)	$ 228	$ 268
Total stock-based compensation expense (in thousands)	$ 119,209	$ 107,230
Total income tax impact on provision (in thousands)	$ 26,413	$ 24,079

The Company considers several factors in determining the suboptimal exercise factor, including the historical and estimated option exercise behavior.

The Company calculates expected volatility based solely on implied volatility. The Company believes that implied volatility of publicly traded options in its common stock is more reflective of market conditions, and given consistently high trade volumes of the options, can reasonably be expected to be a better indicator of expected volatility than historical volatility of its common stock.

In valuing shares issued under the Company's employee stock option plans, the Company bases the risk-free interest rate on U.S. Treasury zero-coupon issues with terms similar to the contractual term of the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. The Company does not use a post-vesting termination rate as options are fully vested upon grant date.

Stock Repurchases

In March 2021, the Company's Board of Directors authorized the repurchase of up to $5 billion of its common stock, with no expiration date. Stock repurchases may be effected through open market repurchases in compliance with Rule 10b-18 under the Exchange Act, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Exchange Act, privately-negotiated transactions, accelerated stock repurchase plans, block purchases, or other similar purchase techniques and in such amounts as management deems appropriate. The Company is not obligated to repurchase any specific number of shares, and the timing and actual number of shares repurchased will depend on a variety of factors, including the Company's stock price, general economic, business and market conditions, and alternative investment opportunities. The Company may discontinue any repurchases of its common stock at any time without prior notice. There were no repurchases during the three months ended March 31, 2022. As of March 31, 2022, $4.4 billion remain available for repurchases. Shares repurchased by the Company are accounted for when the transaction is settled. As of March 31, 2022, there were no unsettled share repurchases. Direct costs incurred to acquire the shares are included in the total cost of the shares.

9. Income Taxes

	Three Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands, except percentages)	
Provision for income taxes	$ 382,245	$ 327,787
Effective tax rate	19 %	16 %

The effective tax rate for the three months ended March 31, 2022 differed from the Federal statutory rate primarily due to an increase in foreign taxes, offset by the impact of international provisions of the Tax Cuts and Jobs Act, and the recognition of excess tax benefits of stock-based compensation. The effective tax rate for the three months ended March 31, 2021 differed from the Federal statutory rate primarily due to the impact of international provisions of the Tax Cuts and Jobs Act and recognition of excess tax benefits of stock-based compensation.

The increase in the effective tax rate for the three months ended March 31, 2022, as compared to the same period in 2021 was primarily due to an increase in foreign taxes and a reduction to excess tax benefits of stock-based compensation. For the three months ended March 31, 2022, the Company recognized a discrete tax benefit related to the excess tax benefits from stock-based compensation of $25 million, compared to the three months ended March 31, 2021 of $47 million.

Gross unrecognized tax benefits were $215 million and $203 million as of March 31, 2022 and December 31, 2021, respectively. The gross unrecognized tax benefits as of March 31, 2022, if recognized by the Company, will result in a reduction of approximately $143 million to the provision for income taxes thereby favorably impacting the Company's effective tax rate.

The Company files U.S. Federal, state and foreign tax returns. The Company is currently under examination by the IRS for 2016 through 2018 and is subject to examination for 2019 through 2021. The foreign and state tax returns for years 2015 through 2021 are subject to examination by various states and foreign jurisdictions.

Given the potential outcome of the current examinations, as well as the impact of the current examinations on the potential expiration of the statute of limitations, it is reasonably possible that the balance of unrecognized tax benefits could significantly change within the next twelve months. However, an estimate of the range of reasonably possible adjustments cannot be made at this time.

10. Segment and Geographic Information

The Company operates as one operating segment. The Company's chief operating decision maker ("CODM") is its co-chief executive officers, who review financial information presented on a consolidated basis for the purposes of making operating decisions, assessing financial performance and allocating resources.

Total U.S. revenues were $3.1 billion and $3.0 billion for the three months ended March 31, 2022 and 2021, respectively. See Note 2 *Revenue Recognition* for additional information about streaming revenue by region.

The Company's long-lived tangible assets, as well as the Company's operating lease right-of-use assets recognized on the Consolidated Balance Sheets as of March 31, 2022 and December 31, 2021, were located as follows:

	As of	
	March 31, 2022	December 31, 2021
	(in thousands)	
United States	$ 2,885,860	$ 2,833,059
International	981,681	936,967

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements include, but are not limited to statements regarding: our core strategy; our future financial performance, including expectations regarding revenues, deferred revenue, operating income and margin, net income, expenses, and profitability; liquidity, including the sufficiency of our capital resources, adequacy of existing facilities, net cash provided by (used in) operating activities, access to financing sources, and free cash flows; capital allocation strategies, including any stock repurchases or repurchase programs; seasonality; impact of foreign exchange rate fluctuations; the impact of the discontinuance of the LIBO Rate; future regulatory changes and their impact on our business; price changes and testing; impact of recently adopted accounting pronouncements; accounting treatment for changes related to content assets; membership growth, including impact of content and pricing changes on membership growth; partnerships; member viewing patterns; dividends; future contractual obligations, including unknown content obligations and timing of payments; our global content and marketing investments, including investments in original programming; content amortization; tax expense; unrecognized tax benefits; deferred tax assets; our ability to effectively manage change and growth; and the impact of the coronavirus (COVID-19) pandemic and our response to it. These forward-looking statements are subject to risks and uncertainties that could cause actual results and events to differ materially from those included in forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission ("SEC") on January 27, 2022, in particular the risk factors discussed under the heading "Risk Factors" in Part I, Item IA.

We assume no obligation to revise or publicly release any revision to any forward-looking statements contained in this Quarterly Report on Form 10-Q, unless required by law.

Investors and others should note that we announce material financial information to our investors using our investor relations website (*ir.netflix.net*), SEC filings, press releases, public conference calls and webcasts. We use these channels, as well as social media and blogs to communicate with our members and the public about our company, our services and other issues. It is possible that the information we post on social media and blogs could be deemed to be material information. Therefore, we encourage investors, the media, and others interested in our company to review the information we post on the social media channels and blogs listed on our investor relations website.

Overview

We are one of the world’s leading entertainment services with approximately 222 million paid memberships in over 190 countries enjoying TV series, documentaries, feature films and mobile games across a wide variety of genres and languages. Members can engage as much as they want, anytime, anywhere, on any internet-connected screen. Members can play, pause and resume watching, all without commercials. Additionally, we continue to offer our DVD-by-mail service in the United States (“U.S.”).

We are a pioneer in the delivery of streaming entertainment, launching our streaming service in 2007. Since this launch, we have developed an ecosystem for internet-connected screens and have added increasing amounts of content that enable consumers to enjoy entertainment directly on their internet-connected screens. As a result of these efforts, we have experienced growing consumer acceptance of, and interest in, the delivery of streaming entertainment.

Our core strategy is to grow our streaming membership business globally within the parameters of our operating margin target. We are continuously improving our members’ experience by expanding our content with a focus on a programming mix of content that delights our members and attracts new members. For example, in 2021 we added mobile games to our service. In addition, we are continuously enhancing our user interface and extending our streaming service to more internet-connected screens. Our members can download a selection of titles for offline viewing.

Our membership growth exhibits a seasonal pattern that reflects variations when consumers buy internet-connected screens and when they tend to increase their viewing. Historically, the fourth quarter represents our greatest streaming membership growth. In addition, our membership growth can be impacted by our content release schedule and changes to pricing.

Results of Operations

The following represents our consolidated performance highlights:

	As of/ Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except revenue per membership and percentages)			
Financial Results:				
Streaming revenues	$ 7,827,957	$ 7,113,707	$ 714,250	10 %
DVD revenues	39,810	49,575	(9,765)	(20)%
Total revenues	**$ 7,867,767**	**$ 7,163,282**	**$ 704,485**	10 %
Operating income	1,971,626	1,959,856	$ 11,770	1 %
Operating margin	25 %	27 %	(2)%	
Global Streaming Memberships:				
Paid net membership additions (losses)	(203)	3,976	(4,179)	(105)%
Paid memberships at end of period	221,641	207,639	14,002	7 %
Average paying memberships	221,743	205,651	16,092	8 %
Average monthly revenue per paying membership	$ 11.77	$ 11.53	$ 0.24	2 %

Consolidated revenues for the three months ended March 31, 2022 increased 10% as compared to the three months ended March 31, 2021 due to the 8% growth in average paying memberships and a 2% increase in average monthly revenue per paying membership. The increase in average monthly revenue per paying membership resulted from our price changes, partially offset by the strengthening of the U.S. dollar relative to certain foreign currencies.

The decrease in operating margin is primarily due to revenues growing at a slower rate as compared to the 16% increase in content amortization. Content amortization increased as a result of delays in content releases due to the COVID-19 pandemic impacting the comparable prior year period.

The full extent of the impact of the COVID-19 pandemic on our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict. See Part I, Item 1A: “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021 for additional details. While most of our productions have resumed, certain of our productions continue to experience disruption, as do the productions of our third-party content suppliers. Other partners have similarly had their operations disrupted, including those partners that we use for our operations as well as development, production, and post-production of content. Production disruptions and new health and safety protocols and requirements can result in additional costs including additional pay to cast and crew and use of Personal Protective Equipment ("PPE") and testing. We will continue to actively monitor the issues raised by the COVID-19 pandemic and may take further actions that alter our business operations as may be required by federal, state, local or foreign authorities, or that we determine are in the best interests of our employees, customers, partners and stockholders. It is not clear what the potential effects any such alterations or modifications may have on our business, including the effects on our customers, suppliers or vendors, or on our financial results.

Streaming Revenues

We derive revenues from monthly membership fees for services related to streaming content to our members. We offer a variety of streaming membership plans, the price of which varies by country and the features of the plan. As of March 31, 2022, pricing on our paid plans ranged from the U.S. dollar equivalent of $1 to $27 per month. We expect that from time to time the prices of our membership plans in each country may change and we may test other plan and price variations.

The following tables summarize streaming revenue and other streaming membership information by region for the three months ended March 31, 2022 and 2021.

United States and Canada (UCAN)

	As of/ Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except revenue per membership and percentages)			
Revenues	$ 3,350,424	$ 3,170,972	$ 179,452	6 %
Paid net membership additions (losses)	(636)	448	(1,084)	(242)%
Paid memberships at end of period	74,579	74,384	195	— %
Average paying memberships	74,897	74,160	737	1 %
Average monthly revenue per paying membership	$ 14.91	$ 14.25	$ 0.66	5 %
Constant currency change (1)				5 %

Europe, Middle East, and Africa (EMEA)

	As of/ Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except revenue per membership and percentages)			
Revenues	$ 2,561,831	$ 2,343,674	$ 218,157	9 %
Paid net membership additions (losses)	(303)	1,810	(2,113)	(117)%
Paid memberships at end of period	73,733	68,508	5,225	8 %
Average paying memberships	73,885	67,603	6,282	9 %
Average monthly revenue per paying membership	$ 11.56	$ 11.56	$ —	— %
Constant currency change (1)				6 %

Latin America (LATAM)

	As of/ Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except revenue per membership and percentages)			
Revenues	$ 998,948	$ 836,647	$ 162,301	19 %
Paid net membership additions (losses)	(351)	357	(708)	(198)%
Paid memberships at end of period	39,610	37,894	1,716	5 %
Average paying memberships	39,786	37,716	2,070	5 %
Average monthly revenue per paying membership	$ 8.37	$ 7.39	$ 0.98	13 %
Constant currency change (1)				20 %

Asia-Pacific (APAC)

	As of/ Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except revenue per membership and percentages)			
Revenues	$ 916,754	$ 762,414	$ 154,340	20 %
Paid net membership additions	1,087	1,361	(274)	(20)%
Paid memberships at end of period	33,719	26,853	6,866	26 %
Average paying memberships	33,176	26,173	7,003	27 %
Average monthly revenue per paying membership	$ 9.21	$ 9.71	$ (0.50)	(5)%
Constant currency change (1)				1 %

(1) We believe constant currency information is useful in analyzing the underlying trends in average monthly revenue per paying membership. In order to exclude the effect of foreign currency rate fluctuations on average monthly revenue per paying membership, we estimate current period revenue assuming foreign exchange rates had remained constant with foreign exchange rates from each of the corresponding months of the prior-year period. For the three months ended March 31, 2022, our revenues would have been approximately $280 million higher had foreign currency exchange rates remained constant with those for the three months ended March 31, 2021.

Cost of Revenues

Amortization of content assets makes up the majority of cost of revenues. Expenses directly associated with the acquisition, licensing and production of content (such as payroll and related personnel expenses, costs associated with obtaining rights to music included in our content, overall deals with talent, miscellaneous production related costs and participations and residuals), streaming delivery costs and other operations costs make up the remainder of cost of revenues. We have built our own global content delivery network ("Open Connect") to help us efficiently stream a high volume of content to our members over the internet. Delivery expenses, therefore, include equipment costs related to Open Connect, payroll and related personnel expenses and all third-party costs, such as cloud computing costs, associated with delivering content over the internet. Other operations costs include customer service and payment processing fees, including those we pay to our integrated payment partners, as well as other costs directly incurred in making our content available to members.

	Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except percentages)			
Cost of revenues	$ 4,284,705	$ 3,868,511	$ 416,194	11 %
As a percentage of revenues	54 %	54 %		

The increase in cost of revenues was primarily due to a $447 million increase in content amortization relating to our existing and new content, including more exclusive and original programming, partially offset by a decrease in other costs of revenues.

Marketing

Marketing expenses consist primarily of advertising expenses and certain payments made to our marketing partners, including consumer electronics ("CE") manufacturers, multichannel video programming distributors ("MVPDs"), mobile operators and internet service providers ("ISPs"). Advertising expenses include promotional activities such as digital and television advertising. Marketing expenses also include payroll and related expenses for personnel that support marketing activities.

	Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except percentages)			
Marketing	$ 555,978	$ 512,512	$ 43,466	8 %
As a percentage of revenues	7 %	7 %		

The increase in marketing expenses was primarily due to a $46 million increase in personnel-related costs primarily due to growth in average headcount to support the increase in our production activity.

Technology and Development

Technology and development expenses consist primarily of payroll and related expenses for technology personnel responsible for making improvements to our service offerings, including testing, maintaining and modifying our user interface, our recommendations, merchandising and infrastructure. Technology and development expenses also include costs associated with general use computer hardware and software.

	Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except percentages)			
Technology and development	$ 657,530	$ 525,207	$ 132,323	25 %
As a percentage of revenues	8 %	7 %		

The increase in technology and development expenses was primarily due to a $113 million increase in personnel-related costs, primarily due to growth in average headcount to support the increase in our production activity and continued improvements in our streaming service.

General and Administrative

General and administrative expenses consist of payroll and related expenses for corporate personnel. General and administrative expenses also include professional fees and other general corporate expenses.

	Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except percentages)			
General and administrative	$ 397,928	$ 297,196	$ 100,732	34 %
As a percentage of revenues	5 %	4 %		

The increase in general and administrative expenses was primarily due to a $80 million increase in personnel-related costs, primarily due to growth in average headcount to support the increase in our production activity and continued improvements in our streaming service.

Interest Expense

Interest expense consists primarily of the interest associated with our outstanding debt obligations, including the amortization of debt issuance costs. See Note 6 *Debt* in the accompanying notes to our consolidated financial statements for further detail on our debt obligations.

	Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except percentages)			
Interest expense	$ 187,579	$ 194,440	$ (6,861)	(4)%
As a percentage of revenues	2 %	3 %		

Interest expense primarily consists of $178 million of interest on our Notes for the three months ended March 31, 2022. The decrease in interest expense for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021 was due to the lower average aggregate principal of interest bearing notes outstanding.

Interest and Other Income

Interest and other income consists primarily of foreign exchange gains and losses on foreign currency denominated balances and interest earned on cash and cash equivalents.

	Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except percentages)			
Interest and other income	$ 195,645	$ 269,086	$ (73,441)	(27)%
As a percentage of revenues	2 %	4 %		

Interest and other income decreased in the three months ended March 31, 2022 primarily due to foreign exchange gains of $192 million, compared to gains of $258 million for the corresponding period in 2021. In the three months ended March 31, 2022, the foreign exchange gains were primarily driven by the $162 million non-cash gain from the remeasurement of our €5,170 million Senior Notes, coupled with the remeasurement of cash and content liability positions in currencies other than the functional currencies. In the three months ended March 31, 2021, the foreign exchange gains were primarily driven by the $253 million non-cash gain from the remeasurement of our €5,170 million Senior Notes, coupled with the remeasurement of cash and content liability positions in currencies other than the functional currencies.

Provision for Income Taxes

	Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except percentages)			
Provision for income taxes	$ 382,245	$ 327,787	$ 54,458	17 %
Effective tax rate	19 %	16 %		

The effective tax rate for the three months ended March 31, 2022 differed from the Federal statutory rate primarily due to an increase in foreign taxes, offset by the impact of international provisions of the Tax Cuts and Jobs Act, and the recognition of excess tax benefits of stock-based compensation.

The increase in the effective tax rate for the three months ended March 31, 2022, as compared to the same period in 2021 was primarily due to an increase in foreign taxes and a reduction to excess tax benefits of stock-based compensation.

Liquidity and Capital Resources

	As of		Change	
	March 31, 2022	December 31, 2021	March 31, 2022 vs. December 31, 2021	
	(in thousands, except percentages)			
Cash, cash equivalents and restricted cash	$ 6,034,501	$ 6,055,111	$ (20,610)	— %
Short-term and long-term debt	14,534,561	15,392,895	(858,334)	(6)%

Cash, cash equivalents and restricted cash decreased $21 million in the three months ended March 31, 2022 primarily due to the repayment of debt, acquisitions and purchases of property and equipment, partially offset by cash provided by operations.

Debt, net of debt issuance costs, decreased $858 million primarily due to the repayment upon maturity of the $700 million aggregate principal amount of our 5.500% Senior Notes in February 2022, coupled with the remeasurement of our euro-denominated notes. The amount of interest on our outstanding notes due in the next twelve months is $689 million. As of March 31, 2022, no amounts had been borrowed under the $1 billion Revolving Credit Agreement. See Note 6 *Debt* in the accompanying notes to our consolidated financial statements.

We anticipate that our future capital needs from the debt market will be more limited compared to prior years. Our ability to obtain this or any additional financing that we may choose to, or need to, obtain will depend on, among other things, our development efforts, business plans, operating performance and the condition of the capital markets at the time we seek financing. We may not be able to obtain such financing on terms acceptable to us or at all. If we raise additional funds through the issuance of equity or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock, and our stockholders may experience dilution.

In March 2021, our Board of Directors authorized the repurchase of up to $5 billion of our common stock, with no expiration date. Stock repurchases may be effected through open market repurchases in compliance with Rule 10b-18 under the Exchange Act, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Exchange Act, privately-negotiated transactions, accelerated stock repurchase plans, block purchases, or other similar purchase techniques and in such amounts as management deems appropriate. We are not obligated to repurchase any specific number of shares, and the timing and actual number of shares repurchased will depend on a variety of factors, including our stock price, general economic, business and market conditions, and alternative investment opportunities. We may discontinue any repurchases of our common stock at any time without prior notice. There were no repurchases during the three months ended March 31, 2022. As of March 31, 2022, $4.4 billion remains available for repurchases.

Our primary uses of cash include the acquisition, licensing and production of content, marketing programs, streaming delivery and personnel-related costs. Cash payment terms for non-original content have historically been in line with the amortization period. Investments in original content, and in particular content that we produce and own, require more cash upfront relative to licensed content. For example, production costs are paid as the content is created, well in advance of when the content is available on the service and amortized. We expect to continue to significantly increase our investments in global content, particularly in original content, which will impact our liquidity. We currently anticipate that cash flows from operations, available funds and access to financing sources, including our revolving credit facility, will continue to be sufficient to meet our cash needs for the next twelve months and beyond.

Our material cash requirements from known contractual and other obligations primarily relate to our content, debt and lease obligations. Expected timing of those payments are as follows:

	Total	Next 12 Months	Beyond 12 Months
Content obligations (1)	$ 22,365,560	$ 9,861,979	$ 12,503,581
Debt (2)	19,116,486	689,337	18,427,149
Operating lease obligations (3)	3,615,243	434,730	3,180,513
Total	$ 45,097,289	$ 10,986,046	$ 34,111,243

(1) As of March 31, 2022, content obligations were comprised of $4.1 billion included in "Current content liabilities" and $2.9 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and $15.4 billion of obligations that are not reflected on the Consolidated Balance Sheets as they did not then meet the criteria for recognition. See Note 7 *Commitments and Contingencies* to the consolidated financial statements for further details.

The contractual obligations table above does not include any estimated obligation for the unknown future titles, payment for which could range from less than one year to more than five years. However, these unknown obligations are expected to be significant and we believe could include approximately $1 billion to $4 billion over the next three years, with the payments for the vast majority of such amounts expected to occur after the next twelve months. The foregoing range is based on considerable management judgments and the actual amounts may differ. Once we know the title that we will receive and the license fees, we include the amount in the contractual obligations table above.

(2) Debt obligations include our Notes consisting of principal and interest payments. See Note 6 *Debt* to the consolidated financial statements for further details.

(3) Operating lease obligations are comprised of operating lease liabilities included in "Accrued expenses and other liabilities" and "Other non-current liabilities" on the Consolidated Balance Sheets, inclusive of imputed interest. Operating lease obligations also include additional obligations that are not reflected on the Consolidated Balance Sheets as they did not meet the criteria for recognition. See Note 5 *Balance Sheet Components* in the accompanying notes to our consolidated financial statements for further details regarding leases.

As of March 31, 2022, we had gross unrecognized tax benefits of $215 million. At this time, an estimate of the range of reasonably possible adjustments to the balance of unrecognized tax benefits cannot be made.

Free Cash Flow

We define free cash flow as cash provided by (used in) operating activities less purchases of property and equipment and change in other assets. We believe free cash flow is an important liquidity metric because it measures, during a given period, the amount of cash generated that is available to repay debt obligations, make strategic acquisitions and investments and for certain other activities like stock repurchases. Free cash flow is considered a non-GAAP financial measure and should not be considered in isolation of, or as a substitute for, net income, operating income, net cash provided by (used in) operating activities, or any other measure of financial performance or liquidity presented in accordance with GAAP.

In assessing liquidity in relation to our results of operations, we compare free cash flow to net income, noting that the major recurring differences are excess content payments over amortization, non-cash stock-based compensation expense, non-cash remeasurement gain/loss on our euro-denominated debt, and other working capital differences. Working capital differences include deferred revenue, excess property and equipment purchases over depreciation, taxes and semi-annual interest payments on our outstanding debt. Our receivables from members generally settle quickly.

	Three Months Ended		Change	
	March 31, 2022	March 31, 2021	Q1'22 vs. Q1'21	
	(in thousands, except percentages)			
Net cash provided by operating activities	$ 922,839	$ 777,266	$ 145,573	19 %
Net cash used in investing activities	(245,679)	(85,616)	160,063	187 %
Net cash used in financing activities	(686,322)	(451,929)	(234,393)	(52)%
Non-GAAP reconciliation of free cash flow:				
Net cash provided by operating activities	922,839	777,266	145,573	19 %
Purchases of property and equipment	(121,158)	(81,001)	(40,157)	(50)%
Change in other assets	—	(4,615)	4,615	100 %
Free cash flow	$ 801,681	$ 691,650	$ 110,031	16 %

Net cash provided by operating activities increased $146 million to $923 million for the three months ended March 31, 2022. The increase in cash provided by operating activities was primarily driven by a $704 million or 10% increase in revenues, partially offset by an increase in investments in content that require more upfront cash payments. The payments for content assets increased $381 million, from $3,551 million to $3,931 million, or 11%, as compared to the increase in the amortization of content assets of $447 million, from $2,719 million to $3,166 million, or 16%. In addition, we had increased payments associated with higher operating expenses, primarily related to increased headcount to support our continued improvements in our streaming service and our international expansion.

Net cash used in investing activities increased $160 million for the three months ended March 31, 2022, primarily due to an increase in acquisitions and purchases of property and equipment.

Net cash used in financing activities increased $234 million for the three months ended March 31, 2022, primarily due to the repayment of debt.

Free cash flow was $796 million lower than net income for the three months ended March 31, 2022 primarily due to $765 million of cash payments for content assets over amortization expense and $162 million of non-cash remeasurement gain on our euro-denominated debt, partially offset by $119 million of non-cash stock-based compensation expense and $12 million in other favorable working capital differences.

Free cash flow was $1,015 million lower than net income for the three months ended March 31, 2021, primarily due to $831 million of cash payments for content assets over amortization expense, $253 million of non-cash remeasurement gain on our euro-denominated debt and $38 million in other non-favorable working capital differences, partially offset by $107 million of non-cash stock-based compensation expense.

Indemnification

The information set forth under Note 7 *Commitments and Contingencies* to the consolidated financial statements under the caption "Indemnification" is incorporated herein by reference.

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported periods. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and results of operations, and which require a company to make its most difficult and subjective judgments. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

Content

We acquire, license and produce content, including original programming, in order to offer our members unlimited viewing of video entertainment. The content licenses are for a fixed fee and specific windows of availability. Payment terms for certain content licenses and the production of content require more upfront cash payments relative to the amortization expense. Payments for content, including additions to content assets and the changes in related liabilities, are classified within "Net cash provided by (used in) operating activities" on the Consolidated Statements of Cash Flows.

We recognize content assets (licensed and produced) as "Content assets, net" on the Consolidated Balance Sheets. For licensed content, we capitalize the fee per title and record a corresponding liability at the gross amount of the liability when the license period begins, the cost of the title is known and the title is accepted and available for streaming. For produced content, we capitalize costs associated with the production, including development cost, direct costs and production overhead. Participations and residuals are expensed in line with the amortization of production costs.

Based on factors including historical and estimated viewing patterns, we amortize the content assets (licensed and produced) in "Cost of revenues" on the Consolidated Statements of Operations over the shorter of each title's contractual window of availability or estimated period of use or ten years, beginning with the month of first availability. The amortization is on an accelerated basis, as we typically expect more upfront viewing, and film amortization is more accelerated than TV series amortization. On average, over 90% of a licensed or produced content asset is expected to be amortized within four years after its month of first availability. We review factors that impact the amortization of the content assets on a regular basis. Our estimates related to these factors require considerable management judgment.

Our business model is subscription based as opposed to a model generating revenues at a specific title level. Content assets (licensed and produced) are predominantly monetized as a group and therefore are reviewed at a group level when an event or change in circumstances indicates a change in the expected usefulness of the content or that the fair value may be less than unamortized cost. To date, we have not identified any such event or changes in circumstances. If such changes are identified in the future, these aggregated content assets will be stated at the lower of unamortized cost or fair value. In addition, unamortized costs for assets that have been, or are expected to be, abandoned are written off.

Income Taxes

We record a provision for income taxes for the anticipated tax consequences of our reported results of operations using the asset and liability method. Deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as net operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which future realization is uncertain.

Although we believe our assumptions, judgments and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

In evaluating our ability to recover our deferred tax assets, in full or in part, we consider all available positive and negative evidence, including our past operating results, and our forecast of future earnings, future taxable income and prudent and feasible tax planning strategies. The assumptions utilized in determining future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses. Actual operating results in future years could differ from our current assumptions, judgments and estimates. However, we believe that it is more likely than not that most of the deferred tax assets recorded on our Consolidated Balance Sheets will ultimately be realized. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. As of March 31, 2022, the valuation allowance of $333 million was related to the California R&D credits and certain foreign tax attributes that we do not expect to realize.

We did not recognize certain tax benefits from uncertain tax positions within the provision for income taxes. We may recognize a tax benefit only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. At March 31, 2022, our estimated gross unrecognized tax benefits were $215 million of which $143 million, if recognized, would favorably impact our future earnings. Due to uncertainties in any tax audit outcome, our estimates of the ultimate settlement of our unrecognized tax positions may change and the actual tax benefits may differ significantly from the estimates.

Recent Accounting Pronouncements

The information set forth under Note 1 to the consolidated financial statements under the caption “Basis of Presentation and Summary of Significant Accounting Policies” is incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For financial market risks related to changes in interest rates, reference is made to Item 7A "Quantitative and Qualitative Disclosures About Market Risk" contained in Part II of our Annual Report on Form 10-K for the year ended December 31, 2021. Our exposure to market risk has not changed significantly since December 31, 2021.

Foreign Currency Risk

Revenues denominated in currencies other than the U.S. dollar account for 58% of the consolidated amount for the three months ended March 31, 2022. We therefore have foreign currency risk related to these currencies, which are primarily the euro, the British pound, the Brazilian real, the Canadian dollar, the Mexican Peso, the Australian dollar, and the Japanese yen.

Accordingly, changes in exchange rates, and in particular a weakening of foreign currencies relative to the U.S. dollar may negatively affect our revenue and operating income as expressed in U.S. dollars. In the three months ended March 31, 2022, our revenues would have been approximately $280 million higher had foreign currency exchange rates remained consistent with those in same period of 2021.

We have also experienced and will continue to experience fluctuations in our net income as a result of gains (losses) on the settlement and the remeasurement of monetary assets and liabilities denominated in currencies that are not the functional currency. In the three months ended March 31, 2022, we recognized a $192 million foreign exchange gain primarily due to the non-cash remeasurement of our Senior Notes denominated in euros, coupled with the remeasurement of cash and content liabilities denominated in currencies other than the functional currencies.

In addition, the effect of exchange rate changes on cash, cash equivalents and restricted cash as disclosed on the Consolidated Statements of Cash Flow for the three months ended March 31, 2022 was a decrease of $11 million.

We do not use foreign exchange contracts or derivatives to hedge any foreign currency exposures. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Our continued international expansion increases our exposure to exchange rate fluctuations and, as a result, such fluctuations could have a significant impact on our future results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our co-Chief Executive Officers and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our co-Chief Executive Officers and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q were effective in providing reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our co-Chief Executive Officers and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Our management, including our co-Chief Executive Officers and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under Note 7 *Commitments and Contingencies* in the notes to the consolidated financial statements under the caption "Legal Proceedings" is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Company Purchases of Equity Securities

In March 2021, the Company’s Board of Directors authorized the repurchase of up to $5 billion of its common stock, with no expiration date. There were no repurchases during the three months ended March 31, 2022. As of March 31, 2022, $4.4 billion remains available for repurchases.

Item 6. Exhibits

(a) Exhibits:

See Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Restated Certificate of Incorporation	10-Q	001-35727	3.1	July 17, 2015	
3.2	Amended and Restated Bylaws	8-K	001-35727	3.1	December 18, 2020	
31.1	Certification of Co-Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Co-Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.3	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certifications of Co-Chief Executive Officers and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, formatted in Inline XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Balance Sheets, (v) Consolidated Statements of Stockholders' Equity and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags					X
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, formatted in Inline XBRL					X

* These certifications are not deemed filed by the SEC and are not to be incorporated by reference in any filing we make under the Securities Act of 1933 or the Securities Exchange Act of 1934, irrespective of any general incorporation language in any filings.

† Indicates a management contract or compensatory plan

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NETFLIX, INC.

Dated: April 21, 2022 By: /s/ Reed Hastings

Reed Hastings
Co-Chief Executive Officer
(Principal executive officer)

Dated: April 21, 2022 By: /s/ Spencer Neumann

Spencer Neumann
Chief Financial Officer
(Principal financial and accounting officer)