Good afternoon. I am Erin Kasenchak, Director of Investor Relations at Netflix. And I would like to welcome you to our Fourth Quarter 2013 Earnings Interview. During today's discussion, we may make forward-looking statements about the company's performance and actual results may differ.

Joining me today is Reed Hastings, our CEO; David Wells, CFO; Ted Sarandos, Chief Content Officer and helping to facilitate is Rich Greenfield of BTIG Research and Doug Anmuth of JPMorgan.

Let me turn it over to Doug for first question.

Question-and-Answer Session

Doug Anmuth - JPMorgan

Okay, thanks Erin. Thanks everybody for being here with us today. So the first question I wanted to ask about the fourth quarter and guidance, you guided to 2.25 million subs for 1Q and that's 11% above 1Q '13 net adds, you noted that you are in the middle of the S curve. Can you give us some color on the seasonal trajectory of 1Q? What percentage of your subs typically come in very early in the quarter? And also can you talk about your conviction in '14 in delivering more U.S. net adds than you did in '13?

Reed Hastings

Sure, Doug. It's Reed here. The seasonal pattern is the same as it typically is or at least it is the same seasonal pattern so far in the quarter, which is it's relatively front-loaded compared to other quarters. And then your second question was on conviction of net adds for all of 2014. And we haven't given guidance for the year, we try to avoid that. So I will just say it's a great start for the year and then that pretends very well for us and we are excited about what's unfolding.

Rich Greenfield - BTIG Research

When you wrote your last quarterly letter, Reed, you talked about the – what kind of the stock price volatility you referenced you would actually broke it out in the letter, you said some of the deals like the euphoria back from 2003, your stock I think that evening was at $354 a share. That section was removed from the quarterly letter this quarter. I think your stock right now was trading at about $393, curious is the euphoria now gone given your business conditions or do you still feel like there is euphoria built into the stock?

Reed Hastings

Well at least, I was clearly right about the volatility, Rich. I mean, we have been all over the math here. And I think we will just stay focused on doing the best we can on improving the service, growing the membership and I don't know that's I think, I have any differential insight into the right price of the stocks.

Doug Anmuth - JPMorgan

In your long-term view, you asked about – you talked about apps replacing channels, screens proliferating, just wanted to ask you more specifically on the last point here, we frequently ask about mobile. Sometimes, I feel like you may downplay it a little bit in terms of impact, because this user base continues to grow and the viewing takes place across more screens, what's your current thinking on how material mobile is to your business now and going forward?

Reed Hastings

Well, it's continuing to grow tablets in particular, phones some, but so much of our viewing is on smart TVs or TVs connected to a Blu-ray player or a game console. For a lot of our entertainment, we are really pretty large screen centric. And so we are less driven by mobile trends than say a music service would be.

Doug Anmuth - JPMorgan

Do you feel like that difference at all for newer subscribers?

Reed Hastings

It's a little different in younger subscribers, but again, we are not trying to be any one screen. So we were great on a tablet both Android and iOS and we were great on the TV. And so we are not trying to pick and choose. And in fact in any time period say a month many subscribers will use us on multiple screens, so watch some on the smart TV, some on their laptop and some on the tablet. And that's fine for us.

Doug Anmuth - JPMorgan

That's even true of watching a specific show you may started on one device and ended on another.

Rich Greenfield - BTIG Research

David, you talked about wanting to have increased transparency for the reason for shifting to a single point estimate for guidance. Is there also a part of that that's driven by better visibility in Q1 now?

David Wells

I don’t think it was related, the timings are related to the quarter that we sort of made the shift. I think for you guys, you are always trying to figure out if our guidance ranges also include modest conservatism on top of an internal forecast and I think for us it was an attempt to just remove that one marginal layer. You already had the midpoint of our ranges. We wanted to simplify our message and the transparency of our guidance and just moving to our straight internal forecast does that.

Rich Greenfield - BTIG Research

And two quarters ago. Sorry go ahead.

Doug Anmuth - JPMorgan

Sorry Rich. David would you agree we had the same visibility we have every Q1 at this period? There is nothing special about this Q1?

David Wells

Yes that was the intent of my first statement which is there is nothing special about this quarter.

Doug Anmuth - JPMorgan

But there is something special about this quarter that you highlighted a couple of years ago which is the Olympics and there is a Winter Olympics and curious to what extent having the Olympics impacts your guidance and whether you can read through anything towards the World Cup this summer and maybe just one other factor to throw in there as well, you got Season 2 of House of Cards, is that playing into the increased confidence in Q1 as well?

David Wells

I will take the craft [ph] and then I will go to Reed. I would say Rich that you correctly articulated that that there is factors on both sides. The Olympics for us are generally are negative because people are focused on watching something else rather than signing up for Netflix. We feel like the social [ph] games are small factor in that and might be disproportionate in sort of the territories that are really excited about the Winter Olympics. The U.S. is excited generally, watches it but it's not a large factor and then House of Cards will be on the other side of that which will be a positive. So our guidance numbers reflect all of those pluses and minus but again there is nothing particularly special about this quarter. You have articulated one or two swing factors, every quarter we usually have one or two swing factors in terms of influencing our guide.

Doug Anmuth - JPMorgan

And I know it will be in the filing soon, but if you could give us an update on off balance sheet obligation talk about the U.S. and international businesses.

David Wells

Sure Doug. So usually when people are asking this or asking about that content obligations or the overall obligations filed in our financials and those rose from 6.5 to 7.3. There is a little bit of rounding. So it was a 700 million increase largely driven by some of the deals that you've already heard about and we have announced. So the Marvel deal and some of the originals, the Universal deal and the Sony deal that we have done in terms of extending some existing deals.

Doug Anmuth - JPMorgan

And then maybe another balance sheet question to stay on this topic. Can you provide some background as to what content assets or prepaid content assets were rolled into other current assets during the most recent quarter's presentation of the balance sheet?

David Wells

Sure because it has gotten so small that it's immaterial in terms of those changes. So our team felt like it was not needed to break it out anymore but there wasn't anything more than that.

Doug Anmuth - JPMorgan

And perhaps just lastly in terms of 1Q. A strong guide here but looks like the EPS is perhaps a little bit lighter for 1Q. Can you just talk a little bit more about where you're expecting to be incremental spending to come in, in the quarter?

David Wells

Well I'm not sure about the EPS being a little bit lighter. I mean our DVD business does see a decrease in profitability because of increased usage and a sort of continued small decline of the subscriber base. Our international is going to see a pretty good improvement, you see not in our guide. We will see a step-up a little bit in our G&A cost as those are reflected in sort of mark to market employee compensation but those would be the big factors involved in that but I don't think it is material sort of step change.

Doug Anmuth - JPMorgan

Can we move over to pricing? When you look at your long term view statement you actually removed the phrase I believe at some point over the last several months simplicity is at our core and there seems to be a change in your philosophy surrounding pricing and I think review it for a long time talked about the importance of keeping it simple with one price point Wondering what's changed and how does that now play into the various tiers of Netflix that you're now testing and playing with?

Reed Hastings

It's an interesting story, a friend of mine I was preaching about simplicity and a friend of mine pointed out that the simplest iPhone would have no applications but it wouldn't be a better iPhone. In fact that was the iPhone I, had no App Store and that in fact great product is a combination of functionality and ease of use and that simplicity wasn't always the best choice and so it's through the conversations over the last year I think I've shifted away from simplicity to an end goal to simplicity as an input towards ease of use and towards matching functionality that people want and so we have slightly are more focused on best functionality independent of it's simplicity and of course try to make it as easy to use and we try to make our pricing as straightforward as possible, but it's not clear that one price fits all. We added the four-screen program almost a year ago back in April of last year and that's met our expectations in terms of the family take rate. So I think we are justified we are willing to take a slightly richer offering and realizing that that's might be better for consumers and for us.

Doug Anmuth - JPMorgan

Reed, can you also comment on the $6.99 plan who you are targeting with that offering? And does it say anything in your view in terms of penetration and maturity in the U.S.?

Reed Hastings

We are testing lots of things. Some of it's been reported on, some of it's not. One of the things this is $6.99 one stream. I don't think you should read too much into that other than we are probing around the edges. There is no definite plan to do that. I would say generally as we put in the letter, we are trying to figure out some models of good, better, best price tiering that makes sense and provide some flexibility for our customers at least for our new customers, our existing customers of course we would grandfather very generously.

Rich Greenfield - BTIG Research

When you look at the $6.99 plan, why does somebody who is willing to spend $7.99, why does a dollar make a difference, I mean do you really think that there is that much impact from that $1?

Reed Hastings

Well, Rich of course at your income level, not to be too personal, it doesn't. But and going from 33 million U.S. members who hopefully more than twice that, every bit of savings is important to people. And so we definitely look at those kind of factors, but again, I wouldn't read too much into the $6.99 other than we are testing some things. And we are continuing to try to figure out how to evolve to a good, better, best plan that makes sense to consumers and feels fair.

Rich Greenfield - BTIG Research

Any early elasticity learnings though you can talk to directly?

Reed Hastings

No. Once we figure out what we think the best plan and we will talk about that and why we think it is, but we are not specifically taking a part at each option that we are testing.

David Wells

The only thing I would add, this is David – the only thing I would add on that conversation is just it's not only the question of elasticity and sort of income levels, but in pricing period, there is also a sense that consumers make choices around heuristics. And so a dollar rich might not sound like a lot on a logical basis, but consumers may have shortcuts that they make, they take the middle or the upper or the low and so that factors into the right course as well.

Doug Anmuth - JPMorgan

And then if we think about it on the other extreme, there is likely a large percentage of subscribers that would perhaps pay dramatically more for Netflix service that had even more content on it. How does the company address how they might reach that subset of members without risking the growth at lower prices?

Reed Hastings

Yes. It's unlikely for us to be able to do that, Doug, because if we license the content, it's almost always exclusive, because the other licensors don't want us to have it in addition to that. So we have to pay the full not of getting an exclusive license and so then that's tricky to say also buildup $30 a month program that's they have all the new releases or something like that. So I think we will stick at what we are doing now and just continue to do it a little better year after year after year. And that's worked pretty well for us over the last eight quarters.

Rich Greenfield - BTIG Research

You referenced before the iPod or the iPhone, when you think about ways to tier obviously there is things like WiFi or Mini and not Mini for an iPad and iPhone, are there more ways to tier for Netflix than simultaneous streams and SD-HD what other things should we be thinking about?

Reed Hastings

Well, I'll let you know when we figure out what works best in our testing and research with consumers, but sure there is a dozen type of things that you could tier on in principle, but the trick is not having too many factors, keeping it understandable and then really that it feels fair and resonates with consumers.

Rich Greenfield - BTIG Research

Last week, HBO commented that shared passwords are not a big issue for HBO Go, because those users eventually will have enough money to subscribe on their own. What's your view around shared passwords?

Reed Hastings

That was an interesting comment I suppose. So, I guess Plepler is the CEO of HBO, doesn't mind me then sharing his account information. So, it's plepler@hbo.com and his password is Netflix.

Rich Greenfield - BTIG Research

When you think about advertising I think that there is a lot of people who now believe investors that believe that your services has gotten to the point where it's sticky enough but people would tolerate preroll ads such as when they go to the movie theater and they are forced to tolerate several minutes of preroll ads. Is that something that you would ever envision doing?

Reed Hastings

We have no play on to go towards advertising based models. Our grand at least over the next couple of years and at this point really stands for that commercial free experience that we have where the consumer is in control of the experience. They get to watch when they want, they get to pause it when they want. They can play it when they want, watch it how and where they want. So it's fundamental to that control orientation that we don't cram advertisements on people's throats. So I really don't see that.

Rich Greenfield - BTIG Research

Do your contracts even allow it though?

Reed Hastings

At a certain price anything is allowable but I'm sure Ted could talk of it, it would take a lot more money but it's not something we're contemplating.

Ted Sarandos

Yeah it tends to be a separate set of rights and to your point we have got a go to grade extremes [ph] to give consumers control of the content you know going all the way to the extreme of putting the entire season out at one time so the notion of frustrating for the first or the last couple of minutes seems a little out of step at that.

Doug Anmuth - JPMorgan

I will shift gears and talk about net neutrality a little bit. What is the impact of the net neutrality rolling last week and what is your expectation for how the ISPs little act in the near term?

Ted Sarandos

Well as we put in letter Doug there are some draconian scenarios where some ISPs block Netflix but we think it's very unlikely and the most likely scenario at least in the near term is that there is no real change and the reason is if ISP especially major ISPs were to contemplate blocking Netflix or other services it will significantly fuel the fire for more regulation which is not something they are interested in. So the long term we still need to figure out what it means and how that works out but I think in short term it's very likely that there is no change.

Doug Anmuth - JPMorgan

You lobbied pretty hard though against the court overturning the net neutrality rules. Verizon obviously lobbied very hard to have the rules overturned, I guess there is a lot of investments who fear that this is kind of a zero sum game and even if there isn't a notable attack from Verizon or other ISPs I think the fear is it's a little bit like boiling a frog. Does this turn it up and tweak it little bit each year just to disadvantage you versus themselves. So it may not be overly noticeable, how much of an issue is little bits of bad behavior?

Reed Hastings

Well it's a legitimate fear I suppose but we operate in 41 countries that have quite of a variety of states of net neutrality and we never had a significant problem to-date, it doesn’t mean we won't or we haven't to-date and I think what it is ISPs have a very profitable business and they want to expand that business and part of delivering and expanding for consumers is having a good Netflix experience and good YouTube experience, things like that, that’s why people get higher speed broadband. And so I think actually our economic interests are pretty coaligned which is how it's worked so far.

Doug Anmuth - JPMorgan

And can you comment on Open Connect and does it mitigate some of the impact here and perhaps can you talk about how deeply penetrated you’re now with Open Connect?

Reed Hastings

Sure Open Connect is a pretty independent issue. We could be delivering through Akamai and an ISP could block Netflix vid, so they are really not closely associated other than they are both on vid delivery. And then Open Connect is making great progress. We’re continuing to work with more and more ISPs, higher percentage of the traffic but think of that as a cost savings and improvement as opposed to say fundamental to these net neutrality issues.

Doug Anmuth - JPMorgan

You’re already at 30% of peak downstream bandwidth if you listened to the Sandvine studies. I was I think when we were looking at the fourth quarter statement it showed I think 16 megs was their stream necessary for a 4k stream and kind of your eyes pop-out when you see the amounts of data that a 4k stream call it a two hour movie if we think about streaming all of Breaking Bad over the course of the next few weeks given how many seasons you have. How does 4k going to impact the net neutrality debate? Just given how much data, I assume that 30% surges be you will have 4k content before a lot of others. So your 30% would really surge over the next couple of years?

Reed Hastings

If you are on the cost side than ISP, then you may be affected by that and think about that, but if you are on the revenue side, you are celebrating, because now there is a real need to get a 40 or 50 megabit plan. So you could support two streams and you have got something to get people to upgrade to the faster plans. And so as long as the fast plans are priced appropriately for the ISP, it's a great interplay. For 20 years, we saw PCs get faster, applications get richer, which was a reason to get faster PCs, which then enabled richer applications. And that ecosystem really grew. Now of course in the short-term, there is not many people who own a 4K TV. So the 4K is going to come about as a percentage of all viewing fairly slowly, because you got to get a 4K TV and then only a percentage of our content is available in 4K. So there is no tidal wave coming in the next 18 months. But it is a great way to work with ISPs so that their higher speed plans have more merit in the consumer size.

Doug Anmuth - JPMorgan

Great. Let's shift gears and move over to international, you talked about a more expensive European rollout coming in 2014. There is clearly a lot of speculation on you entering France and Germany in particular. But can you talk a little bit about maybe those countries specifically the over the top players they are currently state of broadband and the interest in U.S. content there?

Reed Hastings

Yes. We haven't been specific about what country or countries we are going to expand to. So there is a number of players in all the major markets and then the smaller markets. They are all doing good work. I think what we have seen with our success in the UK is that there can be very strong players like the BBC iPlayer, (indiscernible) and Sky. And we can still build a very successful business. And so I think the key is having unique content, a great reputation, a good value proposition and we can succeed and in many cases, that competitors can also. So we mostly focus on finding good markets that love content and that will steadily expand in Europe.

David Wells

And to your second part of your question, the appetite for U.S. content around the world still remains very, very high throughout Europe, particularly. And you think and there are some pockets of the world where local content is now outpacing U.S. programming on the movie side, but that doesn't really – is that necessarily a reflection of the desire for the content itself as much as it is to specific distribution models in those countries.

Rich Greenfield - BTIG Research

So you think content like House of Cards or Breaking Bad, those series work well in or would work well in markets like France or Germany specifically.

Reed Hastings

House of Cards and Orange is the New Black is a hit for us in every territory I preyed in and is a hit for others in territories where we don't today. So it travels incredibly well those shows too. And Breaking Bad is an enormous show for us in every one of our territories.

Rich Greenfield - BTIG Research

And just because you brought it up when you have sold shows like Orange is the New Black into France, because you weren't there yet. What happens when you launch in those markets? Do those write back to you if you chose to launch in France or are you added to market with some of your key originals to the length of the series?

Reed Hastings

It depends. There is multiple windows and we will continue to have those negotiations as we get close to those launches.

Doug Anmuth - JPMorgan

Can you give us some color on how international subs breakout by market? Have you crossed the 2 million sub number in the UK? And then perhaps also a comment on profitability in the UK and Canada if you are there yet or how far away?

David Wells

We really don't breakout by country for competitive reasons either the profitability or the number of subs. We have said in the past in there or probably two years ago that Canada broke even within two years, but beyond that, we are really treating international as the segment again for competitive reasons.

Rich Greenfield - BTIG Research

You might have ended up….

David Wells

Sorry Rich. Doug, this is David. I would just say that for those that have been following us for a while. I mean, we have been making consistent statements about improvements in every market. So we have given some color in terms of if you have tracked the history from launch, where we might be along the way and you should get some confidence that there is improvements in every market we made that comment in several quarters.

Doug Anmuth - JPMorgan

So there is no way to read into the UK since you haven't broken or since you are not giving any detail. We shouldn't assume that, that market has not broken even already, because you are just no longer ever going to comment on individual market profitability outside of Canada?

David Wells

We're going to think about it which is you don't really care if we're profitable in London but not in England, but not in Scotland or vice a versa. In other words what we care about is the total P&L and much of the licensing is either when we think of originals you know we're really multi-territory. So what we're managing to is the overall P&L and then with international you can see just incredible progress we have made over this last year in terms of lowering the, improving essentially the contribution margin and we will continue to make progress on that. So we're making good progress there.

Doug Anmuth - JPMorgan

Can you talk about the sort of early returns on the set top box integrations in Europe particular through the middle partnerships? How those are working so far? If you could comment a little bit on the economics and then also what you think the potential is for future deals that are similar going forward?

David Wells

Sure Doug, I'm not going to comment on the economics but our big first one was with Virgin. Virgin has always been an innovator in the UK market. They are really strong cable company. Lots of fiber, they have done lots of investment to have some of the highest speed broadbands in Europe and in the world. We're thrilled to be working with them, it's on the TiVo platform. It's been a really great reception. It's just very convenient for people use Netflix right on the same input and the same device that they are used to using it on and of course we have had several years of history of working with TiVo so the application works very well. So we're excited by that, we're open to doing more. We're definitely talking to a lots of people throughout the world and I think what an MVPD sees is that people are going to use Netflix anyway and I as an MVPD would rather have the music on my remote control in my box than get used to the Smart TV, the Apple TV, the Roku. So they see that these things are going to exist anyway so they might as well have Netflix right on their box integrated, better consumer experience and the consumer stays within my remote control say if I'm an MVPD. So I think it's a win-win all around and we will see it start to expand.

Rich Greenfield - BTIG Research

When you look at the MVPD you know the cable companies that I cover and look at it seems like a no brainer, this is clearly positive for them. It simplifies the user experience which is what everybody is looking for but a big piece of this is the programmer and the programmers try to differentiate where they make content available and the more of that I can easily choose watching Netflix in the evening, easier and easier versus watching CBS's new programming in the evening. That would seem like a meaningful threat if I were an executive at one of these big content programmers in the U.S. How do you address that?

Ted Sarandos

It's a stroke of the remote control Rich. So the idea that like Reed said most of those viewers are doing it now and they are exiting the cable eco-system to do it which I think is much more disruptive than the idea of giving ease of use to the consumers switch back and forth but yet stay within their eco-system. So right now I think when you look at the numbers of a cable show people are tuning on a Sunday night often the number, a single show on Netflix could dwarf that number. So I think it's already being kind of changed in that way and the way people get there. I think it's in everyone's best interest to keep in mind consumer convenience. So staying within the eco-system with an easy push of the button, I think it's great for everybody.

Rich Greenfield - BTIG Research

So you talked a lot about personalized merchandising and these two [ph] to back it up as well. Can you talk a little bit about how much better your predictability algorithms are becoming, can you quantify the improvement over the past year and how much room there is to go? What this means for the business going forward?

Reed Hastings

Well if you think talk about how much better has Google search gotten over the last 10 years? It's pretty hard to quantify. Would you say it's twice as good, three times as good? It certainly is a lot better and I think it's like that for us which is it's tremendously better than 2 – 3 years ago. It's continuing to get better. We can measure it in the narrow when we do an A/B tests. So everything we will have several tests running, we will figure out which style [ph] actually works better for consumers. But then that means to an accumulation of improvement and then it's anybody's guess if in total that's twice as good or three times as good as a couple of years ago, but it's continuing to improve where our guys are coming up with new ideas all the time about how to improve it. So that the effect of it is that when you turn on Netflix on your tablet or on your TV that shows on the initial screen are almost always like three of them, you are like oh, I want to watch that. That's what we are looking for is that sense that you turn on Netflix and there is just already, you got a couple of shows right away that you want to watch.

Rich Greenfield - BTIG Research

With net adds accelerating year-over-year, how do you – despite the size of your subscriber base, how do you think about the total addressable market in the U.S.? Are you starting to rethink what the upper boundary is or I may use to put a pretty wide range on it? Are you getting more comfortable with the upper end of the range and I guess just to frame that a little bit larger, when you look at you versus…