Good day, everyone, and Welcome to the Netflix Fourth Quarter 2010 Earnings Q&A Session. At this time, for opening remarks and introductions, I will turn the call over to Deborah Crawford, Vice President of Investor Relations. Please go ahead.

Erin Kasenchak

Thank you, and good afternoon. Welcome to the Netflix Fourth Quarter 2010 Earnings Q&A Session. We announced our financial results for the fourth quarter at approximately 1:05 p.m. Pacific time today. The shareholder letter and the Q4 financial results and the webcast of this Q&A session are all available at the company's Investor Relations website at ir.netflix.com.

As is our standard practice, this call will consist solely of Q&A and we are going to conduct the Q&A via e-mail. Please e-mail your questions to IR@netflix.com.

We may make forward-looking statements during this call regarding the company's future performance. Actual results may differ materially from these statements due to risks and uncertainties related to the business. A detailed discussion of such risks and uncertainties is contained in our filings with the Securities and Exchange Commission, including our annual report on Form 10-K filed with the Commission on February 22, 2010. A rebroadcast of this Q&A session will be available at the Netflix website after 6:00 p.m. Pacific time today. Before we begin the Q&A, I'd like to turn the call over to Reed.

Reed Hastings

Thanks, Deborah. I'd just like to acknowledge that Barry McCarthy has been our CFO and my partner for the last 11 years, and there's no way we would've gotten to 20 million subscribers as fast as we did without his incredible work. And I'm thrilled to be able to introduce to you, David Wells, who's our new CFO.

David Wells

Great. Thanks, Reed. This is David. I'm glad to be joining on the earnings call this afternoon. I've got quite a legacy to follow. I've been part of the Netflix team for seven years and in the background of this call for many of those years. So I look forward to speaking to many of you in the coming weeks. But I know that you're here for Q&A, so let's get to questions.

Question-and-Answer Session

Deborah Crawford

The first question is from Youssef Squali of Jefferies & Company. How should we think about overall content spend in 2011 versus 2010 mix of international and domestic digital rights?

David Wells

Youssef, I can actually take that. This is David. I think you should mostly think of it as domestic. If you think about the guidance that we gave for Q1 and you scale that for Q2, and you think about the $50 million operating loss we talked about in Q3 and 4, it's not hard to get to a position where most of that spend is domestic.

Deborah Crawford

The next question is from Arthuros Mangriotis at Fox Point Capital Management. Please elaborate on your decision to reduce focus on churn. Even though net additions are ultimately the important statistic, I would've thought that managing churn would be a great way to make sure you are satisfying your customers.

Reed Hastings

Arthuros, it's Reed here. I guess, I'd say, you don't really manage churn. You manage satisfaction. And then from higher satisfaction comes more word-of-mouth, driving SAC down and new starts up and churn down. And what I've come to realize over the years is that net adds is really the best indicator of that. And this evolution in our part reflects an internal evolution over the past couple of years, where I find myself not particularly paying attention to churn, in fact, and much more to net adds, which again is the best indicator of the satisfaction. And so that's the underlying reason for the evolution.

Deborah Crawford

The next question is from Heath Terry at Canaccord Genuity. How do marketing deals like the Netflix button on remote controls compare to your existing subscriber acquisition cost level?

Reed Hastings

Heath, we don't know for sure yet, because I guess we would say, we don't know the effectiveness of the buttons. It feels like a great option. And once they're in the market, which will be in the middle of this year and then more later in the year, we'll be able to study really how much consumers use them. So we're optimistic on it. We think it's a great direction, but we don't have any hard evidence yet and we won't probably for a year.

Deborah Crawford

Second question from Heath. Is the improving market for online advertising impacting your online SAC level?

Reed Hastings

Not substantially, Heath. It's been pretty steady for us. The big thing that improved SAC is that we didn't spend that much on marketing in the quarter, because it was earning so much on streaming. And when you spend less on marketing, you can think of it as skimming the market or you can think of it as we get the flow-over from the prior quarters kind of brand build up, it carries us. And when we go into Q1, we'll spend a little more in marketing. In fact it'll be a little higher. So it's generally in the right direction but not as low as it was in Q4.

Deborah Crawford

The next set of questions are from Mark Mahaney at Citi Investment Research. First question, what can you disclose about the overall usage patterns of streaming only or streaming mostly subscribers versus your DVD-rental subscribers? Do they end up consuming materially more video content or about the same?

David Wells

Mark, this is David. In general, we don't parse out the behavior. But you can imagine that people that are coming in streaming only or mostly interested in streaming will consume more than the folks on a hybrid plan. But I will say that across the board on those plans, people do tend to consume more video when they do participate in streaming. So for the folks that avail themselves of the streaming offering, their overall video consumption goes up.

Deborah Crawford

And the next question from Mark, can you provide more color on how you were able to drive down SAC and whether you believe the current level is sustainable?

Reed Hastings

Mark, I think I just had that question before. So let's go to the next one.

Deborah Crawford

Our next question is why would operating margins decline from 15% Q1 domestic items to 14% full year guidance?

David Wells

Mark, this is David. 14% is a target. So some quarters, it might be 13%, some might be 15%. I think we addressed in the earnings letter why we're going to be a little bit heavy in Q1. We've identified a trend in our growth in shipments a little bit two-way to put that to work to streaming. And so we put a lot of it to work in marketing and we'll be a little bit heavy on income in Q1.

Deborah Crawford

The next question is from Ben Rose at Battle Road Research. Are the cable service providers diving into role of competitors or are other any scenarios under which you might partner with them?

Reed Hastings

The thing with the cable company, we've got a natural partnership with the broadband services group, which is highly profitable and wants to increase their reach and the speed at which their consumers buy packages. So with the broadband side, there's a complete natural partnership. With the video side, we're a channel, we're sort of tolerated. We're not a big threat, but it's hard to see why it makes sense for them to help us grow.

Deborah Crawford

Next question is from David Miller at Caris & Company. Reed, against the backdrop of other distribution services sitting up for the content in the streaming window, what is your feeling about either acquiring an equity interest in the studio or at the very least, starting one yourself? With creative financing, you could produce script-driven content on your own at very little cost relative to the size of your P&L?

Reed Hastings

David, generally, I'm a believer in circle of competance and it's really easy for companies as they grow to step out of that. And in particular, when we start taking creative risks, that is reading a script and guessing if it was going to be a big hit and who might be good to cast in it, it's not something that as fundamentally a tech company or a company run by a tech CEO like myself is likely to build distinctive organizational competance in. And so we think that we're better off on letting other people take creative risks, get the rewards for when they do that well. And then what we do is focus on matching the different products that are made with the right consumers the sort of very technological aspect of matching it and streaming it. So I would say, that the scenario that you outlined would be quite a change in direction and quite unlikely.

Deborah Crawford

The next couple of questions are from Ryan Hunter at Wedge Partners. First, the latest report from the HIF Screen Digest says home video content, DVDs, DD and VOD, down about 4% to $18 billion in 2010 from $19.2 billion in 2009. Has this been the trend for the past few years -- this has been the trend for the past few years. At what point does the market opportunity contract and start to impact Netflix?

David Wells

I'd say in general, Ryan, that VOD space, we've gotten this question time and time again, there's a lot of competitors in the VOD space. We've seen it in the fourth quarter, as actually being a benefit through our 28-day deals. We've been a year with the 28-day deals. We've seen record, low churn, record low SAC and record growth for us. I think it's working for us. I'm sure you saw the Redbox announcement in the fourth quarter. They're a little bit new-release centric. So I think it hit them disproportionately. But I think what you're seeing is that an increase in the VOD as a result of the dynamics of the marketplace today.

Deborah Crawford

Second question from Ryan. How is a gift recipient accounted for in the subscriber count? What was the impact from the gift subscription promotion during the holidays? And what is the expected churn rate for these subscribers?

David Wells

Ryan, I can take that. This is David. Gift subscribers are accounted in the subscriber count at the point where they actually enter the service, and once they actually redeem their certificate. The impact from gift subs relative to last year was relatively flat with 2009. So there's not a whole lot of impact. The majority of the growth that we saw in this fourth quarter was not related to gift subs. And then expected churn rate for these subs, we don't generally comment on different segments of the business. But as you can imagine, they're retained at slightly lower rates than somebody who comes in and pays directly.

Deborah Crawford

The next question is from Nat Schindler of BofA Merrill Lynch. Has Amazon's acquisition of LOVEFiLM affected your plans to enter Europe? And what competitive advantages do you have over Amazon LOVEFiLM in the U.K. and Europe?

Reed Hastings

I'm not quite sure what to make of it. Obviously, Amazon was in DVD rental before, sold that interest to LOVEFiLM, and then bought back the whole company. And I think we're just going to have to take a couple quarters and see what they plan to do with it. And in the meantime, it doesn't directly affect our plan. There's vigorous competition in all these markets. So we're full speed ahead on our plans.

Deborah Crawford

Next question is from Imran Khan at JPMorgan. Could you please give us some color on what percentage of streaming content consumption is television shows versus movies?

Reed Hastings

Sure. What we said before is, it's roughly half-and-half now, and there's some variation quarter to quarter. But that's a rough range.

Deborah Crawford

Next one is from Ingrid Chung at Goldman Sachs. You've spoken about geographic expansion beyond Canada in the second half of this year. If you can't tell us which countries specifically are most interesting to you, could you tell us what some of the characteristics are of an attractive market other than high broadband penetration? Would you want to be in a market with high or low pay-TV penetration, or does that matter?

Reed Hastings

Ingrid, it's a more complicated question as you probably understand than just pay-TV or not. It's really the best use of the dollars for building a business in a country that is likely to be a sustainable source of profit. And so that's a mix of how competitive it is, how good the broadband is, what content rights we can get, what's the economic growth rate, what's piracy. Boy, there's a whole ton of factors underlying that. What I would say is wherever we go next is just one building block, and our hope is to be able to go country by country and to expand quite rapidly in 2012 and 2013, assuming we continue to see the kind of success that we've seen in Canada.

Deborah Crawford

The next couple of questions are from Brian Fitzgerald at UBS. Can you give us a sense of how the newer free subs are converting to paying subs from Canada or from most free subs that are part of the extended four-week offer? How does that differ from the historic conversion rate?

Reed Hastings

I would say, Brian, as we grow, we would expect -- and with streaming only, it's a little more casual relationship that is it's easy to get in and easy to get out. And that, that is going to tend to inflate growth adds and inflate churn. Again, the net adds come out of the same place, but you get -- that's how it affects those two metrics.

Deborah Crawford

And then the second question, any initial impact you're seeing to churn based on the recent pricing changes?

Reed Hastings

No, nothing material.

Deborah Crawford

Next question is from Jason Cheu with ABR Investment Strategy. Generally speaking, what percent of new sub adds in the quarter were driven by Internet connected video-game consoles versus mobile devices such as smart phones and tablets? How important are these devices for your international expansion?

Reed Hastings

Jason, we don't break out how -- which of those are driving our marketing. And I would say, they're all important in international expansion, proportional really to the size of their installed base in a given country.

Deborah Crawford

Couple of questions from Daniel Ernst at Hudson Square Research. In your letter to investors, you discussed the desire to work with studios to have content cash outlays, better matching expensing, which I presume would mean lower upfront cost and better scaling with usage and subscribers. Are there other examples in content licensing that you can model that plan after? On the flip-side, TV syndication deals do require substantial upfront.

Therefore, what is the prospect for getting content owners to cede upfront payment?

Reed Hastings

Almost all of our deals, Daniel, right now, match cash with expense and you see that in our cash flow for Q4. So it's really just a question of each -- the two side's relative cost of capital. And most of the studios and content owners, they do with that lower cost of capital than we do. So it's not that hard an issue.

David Wells

If I can add something -- this is David. We have been able to get a number of deals, where the payment terms are matching the expense. So it's not like there's not a precedent out there. As you pointed out in the syndication market, we're evolving with that marketplace.

Deborah Crawford

Next question is from Jason Helfstein at Oppenheimer & Co. In your comments, you talk about the current $7.99 per month plan. It's for one stream at a time even though today, the company does not limit concurrent stream. Is there any data you can share about what percentage of the households run concurrent streams today? Secondly, if you were to think about family-plan economics, what type of price points seem like a fair value to you?

Reed Hastings

We don't have specifics on the number of concurrent streams, Jason. And think of it as if there's one concurrent instance in the year, that subscriber or that household is unlikely to spend to get a separate account. There has to be a pretty frequent conflict. And so it's not how many concurrent instance is. It might be related to for example, how many people have more than multi-concurrent stream per week or something that will affect how well we can drive the evolution to individual accounts. And when you talk about family economics, we'll test a range of scenarios and try to figure out the consumers' view of what's a fair and appropriate option. But that will be second half of this year at earliest and may flip into 2012 before we get into that.

Deborah Crawford

Next question from Steve Rivers [ph] at Stifel, Nicolaus. Can you provide details on how many subscribers stream via Watch Instantly during the quarter? Can you provide any details regarding Watch Instantly utilization in the Bay Area as well as the rest of the country?

Reed Hastings

We can tell you, Steve, it's continued to increase like it had in the prior quarters. There's been no real change in the trend. And that it's great in the Bay Area, great in the rest of the country, and generally streaming has continued its tremendous growth for us.

Deborah Crawford

Usually, you provide the stock comp expense associated with several categories of the P&L. You did not provide this information this quarter. Are you changing your reporting policies? And if not, can you provide that data?

David Wells

Steve, this is David. No, there's no cause for alarm. That information will be continued to report in the Q and the K in the footnote. It's just a matter of cleaning up the earnings release, trying to get in some real estate.

Deborah Crawford

Next question is from Doug Anmuth at Barclays. How would you potentially implement the shift from a household service to that of an individual subscriber? Is there any data you can share with us on simultaneous streaming? And is this a good strategic thing to do in the face of potentially more streaming competition? What do you view as the core benefit to individual subscribers?

Reed Hastings

The question really is, Doug, is video naturally because of the portable devices, the laptops, the pads, the phones, an individual relationship like e-mails and individual relationship for mobile phone. And somewhat it is, and somewhat it isn't because of the use of the shared screens also. And so what we have to do is try some things with subscribers to see how comfortable that notion of a personal subscription really is and what are the advantages in terms of increased personalization, better Facebook integration, some sort of a relationship compared to the complexities of it. But we would certainly like to -- we'll be working towards having it evolve to be an individual relationship over time.

Deborah Crawford

Next question from Doug. I understand the business is changing in realtime, but can you explain in more detail why you're not guiding for the full year?

Reed Hastings

One, I think in general, we found our guidance from last year was so far off, that I'm not sure it's very relevant that, that business is moving so quickly. So we did give some guidance for the year that we expect net adds to continue to grow and margin. But how much it grows, I think, from last year, you can clearly see that we're not a distinguished authority. So that's really the reasoning behind it.

Deborah Crawford

And finally from Doug. Canada, do you believe usage-based pricing among broadband providers in Canada is having any impact on Netflix subscriber count for overall usage? Do people fully understand that they might need to pay more for broadband when using Netflix?

Reed Hastings

It's something, Doug, we're definitely worried about. And my sense is that those Canadians with capped and $1 or $2 per gigabyte overcharges, many of them probably don't understand their plan, and it will take a billing cycle or two for them, and that is potentially a significant negative for Netflix. The shame of it is that the marginal cost, as we wrote in the letter to deliver a marginal gigabyte over wired network is extremely small, well less than a $0.01. So hopefully, we can work with the different consumer groups and providers, and get a better costing structure, where if there are pay per gigabyte charges, they're more in the $0.01 range or they're bundled in with a much higher cap like exists in the U.S. and in many other nations.

Deborah Crawford

Next question is from Edward Williams at BMO Capital Markets, another Canadian question. Regarding Canada, how long will it take to get to comparable penetration rates in Canada as compared to the U.S.?

David Wells

Doug (sic) [Edward] this is David. We don't talk specifics, but it's not hard to see from our guidance for Q1 that Canada is growing much faster than we did in the U.S. So in terms of putting an actual number out there, I don't think we'd be willing to talk to that. But suffice to say, is we're going much faster in Canada than in the U.S.

Deborah Crawford

The next question is from Zachary Turnage at the Harbert Value Fund. Why did AP increase so much?

David Wells

Zachary, this is David. AP increase, if you look at the balance sheet and the cash flow statement, you'll notice that we had a significant increase in the investment in our streaming content library and so a couple of these were large payments that are at a short timing at the end of the quarter that should reverse themselves in Q1.

Deborah Crawford

Next question is from Richard Greenfield at BTIG. As you move away from your DVD buy-now business, what do you foresee as your greatest competitive advantage in streaming as we presume at some point, competition will actually materialize and it does not appear that the vast majority of your content is exclusive?

Reed Hastings

Richard, it's Reed. I think our primary competitive advantage is the subscriber base, and that allows us to get more content on a fixed cost basis to do more R&D, to market more. So there's a lot of virtual cycles around the subscriber base size that we referred to in the letter. And that's how I would look at the primary competitive advantages.

Deborah Crawford

The next question is from Doug Mitchelson at Deutsche Bank Securities. Do you believe that it will get harder to acquire incremental films and TV shows from major Hollywood studios? And where are you in quantity today? And where would you hope to be in a few years?

David Wells

Doug, no it's not gotten harder. It's gotten easier as we pay more. Three or four years ago when we couldn't pay much, it was very hard. And now, because we got significant dollars to spend, we got people coming to us and that makes perfect sense. So we're feeling great about both our ability to make content owners a lot of money and get deals done and continue to fill out and improve our selection.

Deborah Crawford

Another question from Jason Helfstein at Oppenheimer. Do you think Netflix' success is what is hurting Redbox? Are you willing to comment on what hurt consumer demand for their products in Q4? And does this make a Redbox partnership more or less likely?

Reed Hastings

I'm pretty confident that our success is not what's hurting Redbox, because DVDs were barely up for us. And I think the Redbox it was up 30% or something. So I think those are really unrelated issues. And of course, our streaming content is not the newest DVD releases and that's what Redbox focuses on, is the newest DVD releases. But I don't really have more to say than that about Redbox. You also asked, does that make a partnership more or less likely. I don't think it was ever that likely. We are super focused on streaming and unlimited streaming. They're focused on new release DVD and they do a great job at what they do.

Deborah Crawford

Next question from Steven Frankel at Dougherty. What's the timing on introducing the Facebook innovation?

Reed Hastings

We'll be rolling that out in phases over this year, sort of quarter-by-quarter and month-by-month it will get better and better and better.

Deborah Crawford

And second question from Steven Frankel, at 20 million subscribers and growing, you have the scale to compete head-to-head with the traditional pay-TV services for first-run movies. As the studio deals with HBO and others expire, is that likely that Netflix competes for titles on an exclusive basis?

Reed Hastings

It certainly is possible that we would compete on an exclusive basis. We're willing to do that if we have to. But we think it can make more economic sense for us and pay television to share windows conceptually, each paying 2/3 and the studio getting 1 1/3 of what they're getting in the past. So we tend to try to look for deals like that to make the content owners more money, and allow the other aggregators to pay a little less. But we're basically very flexible and just trying to find good ways to expand the content.

Deborah Crawford

From Michael Olson at Piper Jaffray, where will most of the OpEx for international fall? Will it be in marketing for the Netflix brands that is less well known?

David Wells

Mike, this is David. I'd say that you can roughly -- I think, what we said in the past is that each international investment is split largely between marketing and streaming content and that will hold in the future.

Deborah Crawford

Next question is from Barton Crockett at Lazard regarding international expansion. When you look at countries to expand into, do you see any desirable countries with meaningful incumbent providers of online subscription streaming services that you'd have to compete with? How does competition and the risk of losing Battle factor into your choice of countries to enter.

David Wells

Barton, as you would expect it's one of the factors. Typically in the markets that are the biggest prize, already there's vigorous competition and so it's a trade-off there. So we'll try a variety of things over the years both in markets that already have competitors, also in the markets that don't of the type that you're describing. So I'd say, we tend to try to put our money in play, where we think it's got the best chance of a big sustainable return. And as I mentioned earlier to Ingrid, there's a lot of factors that go into that.

Deborah Crawford

The next question is from Jim Friedland at Cowen. Are you using AWS in Canada? Will you be able to use AWS in future international launches?

Reed Hastings

Sure. AWS is very global already, and we'll continue to use AWS.

Deborah Crawford

Next question is from Ken Johnson, an individual investor. What is your perspective on national growth in non-English speaking markets? Would Netflix consider licensing a significant amount of non-english content of streaming to countries like India and/or China, perhaps the Spanish-speaking world?

Reed Hastings

Sure. We don't limit ourselves in terms of our circle of competence to English-language content. In fact, we're a very big licensor of foreign content already for the U.S. market. And we feel very comfortable licensing content for a variety of cultures and tastes. And really, it's our global process knowledge and our technology that's globally relevant. And by technology, I mean both on the streaming side and on the merchandising or matching, which people tend to like which titles.

Deborah Crawford

Next question is from Scott Devitt at Morgan Stanley. We estimate Netflix' domestic sales will surpass through HBO in 2012. Ted Sarandos recently suggested that Netflix would aggressively bid for Warner Bros content. And Warner's current arrangement with HBO expired in 2014. Given that HBO and Warner Bros. are owned by the same parent, a parent that has made several negative public comments about your business, could you explain the dynamics here and how it is possible that by bidding for the content, you could either get it or force HBO to pay more for it?

Reed Hastings

Well, I'm not sure I agree on the negative-comments aspect. The press makes a living out of blowing some things up, and we're nearly $100 million a year customer for Warner Bros, and both of us would like to expand that, if it makes sense to. In terms of specifically bidding on the Warner Bros. content, that may be advantageous for us and maybe that we end up again doing a share, where Warner Bros. makes more money than they would have otherwise and both HBO and us have content, it could be a range of options in that. And clearly, they will make a strategic decision based upon the different interests of the different divisions, but they're quite comfortable having us bid on it. They're not trying to exclude us in any way.

Deborah Crawford

The next question is from Tony Wible at Janney Montgomery Scott. Do you believe that the move to variable-based distribution cost i.e. the FCC usage-base billing that has prompted some ISPs to consider tolling web-service companies, and the push to price content on a variable basis will fundamentally change the way Netflix prices or tiers its service.

Reed Hastings

Well, Tony, it's a risk, particularly if pay-per-gigabyte, pay-a-dollar-per-gigabyte type model for ISPs took hold. And so we will be involved in that debate. And again, since the cost of delivering a gigabyte are less than a $0.01 and falling, we don't think it's terribly likely, but we don't want to be asleep at the switch and just let it happen.

Deborah Crawford

Second question from Tony. Do you expect Google, Amazon and/or Apple to be a more formidable competitor in 2011?

Reed Hastings

Definitely, there's a lot of firms, including the ones you mentioned that could be more direct competitor with us. The internet is creating a ton of opportunity for a lot of firms and there's all different models between the pay-per-view models for new releases, the ad-supported model. So there's a lot of different companies with different strengths. But as you know, we've been through a lot of competition in the past. We view that as a natural part of the process and we're just focused on building our business as best as we can.

Deborah Crawford

The next question is from John Blackledge at Crédit Suisse. What was the decline in disk shipments per subscriber per month in Q4 on a year-over-year basis. I think in Q3, disk shipments were down 24% year-over-year. Just wondering if the declines were around the same level or accelerating?

Reed Hastings

John, we don't publish shipment information like that. I'm not sure where you got the Q3 quote. What we said in the letter and, I'll remind you is, disk shipments did actually continue to grow, they just grew a lower rate than we expected. And going into the fourth quarter, we already knew that we're going to offer a price change and a new plan offering on the streaming-only plan starting in late November. There was some uncertainty around the take rate on that plan and how that would affect our disk shipments. And so we were a little bit conservative in terms of planning out the number of shipments and I think you see that reflected in lower shipments.

Deborah Crawford

The next question is from Nat Schindler at BofA Merrill. The comments in the text about charging for multiple streams per account is somewhat confusing to me. Are you planning to only limit the $7.99 plan to a single stream? Or are you expecting to limit all plans to a single stream at a time?

Reed Hastings

Both the $9.99 1-out DVD and the $7.99 are one stream at the time. And the vast majority of subscribers are on one of those two plans. So you could think of it as a vast majority of subscribers are on a one-stream at a time plan. So as we develop models around upgrades and how do you get either multiple streams on an account or multiple accounts or subaccounts, those are the kinds of things that we'll be testing and evolving over the coming quarters.

Deborah Crawford

The next question is from Justin Patterson at Morgan Keegan. With regard to your experience in Canada, how is the tracking versus your initial expectations? What's been your biggest challenge in the region? What lessons have you learned that you can take to additional international markets?

Reed Hastings

I think the main lesson we've learned is confidence in the model. We were really unclear as to how well and aggressively priced on-demand Internet service would work. Without all the DVD and brand history, could we get a cost-efficient marketing and get subscribers to sign up? And in fact, we've proven ourselves that at least within the conditions in Canada that, that is indeed very possible, and we've been very happy with the growth. And so then we'll take on a little bit bigger challenge and we've learned mostly to have confidence in the model of on-demand streaming.

Deborah Crawford

Next question is from Michael Pachter at Wedbush Securities. How long do you expect fixed-price contracts to be offered? Do you foresee a migration to a cost per subscriber model much as is used by cable companies in dealing with content providers?

Reed Hastings

Michael, that's a possibility but it's not very likely. I think what is happening is the contracts -- some of the contracts are short, a year or two. And so you can think of fixed cost for a year or two is really just a high granularity variable contract based upon the size. And so, I would guess that it would go that way. We definitely agree with the model that as we grow bigger, any individual piece of content is more valuable to us and we'll end up paying more for it. But I think the form will be upon renewals of shorter-term deals.

Deborah Crawford

Next question from Youssef Squali at Jefferies. Could you speak to net neutrality in Europe?

Reed Hastings

Youssef, net neutrality is a pretty strong concept in Europe. So no, no significant risks there. The aspect of the open regional, no charges interchange, however, is less strongly accepted, and that's probably the big issue, which is can ISPs charge content providers like YouTube and Netflix and Amazon, a significant fee to serve their customers? And so that's probably where that interest and the friction will be?

Deborah Crawford

Next question from Peter Treadway at EMS Capital. What do you think the operating margin potential of the company is at maturity? How do you think about the range of outcomes?

Reed Hastings

Peter, in prior calls, what I've said is the long term even maturity operating margins in an industry are really determined by the number of competitors. So if there's three or four roughly equal-sized competitors at maturity, you'd expect pretty low operating margins. If there's one firm that's the leading firm in the market, you'd expect higher operating margins. So it really depends upon the competitive climate as supposed to something inherent in the cost structure.

Deborah Crawford

The next question is from Andy Hargreaves at Pacific Crest Securities. As your subscriber base grows and subs stream more content, are you concerned about running into the limits of total bandwidth availability in a given geography?

Reed Hastings

Oh, gosh. Not at all. We recently did a calculation about fiber optics and what we discovered is that a single fiber optic, about the size of a human hair, because of the advances in dense weight division multiplexing (sic) [dense wavelength division multiplexing] can now carry all 100% of the Netflix traffic. So if we had a single data center where all the bits came out of, it could comfortably go out in a single fiber. And furthermore, the improvements in the next three years expected in fiber optics are increasing that number. So I would say the rate of innovation in data transmission, especially on fiber, is greatly outstripping any growth that we could possibly get to.

Deborah Crawford

Next question is a follow-up question from Brian Fitzgerald at UBS, following up on the declining disc shipment question. In the letter you say, and that you expect disc shipments to decline year-over-year in the coming quarters. Is this the first time you pointed to this? Did you move this inflection point forward?

David Wells

Brian, this is David. Yes, it is the first time that we've talked about this. And it's largely a function of plan mix, the streaming offer, streaming-only plan offering and just the embrace of the streaming-only offering service in general.

Deborah Crawford

That's the last question I have. We'd like to thank everyone for your time, and we look forward to talking to you again next quarter.