Good day, everyone. And welcome to the Netflix First Quarter 2013 Earnings Q&A Session. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. Today's call is being recorded.

At this time for opening remarks and introductions, I would like to turn the call over to Erin Kasenchak, Director of IR. Please go ahead

Erin Kasenchak

Thank you. Good afternoon. Welcome to the Netflix first quarter 2013 earnings Q&A session. I'm joined by Reed Hastings, CEO; and David Wells, CFO. We announced our financial results for the first quarter at approximately 1 p.m. Pacific Time today. The shareholder letter and the Q1 financial results and the webcast of this Q&A session are also available at the company's Investor Relations website at ir.netflix.com.

As is our standard practice, we will begin the call with questions received via e-mail. Please e-mail your questions to ir@netflix.com. After e-mail Q&A, we will also open up the phone lines for additional questions not covered by the e-mail Q&A or letter and the dial-in number is written within our investor letter.

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 1, 2013. A replay of this Q&A session will be available at the Netflix website after 6 p.m. Pacific Time today.

Now, let's move into questions.

Question-and-Answer Session

Erin Kasenchak

As is our standard practice, we've organized the questions by topics as we've received them this afternoon. The first question is in regard to domestic streaming. How do you think about the risk in allowing domestic streaming margins to rise too high quickly, example enticing more competition or under investing in future growth?

David Wells

Hi. This is David Wells, the CFO. Well, we think that, with our growth, we are able to do both, and we don't think that we are raising margins very quickly, so we are taking a measured approach and with the growth we are able to do both.

Erin Kasenchak

Great. Do you believe you can maintain domestic streaming marketing costs in 2013 flat with 2012?

Reed Hastings

We will take that, it's Reed here, we'll take that quarter-by-quarter, but as our reputation improves from the service improvements we are making and we get great PR around the original content, then that is what gives us a larger presence despite steady paid marketing spend.

Erin Kasenchak

Do you see direct correlation between the time and consumer spends using Netflix daily or monthly and their propensity to churn?

David Wells

Yeah. We do. We said this before, and it still holds that the more a subscriber watches, the better they retain in the service.

Erin Kasenchak

Great. When you think about drawing your domestic subscriber base, how do you prioritize, one, reaching first-time streaming subscribers; two, finding a way to bring back consumers who have tried the service before and left; or, three, reducing churn to maintain your current subscriber base. Have you seen any notable changes in these three groups over the past several months, if so, why?

Reed Hastings

Well, let's see, in the rejoin case, most of what we do is improving our service, so that it works better for them. And so, someone who is rejoining wants to hear about the content's gotten better or the device-based streaming is better, or the iPhone interface is better depending on the reason that they cancelled.

In terms -- and you can't move a rejoin very much with paid marketing, because they have a pretty firm idea of what Netflix is. You move someone and rejoin because you can change, if you claim the benefit that they didn't perceive before by those examples that I had.

With new member marketing, they have a more hazy idea of what Netflix is, and so paid advertising can have a bigger impact in changing their perception to be something that they are interested in trying for free. And so, when we advertise, we think of it mainly as this great service applying to new members. But of course, there is a spillover benefit to existing members that are still on the service and to rejoin, but the fundamental of it is to never join.

Erin Kasenchak

Great. Another question as it relates to marketing. Your marketing campaign has evolved pretty dramatically over the past year as we have illustrated. Could you discuss why you're taking brand marketing and commercial so much more seriously?

Reed Hastings

Well, I think we've always taken it seriously and our demographics have evolved. And so, our advertising evolves as we become more streaming instead of hybrid and as we get bigger. So I think it's a natural outcome as well as just great execution.

Erin Kasenchak

How do you think about shared accounts? It grows your brand, yet it is revenue loss. How do you think about the need or importance of cracking down on shared accounts?

Reed Hastings

It depends what you mean by shared accounts. We usually like to think that a husband and wife can share an account, and that's perfectly appropriate and acceptable. If you mean, hey I got my password from my boyfriend's uncle, then that's not what we would consider appropriate. And so, we focus on serving the immediate family.

We've got -- our standard plan has two simultaneous streams, and that serves the vast majority of families around the world quite well. There are a few times when the family of large that two streams doesn't work, and so we're now offering or will be offering shortly a four-stream option for about 50% uplift.

But again as we said, we expect a fewer than 1% of our members to take that plan. So the core focus is on the immediate family, and we really don't think that there is much going on of the -- I'm going to share my password with marginal acquaintance.

Erin Kasenchak

What do you see the realistic TAM for Netflix? If you look at other premium networks, they tend to peak out at about 30 million subscribers. If you get to that point, where your net ads start to slow down, would you put in place price increases, especially since HBO retails for $15 and you only charge $8?

Reed Hastings

Well, first we started streaming at $7.99 three years ago when we introduced the streaming plan. We've kept the same price for the last three years. We are very happy with that price. We've improved the content significantly, improved the devices, and we've kept the same price, $7.99, and that's provided us a lot of growth. So, I don't see any changes in the near term coming in that.

Second, in terms of the total available market, we've generally described it as best we can as two to three times that of HBO linear. HBO linear is at about 30 million and our best guess is that market for service like Netflix, because it's less expensive than HBO, it has got more content. It's all on demand. It's personalized. It's on multiple devices. It's somewhere in the two to three times HBO or 60 to 90 million, and we'll really only know that with any confidence when we get there.

Erin Kasenchak

What was the biggest driver of domestic streaming subscriber upside in Q1, higher growth additions or lower churn versus your internal projection?

Reed Hastings

Well, we don't really talk about the individual. I would say that we've gone to great lengths to raise the content and the quality of the content on the site. And I'd say that was the biggest driver in Q1 overall. More people really engaged in the site and with the content.

Erin Kasenchak

Great. Moving onto questions about content, based on the greater than $4 billion streaming hours reported by Netflix in Q1 2013, we estimate the average Netflix subscriber is streaming 87 minutes of content per day.

However, when we analyzed [Sand Wine] (ph) data related to overall bandwidth consumption, we have noticed a dramatic difference between the mean and median, but the median only one-third of the mean. Is Netflix's median monthly streaming dramatically skewed from the mean?

Reed Hastings

No. Median typically is less than the average because of the heavy users, but it's not dramatic.

Erin Kasenchak

Have there been any notable changes in third-party content negotiations since you became more active with original?

Reed Hastings

No. I would say the only thing that's noticeably changed in the last 12 months is Hulu and Amazon bidding more aggressively, and that that's made content owners much happier and has made the prices to us higher than they would otherwise be.

Erin Kasenchak

How many users access Nickelodeon and MTV content monthly?

Reed Hastings

Well, I'm not sure. We don't look at it that way of how many users, but it's been part of our service for the last two or three years. And as we stated in the letter, we have some bids in on particular shows, and so we will see how that works out.

Erin Kasenchak

Also, on the Viacom relationship, as you moved from a global licensing deal with Viacom to one covering specific titles, can you provide some color on the magnitude of impact this could have on the money you spend licensing domestic content from Viacom?

Reed Hastings

Well, I don't think you will see any change. You are not going to see any blip in what we spend or in contribution margin, for example in Q3.

David Wells

I would say that the content -- our content acquisition has already factored in, what may or may not happen, and we've got things in the wings that we can add. So you will continue to see us invest in content.

Erin Kasenchak

Great. Let's move on to questions about originals. Why wouldn't we expect Arrested Development to drive significantly higher net additions in Q2? The guidance implies rather modest sequential gains.

Reed Hastings

If in Q1, we had seen, for example, the week before House of Cards launched and the week after of the Spike, I think then we would be forecasting bigger numbers around particular titles like Arrested Development. But what we've seen with House of Cards is a very nice impact but a gentle impact, not one that's an overnight impact.

And Arrested Developments coming in at the end of May, and so it's going to be great for us, but it's not a step function where on that day, we've had no evidence or no history of it being a step function. So we are comfortable with the projection being our median probability.

Erin Kasenchak

Releasing all episodes of House of Cards, Hemlock Grove and soon to be released Arrested Developments clearly puts the consumer first, yet the social media buzz appears to die off very quickly. In contrast, when you look at TV series, especially HBO and Showtime, which it appears Netflix is trying to emulate social media buzz benefits notably from the weekly release of a new episode. Why are you so confident in your all-at-once releasing strategy?

Reed Hastings

Well, I would put the buzz on House of Cards, and I think we are going to see that with Hemlock. As we mentioned in the letter, Hemlock viewing has been fantastic for us and as fantastic as the House of Cards is, Hemlock is getting viewed by even more subscribers in its first couple of days in opening weekend than House of Cards. So we are feeling very good about our original strategy including the release strategy of being focused on all episodes at once.

Erin Kasenchak

Next, there are several questions about how to gauge the success of House of Cards? Would we share any metrics like what percentage of the base watched one or more episodes, how viewership of House of Cards compared to other top shows on Netflix? And if not, how do we convince someone that it was a good investment?

Reed Hastings

Well, I think, when you look at Netflix you get to invest in Netflix, not in particular shows. So, what an investor cares about is that Netflix is a good investment as opposed to say House of Cards. And then individual marketing programs, individual shows, individual regions are really what we have to do as management in terms of making good tradeoffs to make Netflix more valuable overall.

And on that basis, we are feeling very excited about what happened with House of Cards and with Hemlock, what's coming with Arrested Development and Orange Is the New Black. And I think over this year with continuing rollout of these original shows, you are going to see a very nice redefinition and broadening of what Netflix is to our members. But it is something we will take a step at a time. As we mentioned, our total P&L spending on originals is still single digits, it will still be single digits next year, so it's growing, but it is still relatively modest part of our total content then.

Erin Kasenchak

House of Cards is available for pre order on Amazon.com, can you explain where your rights for the show stand in relation to sales of the show on DVD and Blu-ray, do you receive a cut for each one sold, and if so, how much?

Reed Hastings

We are not going to comment on the specifics, each deal for original is a little bit different, MRC developed House of Cards, and we were the first window licenser in certain territories, and then they have the other rights with certain hold backs. And so, occasionally you'll see something where the DVD's out earlier than you might otherwise expect.

Erin Kasenchak

With House of Cards you promoted the show in a very visibile way when people logged into their Netflix account? Should we expect ongoing Hemlock Grove promotion in the same way?

Reed Hastings

Only if your demographic profile and what you've been watching includes things like Vampire Diaries and such shows, because what we do is match it to the person and to their viewing history or someone in your household is watching that, so we try to be very good about matching the right promotion to the right person.

Erin Kasenchak

Looking over the next few years, how many original series do you believe you would willing or able to produce?

Reed Hastings

Well, we'll start this year with just our six or seven seasons, and then we'll take that up a little bit next year, and then we'll see as we go in terms of what we learn, what experience, so there is no set number we are trying to target, and it will depend upon the results that we see.

Erin Kasenchak

How do your originals perform in international region versus the U.S.?

Reed Hastings

Well, we've only got three so far Lillehammer, House of Cards and Hemlock. And I would say each one is unique in its territory. So we do program for these being good internationally and some of them have been really big hit and you may have notice that with Hemlock we did one of the first premiers for it, premier party in Mexico City. So that's indication that we really focus on the global attractiveness of the content.

Erin Kasenchak

Regarding the expensing of original content such as House of Cards, over how many month, quarter, years, does Netflix anticipate amortizing a cost of the content, that is what is the expected life of original content, also does original content generally carry a longer useful life relative to other purchased content?

Reed Hastings

It doesn't generally carry from an amortization period longer than other content. We could discuss whether not the actual useful life of that content might be longer, but we don't have any history, so we're little bit conservative at this point and the typical license period or typical amortization period is over -- straight line over the license period.

Erin Kasenchak

Looking at the costs produce very high quality content like House of Cards. Do you think that cost will increase, decrease or stay about the same overtime?

Reed Hastings

I'm not sure, it hasn't move dramatically despite digital film making and if any thing the scale of distribution drives both movie production cost per hour and television cost per hour up because the value of great product with a large distribution channel has increased, and that effect has over overwhelmed what some people thought we'll bring down the cost a lot of production through a digital film making techniques.

Erin Kasenchak

With the success of House of Cards and your growing stable of originals has movie became a less strategic assets in Netflix?

Reed Hastings

Sure hope so given -- sure hope not given how much we've signed up to spend with Disney and we very much our investors in the movie franchise both in the U.S. and around the world and big believers in the role of movies on a service.

Erin Kasenchak

Great. Let's turn to question on competition. Amazon has clearly bid up some popular title, are you seeing them be highly competitive in most of your negotiation or they just stepping up for select content?

Reed Hastings

It varies quite a bit by region and by type of content, but certainly all the sellers of content want to have many active bidders, so they are approaching everybody Redbox, Google, the cable networks to try to get bid to be competitive.

Erin Kasenchak

Great. Let's turn the question on international. Do have a set reinvestment plan for international growth, meaning is there percent of cash flow generated domestically that you will invest annually into international. Do you envision continuing to add new overseas market ahead of getting the entire international business to profitability? Meaning should we expect overall international losses to continue for years to come in aggregate?

David Wells

Well, we've said in past that what's our -- been our approach with international that we'll take a measured approach dated by global profitability and our overall confidence in the growth of the existing market that we have today and that hasn't changed. So, I think, it is safe to say that you will see another couple of years of international losses as those markets mature and grow towards profitability, and as we launch additional markets.

And as for going forward, we will continue to take that measured approach. We will have to gain confidence in the new markets as we address new opportunities and go from there.

Erin Kasenchak

Sort of a follow up, any update on the profitability timeline for individual international markets like Latin America or U.K. specifically?

David Wells

We don't give specifics. We've given some directions in the past in terms of those markets being competitive and taking longer than Canada and I'd say that's the lag here.

Reed Hastings

And we said specifically that all of the markets are growing and that's we are profitable in Canada.

Erin Kasenchak

Would consider setting down the higher loss territories like Latin America?

David Wells

Well, we are still making very good progress. Again, we said that we are growing and we are reducing losses in those markets. We are not losing out to any competitors and so if we get into a situation where we thought we are losing to competition we have to consider that but that's not where we see ourselves today.

Reed Hastings

So the simple answer is, no, we wouldn’t.

Erin Kasenchak

Should we model the initial spend for the European launch to be comparable to other international launches, will this be Q3 or Q4?

Reed Hastings

We said second half, we’ll stick with that articulation and sure, you could model at about like other launches.

Erin Kasenchak

Turning to a few questions on DVD, do you believe that you have less visibility into the subscriber and revenue elements of DVD business? Is that the factor in reducing the guidance disclosure?

David Wells

No. We don’t, in fact, we probably have more visibility into that and we did say year to 18 months ago. The reason we dropped the guidance was because profit is what matters and that really is the only thing that matters at this point. We’ll continue to report subscribers and revenue, but we’ll only give guidance on the profit.

Erin Kasenchak

Great. Have you’ve been able to relatively maintain -- you have been able to relatively maintain strong DVD contribution margins even with declining subscriber level. At what level of DVD sub would that ability to leverage fixed costs breakdown and lead to a meaningful step down in overall profit margins?

David Wells

Well, we took the DVD business profitable at around million subscribers and given that we’ve got a large investment in equipment that we won’t have to continue to invest in our content library and our DVD content library, we feel pretty good about our ability to maintain those margins going forward.

Erin Kasenchak

Great. Let’s turn to some questions on product improvement. ISPs up here increasingly open to the idea of offering promotions incorporating Netflix as a benefit to their own subscribers for paying us the premium service higher speed tiers, how do you think about this opportunity?

Reed Hastings

Well, I think, ISP business is turning out to be extremely profitable because ISPs don't have content costs and if they can get their customers to purchase higher bandwidth packages that almost pure additional margin for the ISP. And one of the major reasons that our customer might do a higher bandwidth package is to use video from us, from Google, from Amazon and others.

And so the more that our network integration is highly effective that they are integrated with Open Connect then more their customers will actually get the benefit of our faster less mile. So there is a nice synergy there us together providing a better and better experience for their end-users.

Erin Kasenchak

Great. A question social. While you succeeded in wining a change in DPPA there does not appear to be a meaningful amount of Netflix subscribers choosing to share their streaming activity within their friends on Facebook. Do you think consumers simply are not interested in being that open with their social network?

Reed Hastings

I think it will evolve overtime, the core focus right now is not so much sharing on Facebook the viewing history, in fact that's not the default, the default is that it shared within the Netflix interface, so if you get the permission, the default permissions, you and your friend share within the Netflix user interface, what your friends are viewing and get ideas but not in the Facebook ticker and feed?

Erin Kasenchak

How does the profile feature work for household with the Netflix subscription. And what was the early response from the testing?

Reed Hastings

It's been positive. The key use case is between kids and parents. Right now, parents will say that the experience is suboptimal because the kid's viewing is also their profile. And the kid's similarly don't necessarily want to see what their parents are viewing. So that's the biggest use case. And so it will be really be targeted at families.

Erin Kasenchak

Great. Let’s look at a few questions on financials. Could the company please quantify its off balance sheet content liability, specifically interested in those the total amount of obligation is outstanding, as well as the amount currently outstanding that is not on the balance sheet.

Reed Hastings

So I’ll answer this in total to because usually how we get this question. We had $5.6 billion liability -- $5.6 billion in commitment as of the end of December. That moved to $5.7 billion in commitments as of the end of March, $2.4 billion being part of liabilities on the balance sheet and $3.3 bill not on the balance sheet.

Erin Kasenchak

Great. Do you believe the company can fund it’s liabilities without an additional debt raise. Would you consider raising capital given the low-rate environment?

Reed Hastings

Well, we just did raise capitals. So yeah, we would consider it. And I would say that we are fine on capital at this point.

Erin Kasenchak

Great. You had anticipated that free cash flow in the quarter would be more negative than the prior quarter. And it ended up more favorable than the prior quarter. You acquired less than $600 million of streaming content this quarter less than your quarterly run rate last year despite the payment for House Of Cards. For any content acquisitions deferred to the June quarter, is this a good run rate for content acquisition or was it a low quarter?

Reed Hastings

So no content payments were deferred. I would say that we anticipated a bunch of small items stocking on each other in the first quarter that didn’t happen. So we’ll be less lumpy than we previously anticipated. And then the second part of that question was…

Erin Kasenchak

Is this a good run-rate for content acquisitions?

Reed Hastings

I'm not sure how to answer a good run rate on content acquisition. I would say that we continue to expand our content. And you'll see that expansion has declined over the last year and two years. So the rate of expansion has started to slow but we'll continue to invest in content.

Erin Kasenchak

What was your effective Q1 tax rate? What's the tax rate that we should use for the second quarter and the balance of the year?

Reed Hastings

The balance of the year should be between 34% and 35%. We had a very strange tax rate in the first quarter. Because of the retroactive reinstatement after Federal R&D tax credit. So I think it was over 100% in terms of, sort of, strange rate. But that will flip back to us, sort of, normal rate going forward.

Erin Kasenchak

Great. At this time, I'd like to turn the call over to the operator and began taking questions from the phone.

Operator

(Operator Instructions) Our first question comes from Youssef Squali from Cantor Fitzgerald. Your line is open.

Youssef Squali - Cantor Fitzgerald

Okay. Thank you very much. Just couple of questions, please. You guys spent a little more on DVD content this quarter than we were expecting and you also lost a fewer DVD subscribes than we thought. So was there a correlation between the two. I'm assuming there was but we got something that you guys are now kind of baking into your business going forward.

And second, can you extend on the profile function -- profile function, you guy spoke about in the letter. Vendors that launch and what efforts would -- what effects would you like to see from it?

Reed Hastings

Youssef, its Reed. I'll hit the profile. It will be sometime this year. And if not second with effect to financials, it's example. One more product feature that's useful. But there is -- nothing going to be nothing material to affect the business about it off itself.

David Wells

And then Youssef, this is David. On your DVD context question, I wouldn't draw a direct correlation. The first quarter is always the high-release quarter from new releases. And typically, it depends on the release dates with studios in terms of what they put out. And we sort of set those amounts well ahead of the quarter. And so I wouldn't draw direct correlation. I would say that in general, we were pleased as well that DVD subscribers declined at a slower rate than we anticipated and we continued to work hard to make sure that those folks who continued to choose physical have a very good service.

Erin Kasenchak

Next question.

Operator

Our next question comes from Carlos Kirjner from Sanford Bernstein. Your line is open.

Carlos Kirjner - Sanford Bernstein

Thank you. Have you deployed Open Connect to major domestic ISPs such as Comcast and on a cable, charger and if not, why do you think that's the case and how do you describe that, which are of view that Netflix is good for them because it helps them differentiate their offer? Thank you.

Reed Hastings

Carlos, I'm not going to comment on the specific deals but we are making progress with ISPs. We started mostly in Europe first because we were just ramping, so that helped with the capacity we could handle the capacity and we've got the majority, or the vast majority of Europe traffic is now in Open Connect and growing percentage of that traffic is in United States. We certainly think that over the next year or two, we will be able to work with all the major ISPs to get the benefits to both of us and Open Connect.

Carlos Kirjner - Sanford Bernstein

Thank you.

Operator

Our next question comes from Mark Mahaney from RBC. Your line is open.

Mark Mahaney - RBC

Great. Thanks. On the new customers to domestic streaming customers, is there anything you can tell about their usage patterns versus customers you brought in the past that they seem to be consuming content similarly to similar cohorts in the past? And in terms of international marketing costs, is there a way to strip out the new country launch cost from the other marketing costs? Once if you take those out, is it that international marketing costs are kind of a steady ramp, is there something to suggest that they could flat line or is that way too early in each of those countries experienced for that to happen? Thank you.

Reed Hastings

Mark, on the domestic side, the new members were performing consistent with the historical trends, which is we've steadily been able to increase viewing as the content and product improves. And so P1s today are little better in usage than P1s a year ago, that kind of things.

And then second on the international marketing, yeah, there is a launch marketing and then a run rate marketing just as you would expect. But since we've got and you will see that a little bit when we have launched quarters, you will see the marketing be larger than you might otherwise have thought.

David Wells

It's a little too early to tell if that run rate marketing is going to go up down or flat. I would say flat is a safe assumption at this point.

Erin Kasenchak

Next question

Operator

Our next question comes from Scott Devitt from Morgan Stanley. Your line is open.

Scott Devitt - Morgan Stanley

Hi. Thanks. You were talking in the shareholder letter about a decline in your willingness to pay for non-exclusive, bulk deals. And now you have an increasingly diverse content portfolio between TV movie kids and originals and your sub base is much larger than competitor. So, theoretically, you would think that you have the ability to amortize the content that you spend over a larger base of sub. You mentioned earlier in the call that it's not been the case yet that you've been able to get favorable negotiations based on this diversity of content now. I just wonder if you can talk a little bit about the future to the extent that that could change over time.

And then secondly on an associated topic. Ted has been quoted recently in the media discussing extending the original portfolios of levels of north of 20 per year, which is quite a bit higher than where you are now. I'm just wondering if you could clarify that comment to the extent that you think this 20 plus is a reasonable level and if so what type of timeframe of getting there? Thanks.

Reed Hastings

Starting on the second part, it all depends on the timeframes. So in the next two years, it modestly increases if that it will widely successful for us as the first three shows have been, we could continue to expand to 20 or north. But that would be dependent on all of the -- what happens rest of this year. What we don't want to do is on the back of three shows, one of which has only been out for four days suddenly take our commitments up to that kind of 20 plus level.

So that's in a longer term and I think it's appropriately ambitious.

In terms to the first question, I think we are focused on moving towards more and more exclusive content, which reinforces a reason to join Netflix, a reason to subscribe to the degree the content not exclusive and it's on cable and on other services than it might be pleasant to watch on Netflix. But it's not really reinforce of why stay with Netflix or reinforce what you would loss if you were not on Netflix. And so we've been, I think, over the last two or three years evolving towards more and more exclusivity in that content.

Scott Devitt - Morgan Stanley

Thank you.

Operator

Our next question comes from Richard Greenfield from BTIG. Your line is open.

Richard Greenfield - BTIG

Hi. Could you give us more info on kind of why the Open Connect initiative is so positive for Netflix? And then, just kind of tied to that, cable operators that showing you like within their actual commercials now in marketing you in their mailers, is there a way that they could basically promote Netflix or give away Netflix or passthrough cost of Netflix, the way they do and give like each six or 12 months of HBO or Showtime, how could that work, and is that something we might see in the next year?

Reed Hastings

See Open Connect is one of our investment to improve the Netflix member experience, long form content has some unique aspects that you can tailor at low costs on the CDN it do not also serving short form content like the general commercial CDNs are optimized for. But in this scheme I think it's pretty modest relative to our P&L, it's not particularly significant.

In terms of the second question which is kind of commercial integration with ISPs and broadband. We haven't seen a lot that is particularly effective. We've seen somethings where some companies will purchase gift certificates for Netflix and then advertise that if a person signs up for service or buy the device, they also get three or six months of Netflix which is a gift certificate that they bought. And some of those are working quite well. But I doubt that you will see anything in the way that you typically would have seen for HBO or Showtime marketing with cable where you get those up big free period in exchange for signing up.

The business model we have now works very well for us and since its working very well we are more likely just to focus on executing it extremely well rather than making it say more complicated with those types of interaction.

Richard Greenfield - BTIG

Thank you.

Operator

Our next question comes from Heath Terry from Goldman Sachs. Your line is open.

Heath Terry - Goldman Sachs

Great. Thanks. I was -- if you could give us a sense even if it just sort of high level what share of the current subscriber base you feel like will be impacted or interested in the multi-tier subscriber or multi-stream subscription plan in order to -- would need those in order to maintain their current level of usage?

Reed Hastings

Do you mean the four out 1199 plan Heath?

Heath Terry - Goldman Sachs

Right. Right.

Reed Hastings

Less than 1% of our members.

Heath Terry - Goldman Sachs

Okay. Great. Thank you.

Operator

Our next question comes from Mike Olson with Piper Jaffray. Your line is open.

Mike Olson - Piper Jaffray

Hey. Good afternoon. It looks like originals are having success out of the gate and as your library of exclusive content grows? You could argue that subs will perceive higher value in the subscription. So under that assumption as we get further from the PR issues over a couple years ago, will you look more seriously tweaking up pricing?

David Wells

I think we are pretty clear in our letter about that.

Reed Hastings

So we are pretty happy with current $7.99 price.

Mike Olson - Piper Jaffray

Okay. Thanks.

Operator

Next question comes from John Blackledge with Cowen & Co. Your line is open.

John Blackledge - Cowen & Co.

Great. Thank you. Two questions. If you could just provide an update on the brand, is it recovering more quickly than you anticipated since the brand hit following the split of the streaming and DVD service in 2011? And then secondly, the 2Q ’13 you assuming net add guidance at the midpoint is bit above 2Q ’12 net adds. So that appears moderately more positive than commentary from the 4Q '12 letter which suggested 2Q ' 13 net ads will be below our 2Q’.12 levels. So, was original programming I’m driving moderately better guidance or are there other factors involved? Thanks.

David Wells

John, I think the second part of that question which is our 2Q net ads guidance. I would say that ordinarily we would expect because of seasonality to have a lower Q2 than prior year but we’ve seen a lot of improvements.

We talked about that in the letter. We’ve seen a lot of improvements in our product, in our content and the interface and in the brand recovery. And I think those are carrying through. So we're anticipating being slightly up year-over-year. And I’ll let Reed comment for the brand recovery as to whether that’s a head on tracker about as expected.

Reed Hastings

And on the guidance, we have arrested development in the end of May, which will be in absolutely spectacular phenomenon, where we've got an established brand. That’s a cult favorite and off the air for seven years. And Mitch Hurwitz and the cast have done just a remark able job. So we’re likely to have that again in Q2 a year from now. And I think we’ll return to the seasonal pattern where Q2 is less than the prior year

In terms of brand recovery, it’s been just as we had hoped and thought and expected, which is sort of over three years, where you get the bulk of that in the first part and were making steady progress and we’ll continue to work hard to make steady progress going forward.

John Blackledge - Cowen & Co.

Great. Thank you.

Operator

Our next question comes from Doug Anmuth with J.P. Morgan. Your line is open.

Doug Anmuth - J.P. Morgan

Great. Thanks for taking the question. Just wanted to ask two things, first how do you compare Netflix's ability to curate and influence original content relative to other pay TV networks. How important is that to producers when you’re talking to them about originals? And do you think that’s an area where you would expect Netflix to bulk up in order to work more closely with creators on content.

And then secondly just a question on mobile. Any color on a percentage of usage coming from tablets and smartphones? Do you think there's any chance here going forward that we could see mobile smooth out some of the seasonality that you typically see during the summer months? Thanks.

Reed Hastings

In terms of mobile and tablets, it’s continuing to grow whether it smooth outs seasonality, I’m not sure. Most of the quote mobile use is on Wi-Fi. It’s sort of home use and rather than over to say, the networks which have fairly low data cap. And then, what was the first part?

How we work while we are up? With producers, yeah, we are getting I think more sophisticated in terms of working with producers and the creative community. I think we’ve got a great start, what we’ve done obviously and we well continue to learn as we do more. And as we bring great success to the creators then certainly that increases our reputation in the creative community.

Erin Kasenchak

Great. That’s all the time we have for questions today. Reed, would you like to me some closing remarks?

Reed Hastings

Thank you all for your support. And I hope everyone gets a chance to see Hemlock Grove.