[Abrupt start] Director of Investor Relations. Welcome to this live video interview for our 2013 second quarter earnings results. We may make forward-looking statements during today's interview and results may differ from those statements. Now I would like to turn it over to Reed Hastings, our CEO.

Reed Hastings

Thanks, Erin. We focused on efficient and effective investor communication for a long time. We worked through our shareholder letter, our long-term view. In terms of the Q&A, we have always admired the fire side chat format at investor conferences as being the most dynamic and interesting. And this is our attempt to bring that value to the broad online public. Now we are on our webcams on our laptops and on YouTube, so I hope the quality is acceptable. And we look forward to any suggestions from you afterwards.

With me today from Beverly Hills is Ted Sarandos, our Chief Content Officer.

Ted Sarandos

Thanks, Reed. I am glad to be here today.

Reed Hastings

Thanks, Ted. And also with me is David Wells, our CFO.

David Wells

Thanks, Reed. I think at this point we will start the questions. I am going to turn it over to our first interviewer, Rich Greenfield from BTIG.

Question-and-Answer Session

Rich Greenfield - BTIG

I think we will have Julia start off. Julia, why don’t you kick off?

Julia Boorstin - CNBC

Thanks, so much. Julia Boorstin here from CNBC. I just wanted to say that Rich I have been emailed and tweeted a wide range of questions from a range of institutional investors, individual shareholders, sell-side analysts, and also other companies in the media industry. Now because there was a lot of over allotment of questions, we are not going to be attributing individual questions but rather trying to compile them all and get through as many as possible. We have received emails of a very wide range and a lot of questions. So we going to get right into it.

And the first question is about the format of the call. Reed, this question is for you. You alluded to it a little bit but there has been a lot of criticism by your decision to format the call this way. How do you address concerns that it actually minimizes the ability of investors to communicate directly with you?

Reed Hastings

Well, I think we should process that after the interview and let's see if it's productive and useful for investors and see what they think.

Julia Boorstin - CNBC

Rich?

Rich Greenfield - BTIG

Reed, why did you not reach the top end of your domestic sub guidance? We talked about where you have seen the success of your original programming. You have been Emmy nominated. You have gotten a lot of free marketing in the quarter and yet you did not get up to the top end of your sub guidance. Could you give us a sense of why that didn’t happen?

Reed Hastings

Yeah, when we do our forecasting in the beginning of the quarter, when we know all of the factors going into that, we try to set the range so that we come in in the middle of the range as we did. So we are really happy with the progress in the business. We are happy that net adds were higher than a year ago in our domestic business, and much higher on the international business. And so we are feeling quite good about the business.

Rich Greenfield - BTIG

You alluded to the impact of Arrested Development in the quarter but you didn’t actually specify how much it had? Could you give us a sense of how many of your subscribers came from adding that programming?

Reed Hastings

When we look at original content, whether it's House of Cards or Arrested Development, we are just in a very early innings of this. We are figuring out how to promote them, what the ongoing value is. And what we see is, if we do it right these will turn into real franchises. That is House of Cards Season 2, Orange Season 2, Season 3, Season 4, will be just tremendous assets to the company. Arrested was a unique look forward because it already had a developed brand and we were bringing out Season 4. And what we did see was a little rise in gross additions which translated to net additions, more than the weekly pattern would have suggested. But it was not, particularly it was enough to move our net adds higher than last year, but it was not tremendously significant in the short-term.

And in general remember that people subscribe and retain with us for a variety of content, not just a single show. So they might be become that Arrested Development was the excuse to join but then they start watching all of our great content. So think of it as just part of the content mix. And I don't know, Ted, do you want to add to that all?

Ted Sarandos

I would just point out that with every series that we have launched, both the viewing audience and the total hours viewed has grown sequentially with every single -- with every series that we have launched. So remember we launched from kind of ground zero with the first, both in the concept and in the show itself, and then continued to grow it and grow it and grow it. So I agree with Reed that these are going to have very long term implications. And we have been saying from the beginning that they have subtle impact on subscribers over time because you are realizing it with things like brand halo and reductions in churn that happens certainly and over time.

Julia Boorstin - CNBC

But you chose to single out Arrested Development. Does that mean Arrested Development is responsible for say 15% of the subscriber growth this quarter? Can you give us any number to actually quantify what you indicated in the letter?

Ted Sarandos

I believe we just pointed it out because it breaks the seasonal pattern in a way that can be attributed more directly to that.

Reed Hastings

Julia, when a subscriber or a new member joins, they don't say it's because of Arrested. There's a whole wide variety of reasons, and Arrested again is unique because we're starting with already created brand. The general case with Hemlock, with Orange, with House of Cards is for us to be the first season in debut. So think of Arrested as an unusual nice opportunity, but the general case for Netflix's original programing is more like House of Cards, Hemlock and Orange.

Julia Boorstin – CNBC

So does that indicate that you expect to see an uptick for House of Cards second season for example?

Reed Hastings

Yeah. I think we would probably see a little bump there in our numbers. That would make sense and hopefully by the time we get to Season 3, 4, or 5, if we're fortunate enough to get there, then we turned it into a Harry Potter-esque global massive phenomenon, when is the next season coming and then we certainly would. Again we've only made some progress on that. We've got to see – we've got to make Season 2 as great as Season 1.

Ted Sarandos

May I even point out that even the most iconic TV brands like the Sopranos and Seinfeld took several years before they became brands.

David Wells

If I could just add to the comments. This is David. We've said consistently and I say consistently that it will take several shows for folks to be engaged in Arrested Development and other types of our originals. It's not going to be one show. If you think about whether you join HBO or Showtime because of one or two shows, Game of Thrones is the only example where people have thrown out that it's a single show. Otherwise it's multiple shows. It will take us a while for our originals to get there.

Julia Boorstin – CNBC

Moving on to some more questions about the most recent quarterly report, your investor letter indicates that Q4 margins will decline dramatically despite the fact that you project margins to improve 400 basis points for the whole year. Is this is the beginning of a problematic trend in the fourth quarter?

David Wells

I don't think that we put in the letter any implication that our margins would decline. What we're talking about is our progression, our expansion of margin and the fact that over the last six quarters we've actually over delivered on our target of about 100 basis points a quarter. And so content deals are lumpy and it's hard to predict that and also plan to that gradual expansion. So there are quarters where we're going to be over. There'll be quarters we're under but on average we'll deliver about 400 basis points a year as long as we're able to continue to grow at the rates that we've seen.

Julia Boorstin – CNBC

But adding up the math, the fourth quarter does show -- is going to show a decline in margins. I guess my question is, how much of that is due to an increase in additional content spending compared to an anticipation that you're going to have to accelerate the amortization of the originals in the fourth quarter.

Reed Hastings

Julia, for the fourth quarter, we're targeting a little over 400 basis points over the fourth quarter a year ago. And that doesn't apply a reduction and certainly not a dramatic reduction of the margin. So there's just math there in the question.

Rich Greenfield – BTIG

Reed, just to be clear, we've got a lot of investor questions who though the 400 was 400 for the full year, not 400 in the fourth quarter as they were looking at your out performance in the first three quarters and assuming that meant a very large fall off in Q4 to stick to the 400 for the full year.

Reed Hastings

I see. Well, that's where a good Q&A session like this is useful. So let us disambiguate that and we're looking at it quarter over quarter. So our target for the fourth quarter this year is 400 basis points ahead of the fourth quarter last year.

Julia Boorstin – CNBC

So that 400 is not for the full year, just to clarify because there's a lot of confusion among the analysts questions and investor questions.

Reed Hastings

Correct. Apparently we accidentally created that misunderstanding with per year, but meaning quarterly year over year.

Julia Boorstin – CNBC

Got it. Thank you. Rich?

Rich Greenfield – BTIG

So when you look at originals, you've called out a couple of them in terms of House of Cards and Arrested Development. You've got a bunch of those still sitting around in the pipeline and now you've got Orange is the New Black. When you look at the Q3 guidance for subscribers, is there a benefit from originals because you seem very excited about Orange is the New Black. How do we think about that?

Reed Hastings

Ted, why don't you take this one?

Ted Sarandos

Sure. Rich, like I mentioned I think that we've had this compounding positive effect. They are subtle effects, but they're compounding, meaning that when we launched Orange is the New Black, surprisingly it drew as big a first seven day viewing as any of the other original series and actually had been growing every time, which we have to leave you to believe that people are taking more confidence of the idea of Netflix Originals which is creating some excitement for upcoming seasons as well and upcoming new series as well. So the brand is starting to mean something to viewers already, even though we only started doing this in February. That's what we're enthusiastic about.

Julia Boorstin - CNBC

Now, obviously, Netflix is proud of its Emmy nominations. Why don't you tell us how much -- how many people watch those shows that were nominated.

Reed Hastings

We said publicly, well we continue to say publicly that we are not releasing viewing numbers. Our actual ratings would be apples and oranges comparison to what happens on a network. We view the viewing over a very long period of time. We'll tell you though, that you should look at our renewal of a show to a second season as a very positive sign. Because if we're renewing shows that people aren't watching in big numbers then we're creating a huge opportunity cost in our content spend. In other words, we won't have money to spend on things that people watch. So these shows are performing really well for us. They are hitting our numbers with remarkable precision in terms of what we forecasted enough, so that we had confidence to renew Orange Is the New Black, based on our viewing models even a few days before we launched the show.

Rich Greenfield - BTIG

Final question on Q1, and this is for David specifically. There is a footnote one that talks to a restatement of your contribution margins related to an SG&A shift. Could you explain why that was made and what happened?

David Wells

Sure. That's related to our global spending on marketing overheads of people. It's really marketing folks. They are working on projects, on branding projects that are for the Netflix brand, a brand across the globe. So they're not working on things that are specific to a particular territory or operating segment. So we felt like we wanted to treat them like we do our other content folks that are making our content deals and we treat them as a global cost and that those costs were moved down from the marketing line which was a cost of revenue down into a G&A line.

Rich Greenfield - BTIG

Now just moving on to actual questions in categories. We're going to try to break these up into big topic categories. The investor letter starts off by talking about a saturation based on competition. And I wonder, since Reed you've talked about this 60 million to 90 million potential for Netflix, why are you even talking about saturation given where Netflix is today?

Reed Hastings

Well, I think we never know when and how saturation will hit, and what we are trying to be clear on is there is a couple of different forces. One is that our content is getting better, our service is getting better. And the other is that the larger we get, of course the harder it is to grow and also the longer time goes by the better competitors are. So those are the opposing forces. And given those forces, we're extremely excited to have our net adds be at the same level as last year because that implies that there is no near term saturation.

Rich Greenfield - BTIG

And are you still comfortable with the 60 million to 90 million ultimate market potential?

Reed Hastings

We are. We're feeling very good about that. Because what happens is, by the time we get to 40 million and 50 million, we get the content better and the service better. And so it's not 60 million or 90 million for the current service, it's 60 million or 90 million for the future service that's much improved. That maybe a lot more originals and just incredible streaming.

Julia Boorstin - CNBC

Many investors have shared a concern that virtually every one in your potential market has already tried Netflix at least once so you have very few actually new customers. What is your level of churn?

Reed Hastings

You know what we really focus on is the net adds. Because someone has tried Netflix before, they're probably more interested in trying us again as the content gets better, as the streaming gets better, as the play back software and the devices gets better. And so there is lots of people who tried us and then they will try us again to see if we meet their future needs. So we're feeling very comfortable about that.

Julia Boorstin - CNBC

I understand you stopped reporting churn but can you tell us anything about the churn and what that might reveal about future growth?

Reed Hastings

I can tell you that as the CEO of Netflix, I focus myself. I don't even look at the churn numbers. Essentially, I'm looking at net adds all the time, because you get various trade-offs, and really what we care about is total growth. And so it's bringing the world in line with how management looks at it, which is in terms of net additions which we do check every week, every day.

Julia Boorstin - CNBC

And -- no, go ahead.

Rich Greenfield - BTIG

If consumers are now watching over 90 minutes of Netflix a day, why is that household churning. Like what else do you need to do if you're already at 90 minutes of household viewing per subscriber in the U.S.?

Reed Hastings

Well, let's say, if that household that's watching 90 minutes a day probably isn't cancelling. But that's an average, so I think of it as a bell curve of usage. And the people at the lighter end that are not using Netflix much then they're more prone to cancel it than someone who is watching a lot. So we constantly just try to make the service better which is what we've been doing over the last five years.

Julia Boorstin - CNBC

We received a number of questions and concerns about your free cash flow. Over the last few quarters you've had a disparity between net income and free cash flow suggesting that you're really making an investment in your streaming migrate content. But the question then is, what is the duration of the content that you're investing in and when should we expect it to run through the income statement?

David Wells

I'll probably take this one. This is David. So we've been very, very clear and very transparent about the fact that our content investments are going to run ahead of our P&L expense and weigh on our free cash flow. And we were pleased this quarter to actually flip to positive. Likely we'll continue to make investments in originals and other content that will continue to weigh on our free cash flow. But we're very comfortable with where we are today. We think that the viewing that follows from those content investments, our accounting has to follow from that viewing. So to the extent that the industry is set up that more of the money is paid upfront in order to fund production, that's something that we can only affect a little bit. We have to be competitive buyers in the industry. So we have to meet those payment terms and a lot of these deals are more cash upfront loaded.

Julia Boorstin – CNBC

Well certainly, but some investors who we've spoken to calculate disparity between that income and free cash flow at over $2 per share. Will we see that pressure EPS?

David Wells

I am not sure about the $2 per share. What we've said is that our free cash flow runs ahead of our P&L expense, about 20%. So the ratio of cash out to P&L expense can run 20% above that P&L. And that's typically holding, even with some of our more cash upfront originals deals. You'll see some of that start to unwind as we get older and a lot of the deals start to mature down the road. But while we're expanding content, you should expect and investors should expect that to continue to weigh on our free cash flow.

Rich Greenfield - BTIG

But David, when you look at the original programming, the amount of spend versus the amortization, your website spends a lot of detail going into how that's amortized. But what is the actual cash outlay? You talked about it being higher. How should we think about how the cash for these originals and even some of your new deals like DreamWorks, how does that actually flow into your actual cash position as we think about your balance sheet?

David Wells

They're a little bit different. So generally we take -- we make payment partially upon delivery, and then another section it depends on the deal. And we don't talk about deals specifics, but illustratively it could be 18 months, it could be 3 years. It depends on the license period. So again it really depends on the delivery of that content and when it comes in. And for output style deals, that really depends on the size of the box office card that we're paying. So, again it depends on the content as it comes through, but we've been fairly conservative I'd say in terms of preparing for this. We raised debt earlier in the year. We restructured some debt. We feel pretty good about our cash position. And we put in our long-term letter, depending on the expansion of originals, we may need more capital down the road, but right now we're fine.

Ted Sarandos

And Rich I'd say too that we've been able to get very favorable cash terms from our suppliers or most of our deals. And I'd say that the more high profile the programming is the more likely it is original and exclusive, the cash outlay has accelerated versus some of the very deep catalog that pays out very smoothly over several quarters.

Rich Greenfield – BTIG

When you drive more subscribers at a lower price, or generate a higher profit margin at a higher price, it basically -- why is $7.99 the right price?

Reed Hastings

I would say $7.99 is pretty close to the right price. I don't think we could be certain that at $6.99 or $8.99 it would be a little bit better or a little bit worse. But once you've picked a price, there is a tremendous value in consumer stability. And we're growing very strongly at the current price. And so we feel great about that situation.

Rich Greenfield – BTIG

But there is an overwhelming number of questions from investors and other analysts of are you going to be forced to raise price? Because you literally can't afford your content commitments, so either you need to raise equity or you need to raise the price of your service.

Reed Hastings

Well, if you look over the past three years, we've raised the contribution margin in the United States business from sub 10% to over 20%. And so I think there is plenty of evidence that we can grow revenue faster than we're growing content costs.

Julia Boorstin – CNBC

But a specific question that was asked by a number of people is, given the negative operating cash flow trend, obviously our cash flow is positive this quarter, but given those trends and the high costs for original content and also exclusive content, what is the probability that you'd either be forced to raise debt or subscription prices in the next 12 months?

Reed Hastings

Well, let's see. Let's separate the two factors. One is domestic, where we're hugely profitable in growing very well. And the other is international, where we're growing extremely strongly. Revenue was up 155% over a year ago but it has negative P&L, we're in investment mode. So we've got the strong U.S. business supporting the investment in international. In terms of the likelihood of raising debt or prices, I wouldn't have anything more to add to that then what we said which is we're very comfortable where we are in the $7.99 price point, and we're growing very strongly. And in terms of debt, it would be pretty unlikely in the next 12 months.

Julia Boorstin - CNBC

But I guess looking beyond that, beyond the next 12 months, over the next couple of years, many investors and analysts who you know, said they believe you will need to execute as stock sales to pay for content obligations. What is your outlook in terms of your plans for potentially a secondary stock offering in the next three years to four years?

David Wells

It's too far off to speculate on. At this point what we can say is what we've said.

Julia Boorstin - CNBC

Would a price increase be a way to avoid a capital raise?

David Wells

We're very comfortable with our $7.99 price point and with the growth that it generates.

Rich Greenfield - BTIG

Schwartz believe that your stock is exceedingly expensive. When you look at the valuation of where you are now, how do you get comfortable with the growth potential of your stock from these levels?

Reed Hastings

Well, I think management is probably not the greatest judge of their own stock price and so we try not to comment specifically on that. We try to provide lots of information to investors and then there is a natural process through that of the price getting set. What we focus on is how to grow the subscriber base, how to expand internationally, how to improve the content. Those are all the things that we're focusing on.

Julia Boorstin - CNBC

For investors who've been on a roller coaster ride with Netflix over the past two years, what would you say to tell them or reassure them that what happened two years ago is not going to happen again?

Reed Hastings

Stocks go up and down, our stock has been so volatile. I mean a year ago we were at $80 now we're over $200. Five years ago we were at $30, we went public at $7.50. So the general trend is quite positive but there are a lot of ups and downs. And it's been a very volatile stock because we're growing so aggressively. We're choosing a business strategy which has a split essentially all of our domestic profits into international expansion. And that's the right move, but it definitely takes a strong stomach on the part of investors.

Rich Greenfield - BTIG

So, Reed, really following up on that international point. What is the strategy? I mean do you want to essentially grab as much market share over the next five years as you can without regard to profitability or do you think you are actually going to start showing meaningful international profitability before going to too many more markets?

Reed Hastings

Now what I said is the statements we have put in the long term letter, which is we are investing substantially all domestic profits in international expansion. And we think that's very smart. If you look at our international growth, it's tremendous. We think there is a huge opportunity around the internet in the international markets and we're investing for the long term in that. And I think we've been very clear in that for almost three years now.

David Wells

Yes. And the only thing I'd add to that, Rich, is that we have demonstrated good progression in terms of operating losses, reductions in international. We're 25% down year-over-year and we're very pleased, as Reed said, with the growth in those international markets. So it's more about the progression of our existing markets and the path we're on than it is about an overall line.

Ted Sarandos

If I could also add too, the success we're seeing with our original programming we're seeing in throughout our international markets as well. That proportionally to our sub base, our subs overseas are excited about these shows roughly the same level as they are in the U.S.

Julia Boorstin - CNBC

Shifting gears over to your license content spending. With two of the last three DreamWorks Animation films disappointing at the Box Office, underperforming DreamWorks Animations average. Do you have an [out] of the big deal that you announced with DreamWorks Animation.

Ted Sarandos

I am sorry Julia, you're talking about the series deal or the film output.

Julia Boorstin - CNBC

The series deal and the -- I mean the larger deals.

Ted Sarandos

Look I am very comfortable with DreamWorks performance at the Box Office even this weekend. Yes, Turbo opened a little soft but it came out with CinemaScore ratings of A, with very good word of mouth. Likely to hold up -- likely to continue to expand the box office. Cruise was a nice a little hit actually at the end of day for DreamWorks. And there is a rate card that regulates the fee for those shows relative to their box office performance. So we're thrilled with DreamWorks and the performance of their films and the quality of their films. And they translate to very high viewing on Netflix, even in movies that don't perform as well at the box office.

Julia Boorstin – CNBC

But the fact that Turbo has been such a box office disappointment, specially compared to all the other DreamWorks animation movies, doesn't that diminish the value of that DreamWorks animation content on your platform? You said that it would be a game changer, that this additional content is a game changer. Doesn't this diminish that?

Ted Sarandos

Julie, if it does, it’s reflected in the rate card. So the rate card adjusts up and down with the performance of the films. And as far as the series deal is concerned, these are very iconic characters that tend to last a long time, way beyond opening weekend performance. Our series will launch post the DVD release of these films so they get a whole second wave of marketing out of them too.

Julia Boorstin – CNBC

I am sorry, go ahead Rich.

Rich Greenfield – BTIG

I was going to just say, Ted, when you buy content, do you see a point where you’re going to be buying globally versus having to buy in the U.S., buying in the UK, in every single market? When can you scale buy globally?

Ted Sarandos

Well, increasingly all of our original deals we're doing globally. We have been doing all of our independent, non-studio deals globally. And we're doing a much more multi-territory licensing as well. So, sometimes global plays out to our favor, and sometimes you don't really achieve the scale of it. So right now we're trying to weigh through that and see where we can pick up global efficiencies.

Rich Greenfield – BTIG

Can you give us an example of where you’re seeing the benefit?

Reed Hastings

Rich, even when we're global, for example in Asia where we're not currently, we’ll generally sell off the rights there. So even when you talk about global, if not exploiting it globally, it's really multi-regional.

Julia Boorstin – CNBC

Moving on to -- quickly before we move on to original programming spending, can you tell us how many subscribers quit Netflix after you chose not to renew Dora the Explorer and the other Viacom content?

David Wells

Ted Sarandos

You saw it in the net adds. We grew.

Julia Boorstin – CNBC

So moving on to the original programming spending, Netflix and Reed often draw the comparison to HBO. But unlike HBO, Netflix does not own the content. It doesn’t profit from licensing it to other outlets. It also doesn't have exclusive rights. For instance House of Cards you can buy elsewhere, though Netflix does have the streaming rights. How do you justify reinforcing this parallel to HBO when HBO does have a different business model?

Ted Sarandos

Julie most original programming originates in this way, which is you want to hedge your bets a little bit on building the confidence and building up before you build out the infrastructure. So you step in and do more licensing deals, which is how Showtime does most of their deals, which is how HBO did in their earliest days, how AMC did in their earliest expansions. So this is not unusual at all. And the more confidence we build, the more likely we are to take a full ownership stake and to take -- and to build out more infrastructure around it.

Julia Boorstin – CNBC

So, does that mean --

Rich Greenfield – BTIG

Starting to? Have you started to build out infrastructure that is?

Ted Sarandos

Well, we are managing a broader set of rights today than we used to for sure.

Julia Boorstin – CNBC

Does that mean --

Reed Hastings

Sorry. It's Reed here. Think of it as a broad expansion, which is HBO has a lot of licensed content, for example all the movies. So it's only the originals and only some of their originals that they own. It's natural for us to grow into that over the next couple of years. So it's part of our long-term view.

Julia Boorstin – CNBC

So do you have specific plans to move into full ownership in the near term?

Reed Hastings

Absolutely. It's something we're looking at and there are so many gradations between what full ownership is in every territory. But think of it as over time we'll do more and more of that and the content will be more and more exclusive to Netflix. But while we were getting started, it was really smart for us to work with Media Rights Capital and Lionsgate and others to be able to leverage their skills and competencies.

Rich Greenfield – BTIG

Reed, do you think that you have a structural advantage in creating original programming versus your peers, whether that's the releasing pattern, whether it's the data, or whether it's the fact that you're commercial free?

Reed Hastings

We have some advantage in creating it, but I think the biggest advantage we have is in matching with the content and distributing it, essentially monetizing the content. And you can see that with the breadth of our success. So, one view of our four for four and are starting our five for five, if you include Lillehammer is Ted's God's gift to programming. And I think that's probably true. But the second part of it is also that we've got this online performance matching where the content is selectively promoted to each subscriber appropriately and that helps tremendously. And it's not really important for us to tease apart which is more true. We want both excellent, excellent programming and we want to do amazing promotion and we get stronger from that without worrying too much about which side is contributing more or less. You do see that Ted has an Emmy next to him in the frame, and it's got a little story for you in that.

Ted Sarandos

Yeah. The Emmy we brought along today. I think it's a great example of Netflix to strive to be excellent as both a technology company and an entertainment company. And fitting to that, this Emmy was actually awarded to Netflix on the technology side last year for the advancement of television. And so actually the first Emmy came from the tech side of Netflix.

Rich Greenfield - BTIG

But I guess I don't understand, how do you define a hit? You said Ted's five for five, Reed. How do you know Ted's five for five?

Reed Hastings

Well. The easy one is, a hit is something we want to renew. And, thus, five for five is we want to renew because the economics for us are good.

Julia Boorstin - CNBC

A question about your content cost, just to follow-up on that. How do you know you want to renew it? Is it the percentage of your subscribers who are watching? Is it subscriber bump (inaudible) slightly inflated. So how you know that you want to renew?

David Wells

Relative to how else we would have spent the money. Relative to spending it on license content, did we get an increase in viewership, did we get an increase in some of the intangibles like brand halo publicity, and the bring the brand more in focus with our consumers. So, relative to how else we would have spend the money on other programming, we think it was a big hit. And by the way without giving total, without giving ratings numbers, I would tell you every one of these shows are drawing TV size audiences. So you know that House of Cards is a hit because when you walk in to Starbucks people are talking about it. You know when the show is being spoofed at the White House Correspondents' Dinner and 3,000 people are laughing at the slightest references to the show, you know that people are watching it and you know people are talking about it. So without the precision of a number, you know that these shows are hit too.

Julia Boorstin - CNBC

Okay. Well we're going to keep on asking for a number and it's (inaudible) you will give one to me.

David Wells

Fair enough.

Julia Boorstin - CNBC

So a question about content cost. Seemingly every network, cable, and broadcast and all of these new digital channels, are all spending aggressively on original programming. Doesn't that threaten to drive your content costs spiraling higher and what kind of threat is that to you margins?

David Wells

How would it drive them higher?

Julia Boorstin - CNBC

If there are so many people competing for content. There are new buyers for content.

Ted Sarandos

(Inaudible) over license content.

Julia Boorstin - CNBC

(Inaudible) Yeah.

Ted Sarandos

With so many people producing original programming, it creates a lot of competition in the market for license programming in their season after model. And in terms of competing for original programming, I am much more comfortable, to Rich's earlier question, around some of our structural advantage about not having to have a bunch, a lot of performance pressure on a show on its first week, which actually drives the ability for consumers to find the show overtime before we have to pull the plug on it, the way many other broadcasters force do in your television.

Julia Boorstin - CNBC

But to raise the question about competition you have Amazon which is investing $1 billion in licensing content. You have Hulu which has got $750 million from its parent companies to spend on content. The influx of all this cash for content both licensed and original, doesn't that threaten to push up prices?

David Wells

Yeah, maybe. And I could tell you that in the more exclusive deals that we've been negotiating, the one thing that's nice about that is you get to know what the walk away prices are. And I can tell you in everyone of those cases we've been comfortable at the prices we walked away from and comfortable at that level -- at the pricing that our competitors are paying for that content. So, yeah, there is definitely some competition in the marketplace which does raise the prices, which is good for the producers and eventually good for consumers too.

Reed Hastings

I'll add to that, that it's great for content owners and it's great for creators. That there is renaissance particularly in serialized TV. So on one hand, it's top on us that Amazon and Hulu and others are bidding. But there are so many great stories to be told that it's exciting. And if the prices are going to go up, than we as one of the major scale players have a big advantage. And so, it's good for the creators, it's acceptable for us and we're seeing this total renaissance in television. Unfortunately, I have to tell you we're down about two minutes left. I did set this up as a 30 minute view. If it's very successful and investors like it, we will try to do a longer session next time. But let me hand it back to you for the closing two minutes.

Julia Boorstin - CNBC

Okay. I hate to say it. We were emailed so many questions by investors and analysts, I wish we had a little bit more time. But I'm going to ask a quick question about competition. You mentioned Amazon and Hulu, both of them are stepping up their investment spending. What kind of threat do they pose to you in the next, I would say starting in 2014 once we start seeing impact of that?

Reed Hastings

Well, we don't really know. We always take them very seriously. They're very successful. But if you look at Showtime in HBO, when Showtime does great work it doesn't take away from HBO. And we think that Hulu and Amazon will do great originals, it will grow the whole internet TV market. And then what controls our destiny is, do we do great programming? Do we have a great user interface? Do we have incredible streaming? And so we really just focus on maximizing that opportunity by making our service the best it can be.

Rich Greenfield – BTIG

We were just talking about incredible streaming quality, but the issue really is most of your viewing occurs on fixed line connections because that's where the quality of the experience is good. International -- I’m sorry, wireless isn't that good. Do you think that over the next few years we're going to see a sea change in the wireless industry? Softbank’s Masayoshi Son is putting a tremendous amount of capital just buying Sprint. Do you think you're going to see a big shift in your business towards wireless over the next few years?

Reed Hastings

Think a bit like tablets. As tablets have come about they've been a growing proportion of our viewing and that helps the ecosystem. Better and cheaper connectivity, more competition for broadband, that's all very positive. But these are gradual multi-year effects. Five or 10 years from now consumers will have incredible devices, incredible broadband at low prices and that's very favorable in the long-term. But I don't think it's a short term catalyst.

Rich Greenfield – BTIG

Is tablets even 5% of your viewing today?

Reed Hastings

We don't disclose the specifics.

Julia Boorstin – CNBC

Reed, a question about the business that you are starting off with, DVDs. Many investors have pointed out that you seem to be allowing your DVD business to atrophy. Do you plan to shut down that legacy DVD business?

Reed Hastings

No. We've got over 7 million members who love the service. It's got incredible selection, every movie and TV show ever made. So it's got a great part of the value equation for over 7 million members and that will go on for a very long time.

Rich Greenfield – BTIG

Reed, one last content question.

Reed Hastings

Go ahead.

Rich Greenfield – BTIG

One last content question. We've got it from a lot of people. You've gone into original TV series. A lot of people are asking would you go into the movie business and create movies? Would you create talk shows in the evening like a Jay Leno type show? Would you do a news program like the evening news that people could watch for 24 hours on the subscription service? Like what other content makes sense for Netflix?

Ted Sarandos

Rich, in the letter we mentioned that we're going to expand in the coming months into original standup comedy specials and documentaries that will premiere on Netflix to be exclusive to Netflix. There is no reason we wouldn't do some of those other -- those things that you've listed, including movies. If we can bring too it something like we did with original series, change the distribution model in the favor of the consumers with things like launching the whole season at one time and things that give us advantages over other forms of distribution.

Reed Hastings

If you look at HBO and Showtime, they also do quite a bit of sports programming and live sports. So they're basically in the membership happiness business. Now, we don't anticipate getting that far from our core brand, but it's a very flexible relationship, where we can have lots of types of content over the next 5 or 10 years if it makes our subscribers happy. We're fundamentally in the membership happiness business as opposed to in the TV show business. And so we do have a lot of flexibility. But in the next -- in the short term we're focused on learning this craft bit by bit and having our current shows be wildly successful.

Julia Boorstin – CNBC

Can you tell us how many more originals you plan to launch over the next two years and how much you plan to spend on them?

Reed Hastings

Not, precisely but we can say we're continuing to expand that. And it's a great wrap-up question. I want to thank all our investors for participating in this. We look forward to your feedback on the format. And we'll try to just keep on improving it to make it efficient and effective for all of you. Thank you very much.